



Yours Directors are pleased to present the 45th Annual Report and the Audited Financial Statements of your Company for the Financial Year ended June 30, 2008 along with the Auditors Report thereon.

### Energy Sector in Pakistan

During the last few years, Pakistan's primary energy consumption has significantly increased without a commensurate improvement in related supplies of those energy sources. Presently our energy requirements are met through a combination of resources such as Oil, Gas, Coal, LPG, hydro electricity and nuclear energy with varying degrees of usage. Natural gas continues

## Chairman's Review & Directors' Report

to the largest energy source in Pakistan with a share of around 50% of the total energy supplies. The largest use of gas has been in power generation followed by industrial, fertilizer and other sectors. Increase in global oil prices continues to build pressure on indigenized energy sources in general and natural gas in particular. Natural gas is not only playing an important part as fuel in thermal power plants but also acting as a means of diversifying away from expensive oil imports. As a result, natural gas usage has increased rapidly during the last few years. However, as the gas supply-demand statistics indicate, the Country's domestic gas reserves, after reaching their peak in 2010, will rapidly start depleting after 2011-12 unless a new discovery is made. In view of increasing demand and depleting resources, Pakistan needs to diversify its sources of natural gas supplies and tap all available channels including enhancement of domestic gas exploration including deep sea exploration, cross border gas pipelines and imports of liquefied natural gas (LNG).

### Financial and Operational Review

During the year ended June 30, 2008, your Company earned a net profit after tax of Rs 2,497 million as compared to a net profit after tax of Rs 2,678 million during corresponding year ended June 30, 2007. Sales revenue increased to Rs 124,155 million showing an increase of 10.28 % as compared to Rs 112,577 million during the corresponding year ended June 30, 2007. The total gas sales volume was 597,913 MMCF during the year as compared to 576,658 MMCF sold during the corresponding year ended June 30, 2007.

Earnings per share was Rs 4.55 as compared to Rs 4.88 per share during the corresponding year ended June 30, 2007.



Going that extra mile...  
for people  
who matter the most...







Your Company has been able to expand its distribution network by over 7,550 Kms and transmission network by 390 Kms. Over 236,000 new domestic connections were commissioned and a record addition to operating fixed assets of over Rs 13 billion was made during the year ended June 30, 2008. This has been made possible due to the firm commitment and continuous efforts of the dedicated employees of your Company.

Your Company operates under a fixed rate of return of 17.5% on net average fixed assets (excluding assets financed through Government grants and customers contributions), under a tariff regime governed by OGRA. This rate of return has been subject to benchmark adjustments by the regulator (OGRA). During the year ended June 30, 2008, OGRA reduced the total rate of return from 17.5% to 9.30% by Rs 3,281 million (Rs. 2,504 million in FY 2006-07) for expenses and UFG exceeding the prescribed targets. These deductions resulted in reduction of EPS by Rs 3.69.

The management of the Company is fully responsive to these adjustments made by the Regulator. The most important element of these deductions is the disallowance on account of UFG, for which your Company continues to make hectic efforts under a detailed plan to combat the present trend.

Over the years, your Company has been able to gain strength in the areas of planning, designing and construction of pipelines and has emerged as one of the most reliable vendors for such

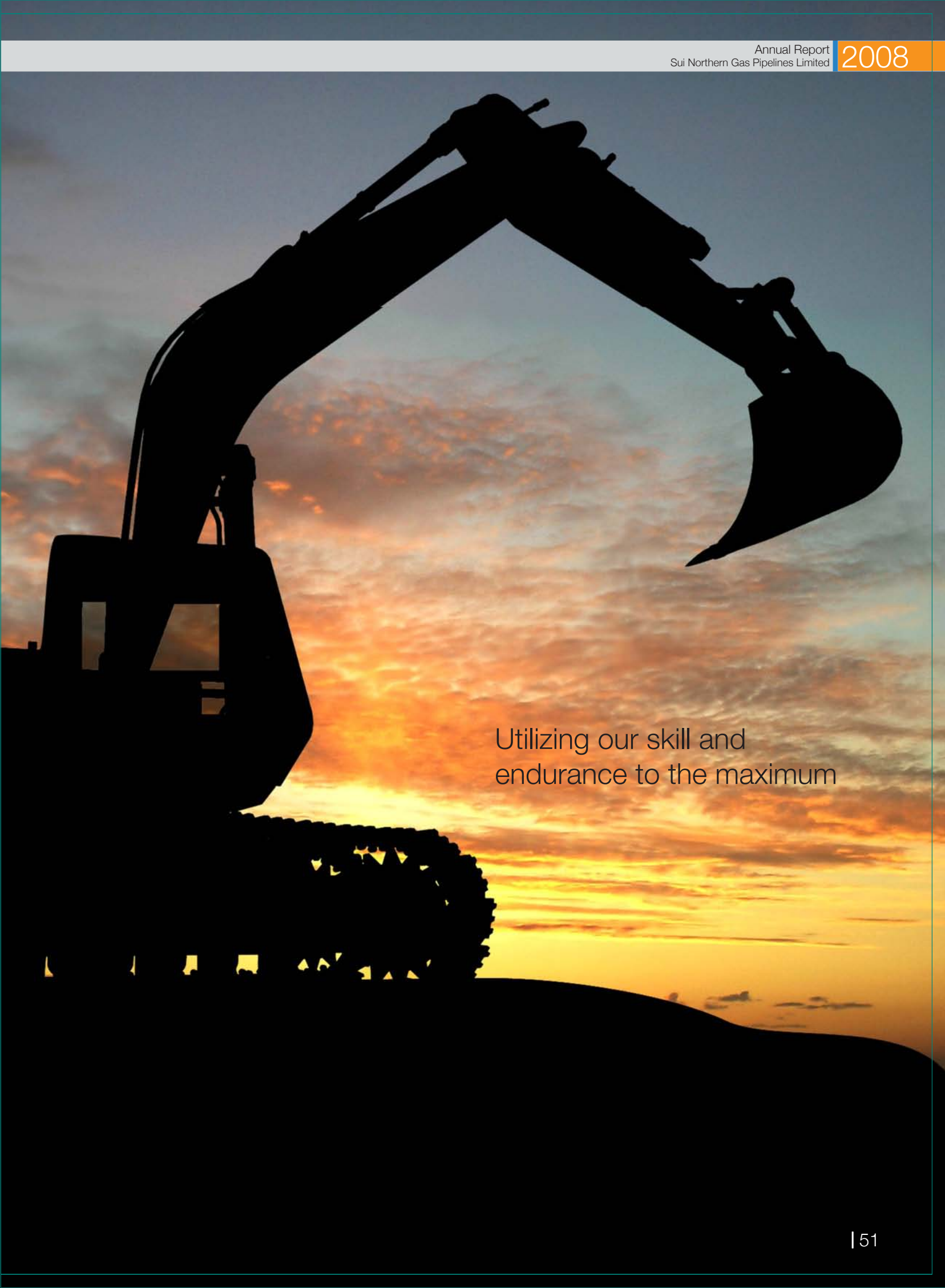
activities. After successfully implementing number of pipeline construction projects for other organizations in Pakistan, your Company is focusing on international contracts as well. We have been technically qualified for the laying of around 500 Kms of pipeline in Algeria. During the year net profit from Construction Contracts of line pipes was Rs 105 million as compared to Rs 47 million during the preceding financial year showing an increase of over 123%.

Despite disallowance from the regulator of Rs 3,281 million, your Company has been able to suitably maintain its profitability, asset utilization and other leverage ratios and is evident from the six years' data presented at the end of this report.

Your Company's profit and its proposed appropriations are given below:

#### Summary of Results

	Rupees in (000)
Profit before taxation	3,981,231
Provision for taxation	1,484,541
Profit after taxation	2,496,690
Add: Unappropriated profit brought forward	4,543,424
Reserves available for appropriation	7,040,114
Appropriations:	
Proposed dividend @ Rs. 3.50 per share	1,921,869
Balance carried forward	5,118,245

A large silhouette of an excavator is positioned on the left side of the frame, its arm extended upwards and to the right. The excavator is set against a dramatic sky at sunset or sunrise, with warm orange and yellow hues near the horizon transitioning into a cooler blue at the top. The excavator's bucket is open and pointed towards the upper right. The ground in the foreground is a dark, solid silhouette.

Utilizing our skill and  
endurance to the maximum



## Projects

Transmission and distribution pipeline construction projects of a length more than 1300 Km were commissioned during FY2007-08. The tonnage equivalent of this construction work is 80,000 Tons which is 54% higher than the last fiscal year's tonnage value and is exceeding the previous highest (72,000 Tons) by 11%.

Over 50% gas pipeline work of Project-IX was completed in fiscal year 2007-08. For Southern Districts of Punjab and NWFP, pipeline projects were completed extending gas facility to Hasilpur, Chishtian and Bahawalnagar (Southern Punjab), and, Bannu and Dera Ismail Khan (Southern NWFP). In addition, gas supply was also extended to various localities/towns including Tandalianwala, Bhawana and Taulmba towns. Natural gas supply projects for Rental Power Plants at Bhikhi (Sheikhupura) and Balloki were also completed / commissioned in order to help alleviate the power crisis in the country.

## Transmission of Gas

Your Company's Transmission network is spread over 7,016 Km high pressure pipeline ranging from 6 inches to 36 inches in diameter across its area of franchise. The natural gas in this network is boosted upto 1235 Psi by compressor stations at different locations to feed 294 towns and villages in Punjab, NWFP and Azad Kashmir. Geographically tough terrains, varying tribal cultures and un-favorable political conditions with law and order situations continues to pose major challenges for your organization in maintaining

this network and provide citizens of Pakistan uninterrupted supplies of gas. It has been a matter of pride for your Company that the response and rehabilitation time after unforeseen sabotage activity has been as short as possible under the circumstances.

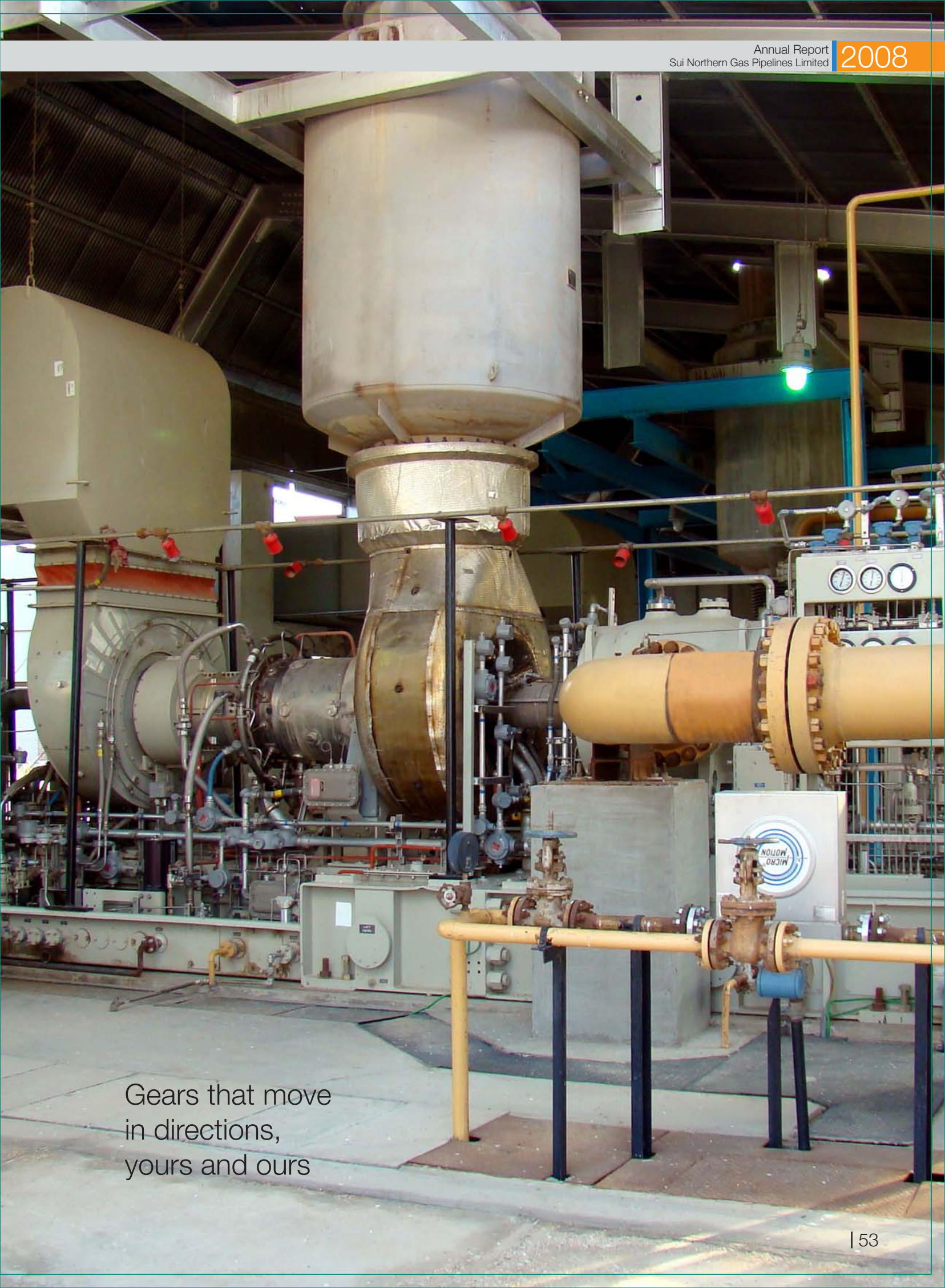
## Compression of Gas

Compression operation is mandatory to receive gas flows, available at different pressure, from various fields to inject in main transmission network for supply up to consumption centers at adequate pressures. In order to maintain gas pressure at all door steps, 64 compressor units at eleven compressor stations have been installed on the transmission network. These compressor stations are scattered from Sui Field, District Dera Bugti (Balochistan) up to Dhullian, District Attock in Northern Punjab. In line with its plan to modernize and upgrade the existing compression facilities in three phases, the 1st Phase of up-gradation will be completed in 2009 by replacing 14 existing Saturn compressors with latest compressor packages. In 2nd Phase 10 Saturn compressor packages will be phased out in 2012-13 and in 3rd Phase 6 Saturn compressor package will be phased out this will not only enhance your Company's compression capacity but will also help in reducing operating costs, your Company incurs on the aging compression facilities.

## Corrosion Control

Buried pipeline is the asset of the Company and in order to prevent it from metallic degradation and to mitigate gas leakage, Cathodic Protection





Gears that move  
in directions,  
yours and ours





Signing ceremony between SNGPL and M/s NIFT for gas bills data gathering and processing

(CP) is provided. With the expansion of Company's network, 98 new CP Stations were installed during the year under review.

### Quality Assurance

Your Company has adopted the international concept of Quality Assurance and believes in the theory of doing the work right in the first attempt, through in-process inspections and quality assurance under international standards at each level of operation.

### Distribution of Gas

In line with its mission, your Company not only continues to commit its resources to deliver natural gas to all doorsteps in its chosen areas but also keep its focus towards continuous expansion of its network. During the financial year under review, your Company connected 20 new towns in addition to 159 villages, expanding its distribution network to 1,224 main towns along with adjoining villages in Punjab & NWFP. During the year an amount of Rs 550.79 million was earmarked for augmentation of distribution system of various regions. In addition Rs. 200 million was spent on rehabilitation of existing network; this includes rectification of leakages on overhead installations as well as underground gas mains. In order to bridge the gap between supply and demand, the Company had to resort to load management during winter season in accordance with its load management policy, framed by the Ministry of Petroleum & Natural Resources. Despite several constraints the distribution system was operated

efficiently with emphasis on ensuring uninterrupted supply of gas to its consumers.

With the dedicated efforts of the executives and staff members, gas facility was extended to 236,363 new consumers during the year under review. The Company's distribution system stands at 59,951 kms.

### Consumer Services

With the changing environment in business the Company has inaugurated four upgraded on-line complaint Customer Care Centers in Multan, Faisalabad, Islamabad and Peshawar for the quick disposal of consumer complaints. The basic purpose of on-line Customer Service Centre (CSC) is to facilitate our esteemed customers by providing all required services under one roof. This will facilitate the customers and increase work efficiency due to reduced customer intervention at the main office. The remaining CSC at Regional Headquarters of Abbottabad, Bahawalpur & Gujranwala will be functional in the year 2008-09.



Inauguration of online complaint customer care center



### Customer Care and Billing System

In pursuit of Company's objective to achieve maximum customer satisfaction and stakeholder value through highest levels of process efficiencies, the Company has initiated implementation of a world class Customer Care and Billing System by Oracle Corporation. This system will pave the way to do business by following Industry Best Practices to achieve efficiency, productivity and quality in Billing & Customer Care operations and hence increase profit by improving cost of doing business.

### Call Center & Complaint Management System

To improve the quality of service to our customers, we are setting up a Call Center equipped with a complaint management system that provides a centralized point for registering customer complaints. This system will be accessible throughout Punjab and N.W.F.P. Trained agents will receive calls and register complaints. This service will be available on 24/7 basis by the end of 2008.

### Meter Reading on Hand Held Unit

With the revolution of the IT and Procurement of 265 Hand Held Units (HHU) with added features has been finalized and shortly meter reading of four major regions will be shifted to HHU from manual books. The Company is focusing on the measurement accuracy through continuous efforts to keep pace with the ever advancing techniques

and technologies. Some of the prominent achievements in the year 2007-2008 are remote monitoring for field meters and installation of new electronic devices.

### Management Information System

#### Enterprise Resource Planning

Your Company believes in greater efficiency and control in operations through increased use of updated technology and qualified human resources. Your Company has already implemented financial modules of the Oracle E-Business Suite and has firmed up resources for the implementation of modules relating to Procurement, Inventory, Human Resources, Payroll and Projects. Management of the Company is confident that timely and informed decisions through up to date access of reliable information will increase the efficiencies of the organization and provide maximum benefits to the stakeholders.

#### Sales Management System

A Sales Management System has also been implemented in our regional offices at Lahore, Multan, Peshawar, Islamabad and Faisalabad. It has not only reduced processing time and cost of new connections, but also improved resource utilization. It is expected that the Sales Management System will be implemented in the remaining regional offices during the ensuing year.





### Disaster Recovery Site

The Company has an ambitious plan of setting up a disaster recovery site which would facilitate to provide uninterrupted services in case of any eventuality.

### Health Safety & Environment

Your Company has a responsibility to ensure health and safety of its employees and vendors and as well as all other affected by your business is maintained. Management has been strongly committed in providing safe and healthy workplace by developing systems to reduce risks in all its operations throughout the year.

The Company's vision of continual improvement in its approach and development of resources / processes to attain a high standard of performance in Health, Safety and Environment is evident with the certification of ISO 14001:2004 and OHSAS 18001:1999 (Integrated Management System IMS). This has only been accomplished by the constant struggle & devotion of all the SNGPL employees. This has enabled the Company not only to enhance its performance but also to reduce the cost, time and disruption that may occur in addressing environment and safety issues separately.

The Company's IMS implies sustainability, balance and fulfillment of responsibility.

This Certification enables us to effectively manage health, safety and environmental risks, continually improve worker protection and better environmental performance.

### 3rd National Environment & Health Excellence Award - 2007

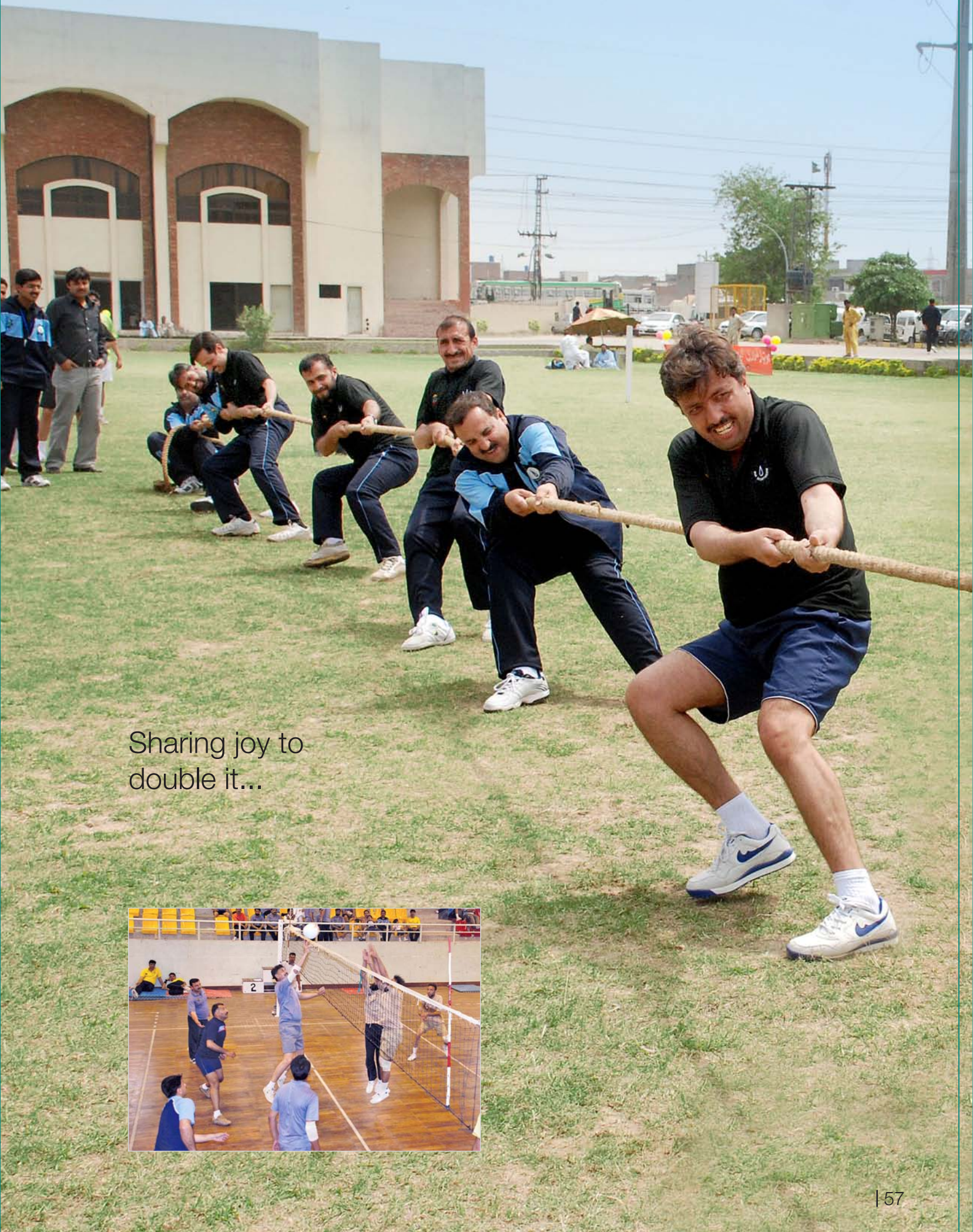
The excellence awards were given at a glittering ceremony to prestigious national and multinational companies. SNGPL has won this award this year due to the Company's Management's commitment towards best Health and Environment practices in the Company.



### Annual Sports

Healthy body translates into a healthy mind that at a work place stimulates one to perform up to his best ability. To realize this, SNGPL encourages its employees to take part in sports activities. For this purpose, a sports carnival is arranged every year that offers an unmatched opportunity to employees to be away from office routine working and refresh their physical fitness. Teams from all regions and Head Office participate in this 3-days eventful gala.





Sharing joy to  
double it...







Celebrating Independence Day

### SNGPL Wins Triple Crown in Cricket

Sui Northern Gas Pipelines Limited Cricket Team has won Pakistan's premier first-class competition, the "QUAID-E-AZAM TROPHY" for the year 2007-2008 beating Habib Bank Limited's team. After the demonstration of this team work, SNGPL has been registered in the list of winners of the Quaid-e-Azam trophy, which is an extraordinary honor for this prestigious organization. SNGPL cricket team players were honored at the Head Office for their tremendous success in winning the Quaid-e-Azam trophy at National Stadium Karachi.

After achieving the title of National champion of most prestigious Quaid-i-Azam trophy tournament, Sui Northern Gas Pipelines Limited (SNGPL) attained the double crown as they clinched the 2007-08 ABN AMRO Cup National one-day Cricket Championship title, after defeating star-studded Habib Bank Limited (HBL) with surprising ease by a seven-wicket margin in the final at the National Stadium Karachi on Thursday April 12,

2008. SNGPL Cricket Team has also achieved a singular honour to win the Muhammad Nisar Trophy at New Delhi playing against the Ranjhi Trophy Champions which is the premium and prestigious Indian Cricket Trophy.

### Contribution to National Exchequer

During the financial year, your Company contributed over Rs 20,916 million to national exchequer in the form of taxes and duties as compared to Rs 19,718 million during the preceding financial year.

### Entity Rating

The Company maintained its long term credit rating at AA (Double A) and short term rating at A1+ (A One Plus). These ratings are the reflection of strong financial position and low expectation of credit risk of the Company.



## SNGPL Wins Triple Crown in Cricket







Supporting Education - SNGPL and LUMS

## Corporate Social Responsibility

Corporate Social Responsibility (CSR) policy of the Company has been approved by the Board. CSR is an expression used to describe Company's obligation to be sensitive to the needs of all the stakeholders in its business operations. SNGPL is already contributing towards research activities by sponsoring "Chairs" in major Universities of Pakistan. Several Projects are in pipeline for improving the quality of life of communities through better education and health facilities.

SNGPL believes in:

- business that should be both profitable and beneficial to the society
- improving the quality of life of the communities especially, those who are under privileged
- ensuring harmonious relations with our stakeholders, by working in partnership with the Community, the Government and NGOs through the principles of sustainable development.



## Human Resource Development

A major factor in your Company's success is its highly skilled and motivated workforce which is the most valuable asset. Our people are our strength and for this the Management endeavors to create and maintain an environment conducive to their further development. Your Company is committed to provide a professional and caring environment so that creative energies of employees are released and fully utilized. Professionalism, people development, ethical standards and growth opportunity are some of the core values promoted which are the motivating factors for the employees.



The Company continues to place due emphasis on training in all spheres of its activity. SNGTI – Sui Northern Gas Training Institute – was established with the objective of developing a state-of-the-art facility for education and training of Company's Human Resource Capital in technical and soft skills, essentially required to meet current and future organizational needs.

The Institute has, in a relatively short duration, developed into a centre of excellence. SNGTI by now, besides rendering invaluable service to the Company by grooming and training the Company employees, is also extending training support to other Organizations as well.

SNGTI has so far conducted 226 training programmes which have been attended by over 4000 participants. Recently, SNGTI has entered into an agreement with M/s. NESPAK to train its executives in various Managerial Skills. It has also embarked upon a collaborative arrangement with M/s. NAVTEC, for imparting vocational training to the unskilled youth of the society, thus enabling them in their employability and to play a constructive role in the development of the society.

### Internal Control System

The Board has setup an effective internal audit function which is a major tool to monitor operational risks. The Company has centralized internal audit functions in which detailed reports from Head Office and Regions are submitted directly to the Head of Internal Audit who, in turn, reports to the Audit Committee of Directors. The focus of Internal Audit, being eyes and ears of the Board, provides an independent assurance on the operations and financial performance of the organization. Regular reviews and reports are submitted to the Executive Management and Audit Committee of Directors.







Evacuation drill at Head Office, Lahore.

## Administrative Controls

Satisfied and motivated work force plays an instrumental role in the growth of an organization. Companies concentrate on provision of quality services to its human resource in order to ensure their maximum contribution for the organizational prosperity. Likewise, SNGPL has always made concerted efforts to optimally utilize HR potential and besides market based remuneration, allows full medical coverage to them and their families, with paid holidays, retirement benefits and full group insurance coverage.

As SNGPL believes in promoting fairness, transparency and consistency within its HR policies it has always ensured strict administrative check to make all these facilities purposeful. This not only helps in promoting orderly behavior amongst all its employees but also encourages staff to improve their conduct.

This has been done through a composite set of activities including proper information dissemination, financial checks and timely & strict punitive measures, designed in such a manner that ensures consistency, impartiality and fairness and leads to ultimate goal of organizational growth.

## Risk Management

Due to the technical and professional management of the Company, overall risks arising from the Company's financial assets and liabilities are limited. The detail of financial risks, your Company is exposed to, are discussed in detail in note 47.1 to the financial statements.

### Security Risk

Your Company operates large number of sensitive facilities. Safety of these establishments, equipment and most importantly human resource from internal and external threats has always been a priority of the management especially under present circumstances when increasing life threats and suicide bombs have created a feeling of insecurity and terrorized our lives, its importance has increased significantly. To ensure fool proof security system, the security personnel have been equipped with state of the art security gadgets and trained accordingly.



The drive to attain  
compelling results -  
is right on!





## Election of Directors

An extraordinary General Meeting of Sui Northern Gas Pipelines Limited was held on June 23, 2008 at a local hotel for electing its Board of Directors for a term of three years effective June 26, 2008. Mr. Muhammad Razi Abbas, Syed Mohammad Asghar, Mr. A. Samad Dawood, Mr. Shahzada Dawood, Mr. Abdul Bari Khan, Mr. Tariq Iqbal Khan, Mr. A. Rashid Lone, Mian Raza Mansha, Mr. Qasim Rabbani, Mr. Arif Saeed, Mr. Saeed Ullah Shah, Mr. Amanullah Shaikh and Mr. Azim Iqbal Siddiqui were elected unopposed as Directors.

The Board of Directors would like to place on record their appreciation and gratitude to the outgoing Chairman, Mr. Altaf M. Saleem and non executive directors, Mr. Hussain Dawood, Mr. Munwar Baseer Ahmad and Mr. Azim Iqbal Siddiqui for their guidance and support during the tenures they were Directors of the Company. The Board also welcomes Mr. Abdul Samad Dawood and Mr. Umair Khan as Directors.

## Post Balance Sheet Events

The Directors have not received, as at September 27, 2008, being the date on which these financial statements were approved, any information concerning significant conditions in existence at the balance sheet date, which have not been reflected in the financial statements as presented.

## Corporate Governance

The principles of Corporate Governance adopted by the Directors are set out in detail in the section on Corporate Governance, in this Annual Report.

## Statement on Corporate and Financial Reporting Framework

The Board of Directors hereby declares that for the year ended June 30, 2008:

- a. The financial statements, together with the notes thereon have been drawn up in conformity with the Fourth Schedule to the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, result of its operations, cash flows and changes in equity.
- b. Proper Books of Accounts of the Company have been maintained.
- c. Appropriate accounting policies have been consistently applied in the preparation of financial statements, except for those stated specifically, and accounting estimates are based on reasonable and prudent judgment.
- d. The International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure there-from has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.





- f. There is no significant doubt upon the Company's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations, except for those included in the Company's Statement of Compliance with the Code of Corporate Governance.
- h. Significant deviations from last year's operating results have been disclosed as appropriate in the Directors' report / Chairman's statement and in the notes to the accounts, annexed to this report.
- i. Key operating and financial data for the last six years in summarized form is annexed.
- j. Value of investment in employees retirement funds based on audited accounts of the funds for the year ended June 30, 2007-are as follows:

	Rupees in (000)
SN Senior Staff Pension Fund	403,172
SN Junior Staff Pension Fund	938,686
SN Executive Staff Gratuity Fund	8,810
SN Non-Executive Staff Gratuity Fund	570,789
Trustees Provident Fund	2,102,058
<b>Total</b>	<b>4,023,515</b>

- k. Audited value of investment in employees retirement funds created by the Company during F.Y. 2006-07 are given as under:

	Rupees in (000)
SN Executive Staff, Medical Treatment	351,000
SN Non-Executive Staff Medical Treatment	946,399
SN Executive Staff Free Gas	23,258
SN Non-Executive Staff Free Gas	352,462
SN Executive Staff Compensated Absences Fund	35,083
SN Non-Executive Staff Compensated Absences Fund	137,621
<b>Total</b>	<b>1,845,823</b>

- l. All statutory payments on account of taxes, duties, levies and charges in the normal course of business, payable as at June 30, 2008, have been cleared subsequent to the year-end.
- m. The number of Board meetings held during the year and attendance by each Director is disclosed in Corporate Governance section of this report.
- n. No trading of shares by Chief Executive Officer, Directors, Company Secretary, Chief Financial Officer, their spouses and minor children has been carried out, other than the transaction disclosed as per statute. The number of shares, if any, held by them is annexed.





## Pattern of Share Holding

The pattern of share holding as at June 30, 2008 is annexed.

## Auditors

The present joint auditors M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants and M/s. Riaz Ahmed and Co., Chartered Accountants, are retiring and being eligible, offer themselves for re-appointment.

## Implementation of Transfer Pricing Policy

The Transfer Pricing Policy has been adopted by the Company.

## Going Concern

The Board of Directors has satisfied itself that the Company has adequate resources to continue its operations for the foreseeable future. The Company's Financial Statements have accordingly been prepared on a 'going concern' basis.

## Business Risks and Future Out Look

Your Company is committed to achieve the sustained levels of operations at demonstrated operating efficiencies through focus on our fundamental strengths including diversification in projects beyond the territorial limits of the Country. Maintaining the momentum achieved in the expansion of network during the current year will

be one the major uphill task for the management of your Company.

Your Company recognizes the need of a dedicated Customer Care and Complaint resolution department for the satisfaction of its valued consumers. As part of this recognition, dedicated Customer Care and Complaint Resolution department has already started its functions and is expected to provide the consumers with facilities like complaint resolution through automated call centers, establishment of new consumer service centers and bill payment through ATMs, POS terminals, call centers and internet etc.

The Board of Directors of your Company have already approved a comprehensive Business Plan which focuses on the challenges your Company faces and sets out some of the steps which are required to maintain the pace of the present operations. Some of the major elements of this plan include:

- Transport additional gas from developing / expanding fields, as and when, it becomes available and to expand the transmission systems accordingly.
- Extend gas distribution network and supply mains.
- Integrate sales, distribution, billing and customer service information on a single database under one roof. Introduce CIS.
- Hire, retain and motivate qualified employees for every approved position in the Company.
- Upgrade skills of human resources through systematic formal training programme.



- To comply fully with the OGRA prescribed performance and service standards.

Your Company has already been declared technically qualified against an international pipeline construction tender in Algeria. Financial evaluation will be carried out within ensuing year and work is also expected to commence shortly after that.

Inflationary pressures coupled with increasing fuel and energy costs is increasing the incentives for increased pilferages, thefts and corruption at different levels of our community, which besides increasing our UFG is also contributes adversely towards the revenues of our organization. Management of your Company has taken these threats as challenges and have developed a comprehensive plan to combat Unaccounted for Gas losses under a tolerable limit prescribed by OGRA. Some of the major features of this plan include separate steps and action plan for dealing with gas theft, remedial measures to control under and over ground leakages, measures to address billing and measurement errors.

### Acknowledgements

We wish to thank all our shareholders, stakeholders and valued customers for their continued support and also acknowledge the efforts of inspirational senior management team and dedicated employees.

We also place on record the acknowledgement for the continued guidance and support received from the Government of Pakistan, Ministry of Petroleum & Natural Resources, Oil & Gas Regulatory Authority (OGRA) and the out going Board of Directors in making the year a great success.

On Behalf of the Board

(TARIQ IQBAL KHAN)  
Chairman

Lahore:  
September 27, 2008.

