50 Years of Service
1954 - 2004

an
enlightened
vision

50th annual report 2004

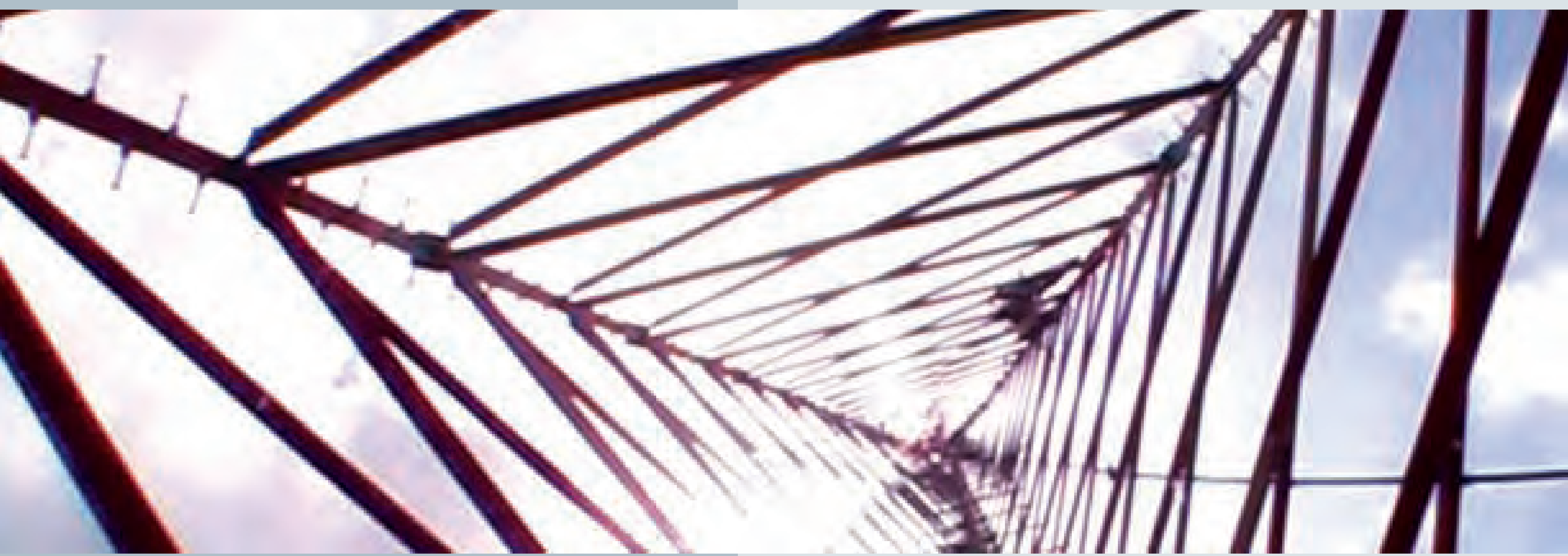
fuelling
national
progress

SSGC

The newly remodelled lobby of Head Office with an imposing calligraphy mural by Artist Tariq Javed dedicated to the spirit of enterprise and perseverance of all SSGC employees during the past 50 years.

Vision

To be a model utility, providing quality service by maintaining a high level of ethical and professional standards and through the optimum use of resources.



Mission Statement

To meet the energy requirements of customers through reliable, environment-friendly and sustainable supply of natural gas, while conducting company business professionally, efficiently, ethically and with responsibility to all our stakeholders, community and the nation.

Distribution pipeline network being laid in 1954 on Kutchery Road, now known as Dr. Zia-uddin Ahmed Road.

Company Information

Auditors
M/s. Taseer Hadi Khalid & Co.
Chartered Accountants

Legal Advisor
M/s. Haidermota & Co.
Barristers At Law & Corporate
Counsellors

Company Secretary
Aqeel Ahmed Nasir

Registered Office
SSGC House,
Sir Shah Muhammad Suleman Road,
Gulshan-e-Iqbal,
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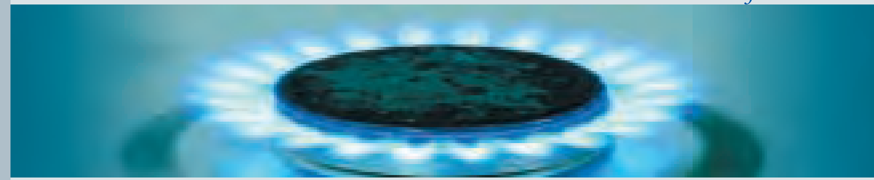


50 Years of Service

Company Profile – 50 Years of Service

Pioneering Spirit

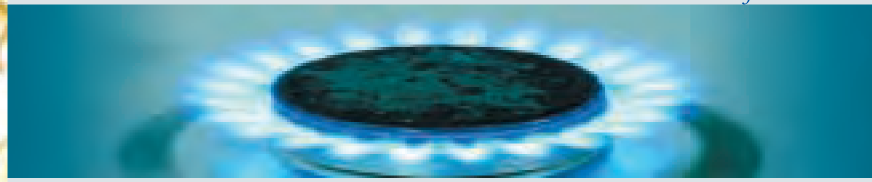
The founder company of SSGC pioneered Pakistan's gas industry fifty years ago, venturing into virgin territory to supply natural gas to customers in Karachi from the newly discovered Sui gas field, more then 500 kms away. For Pakistan, an emerging state in the early fifties endeavoring to make a mark in the world community of nations, Sui Gas was a God sent bounty. It was the fuel of choice, quickly replacing firewood, coal and kerosene in the domestic sector. Energy was then, in as much as it is now, the vital driving force for economic growth.

Sui Gas Transmission Company founders, with its engineers, managers and workers boldly undertook the setting up of the requisite infrastructure. Now, fifty years later, we pay tribute to their pioneering spirit and entrepreneurship which has endured the test of time. Today SSGC stands in the top 10 companies of Pakistan, and is acknowledged as the best public sector entity, with professionalism and quality services as its hallmark.

The Company began its operations in 1954 as Sui Gas Transmission Company (SGTC) when it laid Asia's first 558 km, 16 inch diameter, long-distance, high pressure gas pipeline from the gas field in Sui to Pakistan's largest city, Karachi, where gas distribution was assigned to the newly formed Karachi Gas Company. Indus Gas Company was set up in Hyderabad to serve other towns in Sindh. SSGC in its current shape evolved when the merged Indus and Karachi Gas Companies (renamed Southern Gas Company) was amalgamated with Sui Gas Transmission Company to form the Sui Southern Gas Company Limited in 1989.

SSGC Karachi Terminal set up in 1954, continues to be the hub of gas supply to Karachi.

50 Years of Service



Through the Years

From the original capacity of 45 mmcfd of the first 16 inch Indus Left Bank Pipeline (ILBP) in 1955, SSGC gradually increased its network capacity to 600 mmcfd up to 2000. Since its inception, the Company has been meeting the region's fuel requirements by merging its business plans with national obligations to provide affordable energy in a sustainable manner.

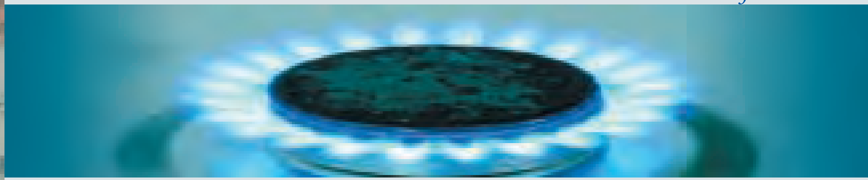
Then to meet the surge in demand due to a revival in the economy and to feed the substantial demand of the KESC and WAPDA power plants, SSGC undertook major expansion and network optimization work under the GIREP programme, doubling its capacity to 1200 mmcfd in 2003-04.

Today the Company's gas supply infrastructure consists of 2,786 km of high pressure transmission pipeline, 24,340 km distribution network covering over 928 towns and villages in Sindh and Balochistan, supported by 62,600 horsepower gas compression facilities.

SSGC's customer base exceeds 1.73 million, including over 2,600 industrial customers, seven power plants, two refineries, one fertilizer plant and Pakistan's largest integrated steel mill. The electric utility companies, KESC and WAPDA, are also our major customers. In addition, 1.7 million domestic and 18,152 commercial customers are now enjoying the benefits of natural gas. With more towns and villages being added to its gas distribution network everyday, the customer base is rapidly increasing and the Company continues to provide the same quality service that has been its hallmark for the past fifty years.

Pakistan Steel, producing 1.1 million metric tonnes of steel annually, fuelled by natural gas from SSGC.

50 Years of Service



Connecting New Fields

The Sui fields continued to provide 100 % of our requirement of natural gas well into the early nineties, but then demand started out-pacing supply because of diminishing production from Sui due to field depletion. However, with increased exploration efforts by various overseas and Pakistani companies, several new gas fields were discovered, which were connected to the Company's network, enabling it to meet the increasing demand while having alternate supply sources.

The Company takes pride in the fact that it ensures a nonstop supply of gas all over the Sindh and Balochistan area. Since the original gas field at Sui is now only providing about 12% of our sales, the rest of the demand is met through gas that has since then been discovered at Bhit, Zamzama, Sawan, Badin, Miano, Kandanwari and a few other locations, mostly in Sindh. The Company continues to explore the possibility of connecting further gas fields in the region; these include potential gas fields in the Zarghun, Khipro, Mirpurkhas, Sinjhoro, Golarchi and Mubarak areas, and additional gas availability from the existing fields of Bhit, Zamzama and Badin.

Focus on Customer Service

Through the years, the Company has developed a mature customer-oriented culture providing prompt, friendly and efficient service. Our 24-hour 119 customer service line, operational in all major cities of Sindh and Balochistan, provides a vital on-line link to customers. In the year 2003, the Company launched a new initiative of "Service with a Smile," which provides for a total customer-oriented approach. This has been supplemented by the setting up of 11 Customer Facilitation Centres in all major areas of operations. Additionally 14 more centres are being set up even in small towns such as Pishin, Sibi and Mirpurkhas.

Now, as the Company celebrates its Golden Jubilee, it is a matter of pride that it is recognized as the best public sector utility in the country and its motto of "Service with a Smile" is indeed its hallmark. For fifty years, our customers have been the focus of the Company's efforts, and it is this commitment to the customers that drives all its operations and will ensure its success through the years to come.

CFC - Bringing "Service with a Smile" to your neighbourhood.


KESC
BIN QASIM POWER STATION

Commitment

Commitment through the years

The Company's success throughout the years has been a result of its full commitment in all areas of its operations—from overcoming difficult terrain and working conditions while constructing pipelines in remote and rugged areas, to ensuring timely and accurate billing, and responding promptly to emergency situations to ensure uninterrupted supplies to all our customers. This commitment to quality services is reflected in the continuous innovations and adoption of state-of-the-art technologies, to make the Company a model utility in Pakistan.

The highlights of our commitment come from the completion of new and challenging projects. We recently completed the Ziarat Pipeline Project which consists of construction of 88 km of 8 inch diameter transmission pipeline over extremely difficult terrain in very harsh winter conditions. On the other hand, the Sohbatpur Gas Supply Project comprising of 75 km of supply mains and distribution network was constructed in extremely hot and un-hospitable conditions. Both projects, amongst many more, bear testimony to the continuing commitment of our professionals.

It is this commitment to provide high-quality engineering, design, construction and customer services on a sustained basis that allows our employees to give the Company, and hence its customers, their very best.

SSGC crew working under tough weather conditions on the Ziarat pipeline project.

SSGC's commitment to support the power sector – providing 200 mmfcd gas to KESC Bin Qasim 1200 MW power plant.

Creativity

Supporting Creativity

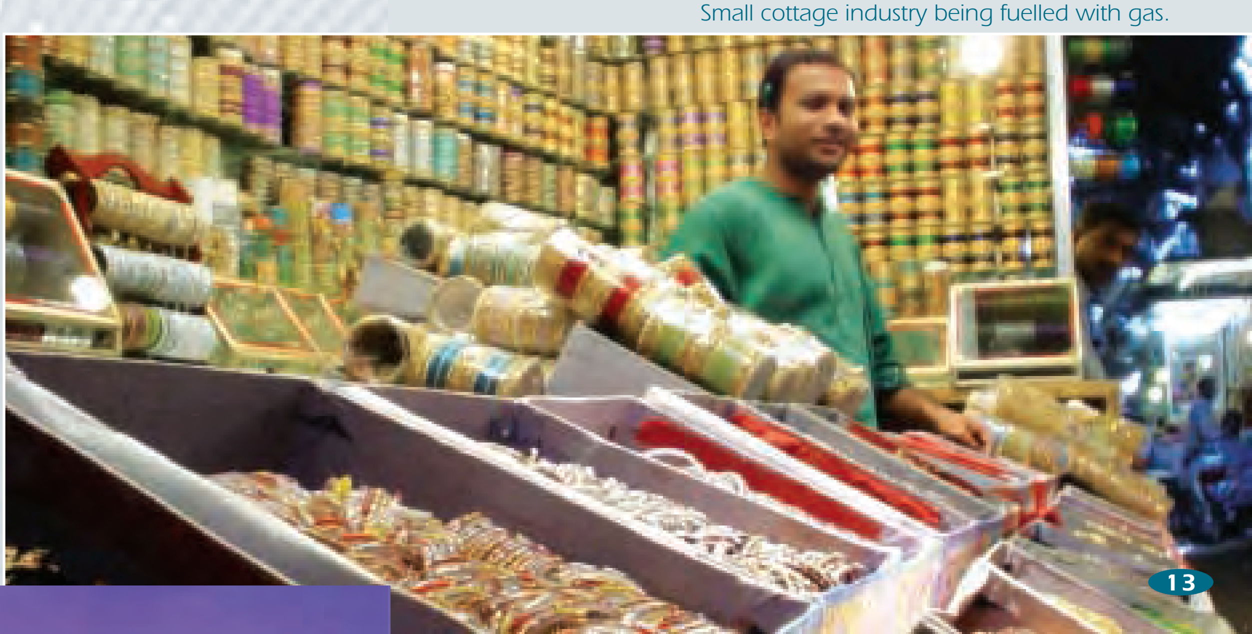
We believe in creativity and innovation. This has led to the alignment of our technology applications with our business needs to form effective business management systems, and for the provision of efficient customer services.

The Company provides natural gas to innumerable small and medium-sized businesses, which produce diverse products, ranging from confectionery items, consumer goods, toys, textiles, sports equipment, clothing, footwear, toiletries and even bangles. A continuous supply of natural gas keeps their furnaces burning and enables them to produce competitively-priced products, contributing to their sustainability and diversity.

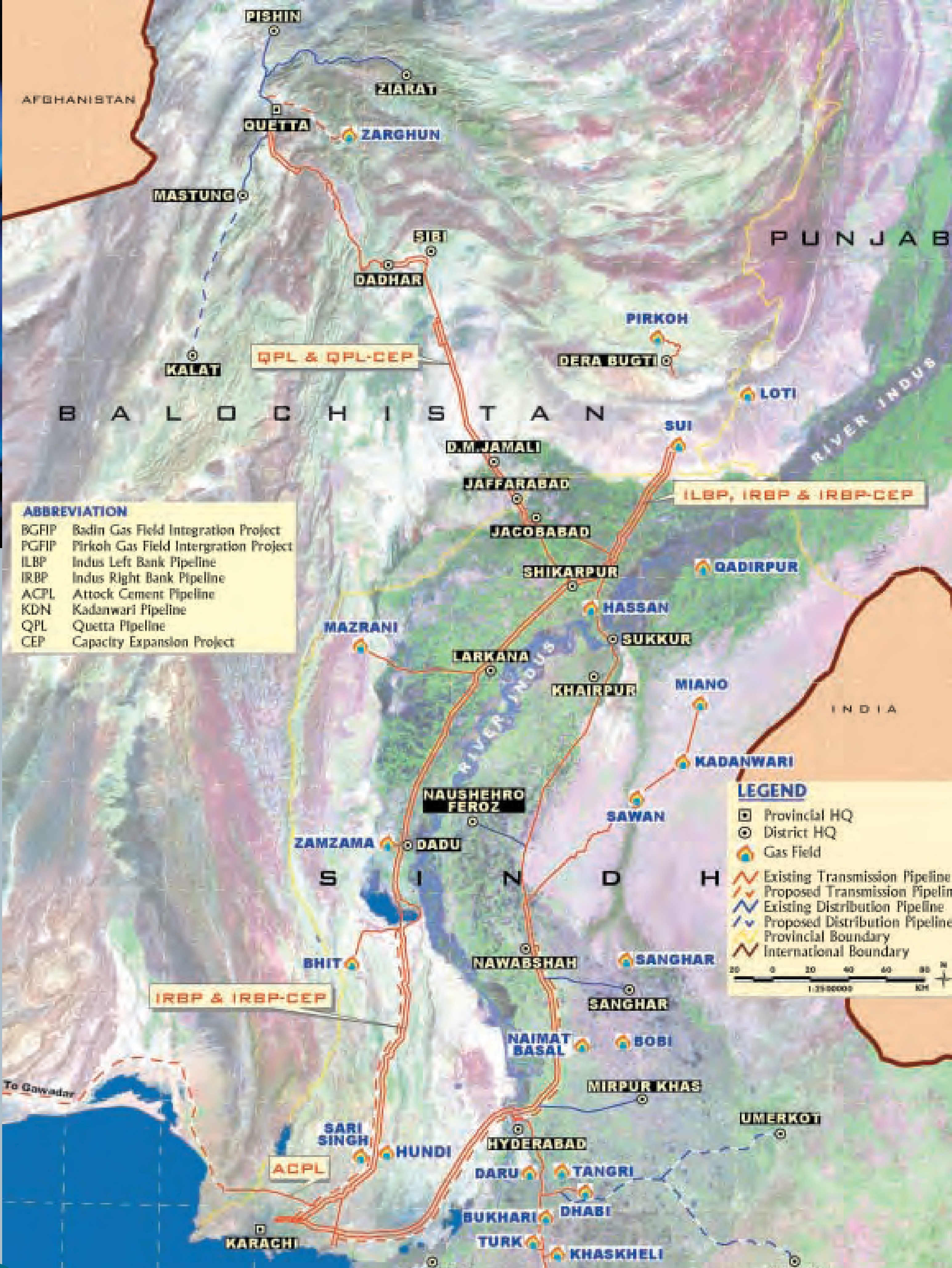
The Company also develops and supports vendor industries in their pursuit to expand local manufacturing and strengthen technology applications.

We use the creativity of our staff to provide innovative solutions for sustainable economic development, and the well-being of the people we serve. The application of state-of-the-art software for design, modeling and simulation of our network provides a window of opportunity for engineering excellence to our talented engineers.

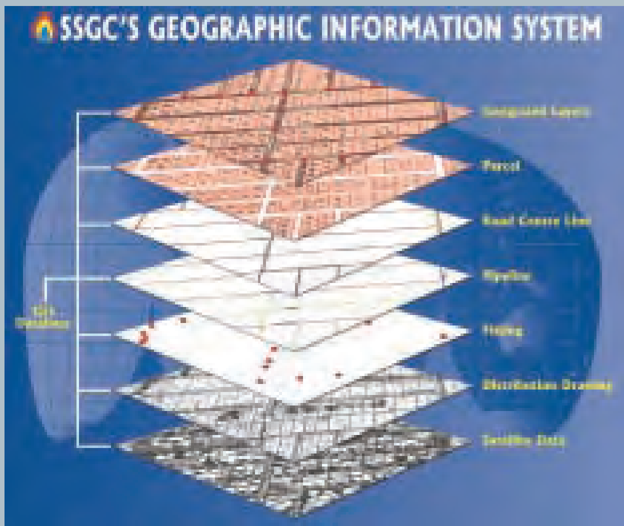
Small cottage industry being fuelled with gas.



Supporting creativity – creative use of economical energy in the bangle industry in Hyderabad.


PISHIN
ZIARAT
AFGHANISTAN
QUETTA
ZARGHUN
MASTUNG
SIBI
DADHAR
PUNJAB
PIRKOH
DERA BUGTI
KALAT
QPL & QPL-CEP
LOTI
BALOCHISTAN
RIVER INDUS
SUI
D.M.JAMALI
JAFFARABAD
ILBP, IRBP & IRBP-CEP
JACOBABAD
SHIKARPUR
QADIRPUR
HASSAN
MAZRANI
SUKKUR
LARKANA
RIVER INDUS
KHAIRPUR
MIANO
INDIA
KADANWARI
NAUSHEHRO FEROZ
SAWAN
ZAMZAMA
DADU
SINDH
BHIT
NAWABSHAH
SANGHAR
SANGHAR
IRBP & IRBP-CEP
NAIMAT BASAL
BOBI
To Gawadar
MIRPUR KHAS
UMERKOT
SARI SINGH
HUNDI
HYDERABAD
ACPL
DARU
TANGRI
DHABI
BUKHARI
KARACHI
TURK
KHASKHELI
ABBREVIATION
BGFIP Badin Gas Field Integration Project
PGFIP Pirkoh Gas Field Intergration Project
ILBP Indus Left Bank Pipeline
IRBP Indus Right Bank Pipeline
ACPL Attock Cement Pipeline
KDN Kadanwari Pipeline
QPL Quetta Pipeline
CEP Capacity Expansion Project
LEGEND
Provincial HQ
District HQ
Gas Field
Existing Transmission Pipeline
Proposed Transmission Pipelin
Existing Distribution Pipeline
Proposed Distribution Pipeline
Provincial Boundary
International Boundary
20 0 20 40 60 80
KM
N

Five Decades of Competence



Over the last 50 years, the Company has designed, engineered and constructed over 2,700 kms of high pressure transmission lines, as well as 24,000 kms of distribution network, and in doing so has achieved many firsts in the gas industry.

The pursuit of engineering excellence and the spirit of pioneership prompted the Company to take steps in developing skills and self-reliance, reflected in our present in-house capability ranging from advance design, engineering, construction, operations, gas measurement, billing and customer services.

As part of its objective to increase its competence and to provide quality service, the Company has recently invested in the latest equipment for our SCADA system for on-line monitoring and control of operations. Further, on-line gas chromatographs, BTU-analyzers and electronic volume correctors have been introduced for more accurate billing.

A Geographic Information System for storing and displaying geographically referenced information and pipeline system data for the pipeline system safety and integrity management system has been integrated with our customer database. Today, we stand second to none in the utility services industry, not only in Pakistan, but in the region as well.

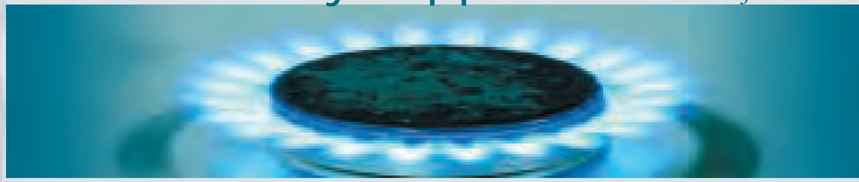
Competence

Commitment to technology applications – new SCADA gas control centre.

SSGC utilizes satellite imagery for mapping its network on a GIS database.


WWF
WETLAND

Dedicated to Community Support



Community Support

Being a responsible corporate citizen, the Company recognizes its obligations to society and the communities it serves. Under its Corporate Social Responsibility program, it lends a helping hand to the community when and where the need arises. Last year, the employees contributed Rs. 4 million towards the 'Prime Minister Rain Affectees Fund', and also helped with draining rainwater from the flooded Karachi streets. Relief goods worth Rs. 1 million were also distributed to flood affectees in the remote areas of Badin and Jaffarabad.

The Company has played a pioneering role in the launch of a Petroleum, Oil and Gas Faculty at NED Engineering University, Karachi. It also has initiated an Adult Literacy Program under which 1200 adults in remote areas will be provided primary education in the first phase. It is also upgrading several schools in small towns of Sindh and Balochistan. The Company also provides apprenticeships/internships to students and is running an environmental education program for school children in collaboration with the WWF.

And in the year of its Golden Jubilee, your Company is planting 100,000 trees throughout its franchise area. We have taken steps to preserve the mangrove forests in Karachi's coastal areas and helped clean up the beaches. We have also upgraded and beautified selected parks and roundabouts in various towns. Our efforts to protect the depleting 4000 years old Ziarat juniper forests have received acclaim nationally. After all, we provide "clean fuel for a clean environment", so we do help to protect it.

Gas to rural communities for improving quality of life.

SSGC's commitment to community support is manifested through its numerous and diverse programmes.

Customer Service – with a Smile

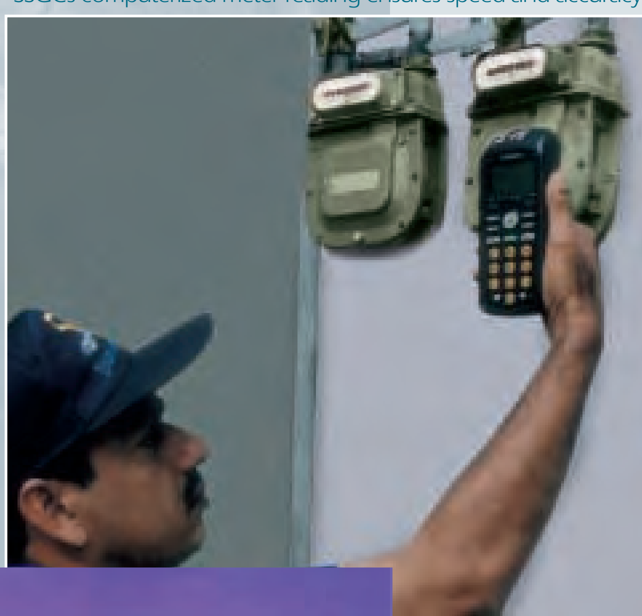
Your Company is committed to providing quality customer services, with its new motto of “Service with a Smile.” It has taken several initiatives to improve the quality of service provided to customers. These include the opening of Customer Facilitation Centres (CFCs) in numerous cities and towns. The CFCs take care of various customer needs, and provide a variety of services on the spot, including new connection applications, registering complaints, providing duplicate bills, bill corrections, installment plans, dropping payment cheques in drop boxes, and sale of prepaid energy cards.

The Company has also introduced a unique 10-digit customer account number which will allow customers to pay their bills or obtain a duplicate bill anywhere in the franchise area. It is also making bill payment much more convenient by allowing gas bills to be paid through credit cards, the internet, call centres, point of sale terminals and payment through cheques in drop boxes in collaboration with our partner banks.

The Company has introduced state-of-the-art prepaid gas meters, enabling customers to manage their gas consumption at their own convenience through a rechargeable “Energy Card.” This would reduce queues at bank pay windows, eliminate meter reading, bill processing, and at the same time, ensure better cash flows and allow customers a certain discount on advance payments.

Our customers have always been the focus of all our service-related initiatives, because it is through their satisfaction that the Company has gauged its quality of service and success through the past fifty years, and will continue to do likewise for the next fifty years and beyond.

SSGC's computerized meter reading ensures speed and accuracy.

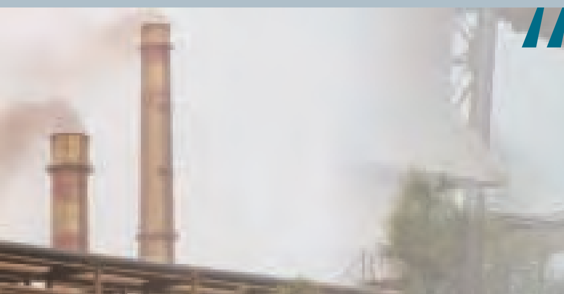


SSGC worker attending to a customer call.

SSGC provides energy to a wide spectrum of industries, fuelling national progress.

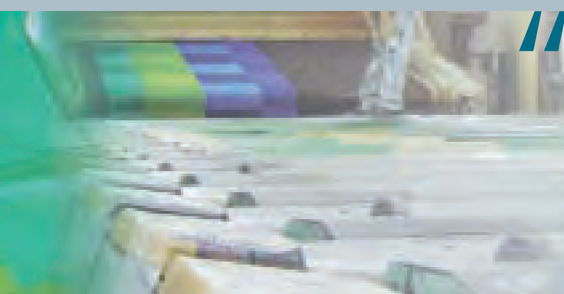
SSGC customers' tributes on the occasion of 50 years of service

First Class Service



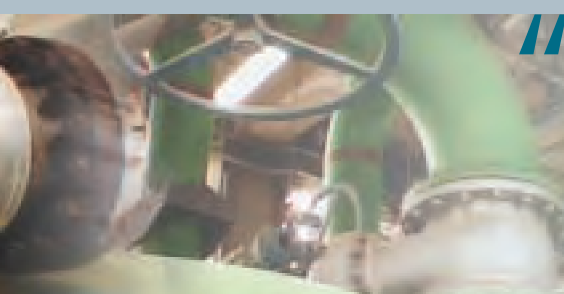
"We depend on SSGC for 50% of our energy requirement. So things like supply and reliability are very important for us. We have been enjoying good customer service with SSGC for the last 40 years. Very professional people. I congratulate them on completing 50 years."

Saleem Akhter Butt
DGM, Pakistan Steel



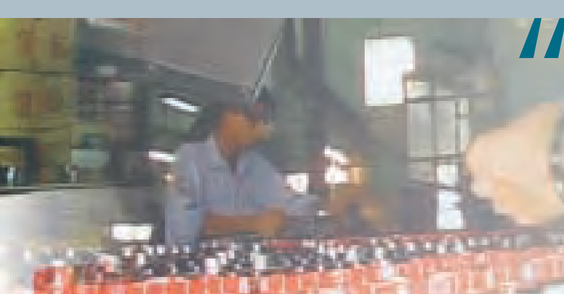
"SSGC is playing a major role with Al-Abid. Your people are very cooperative. If we have any problem, your people are just a call away. Keep it up. And help us in the 2005 scenario, where the competition is going to be tough. Which I think you are already doing for your customers."

Naseem Sattar
Chairman & Chief Executive,
Al-Abid Silk Mills



"I wish to congratulate Sui Southern Gas Company for completing 50 years of national service and satisfying the needs of a large part of the country. We at Fauji Fertilizer Bin Qasim Ltd (FFBL), being their largest customer, are very satisfied with the cooperation extended to us during the last six years of operations. SSGC is a very professional organization and we enjoy a relationship of mutual trust with them. Even during the short supply situation beyond their control, they did their best to help us. We, therefore, thank SSGC for their cooperation and wish them great success in future."

M. Abad Khan
General Manager (plant)
Fauji Fertilizer
Bin Qasim Ltd. (FFBL)

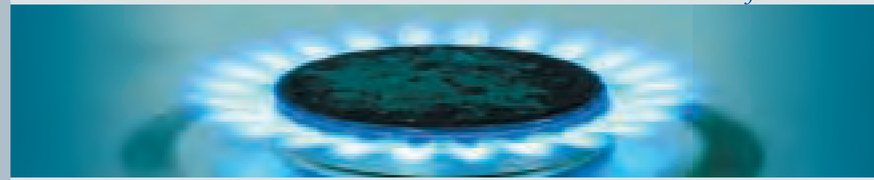


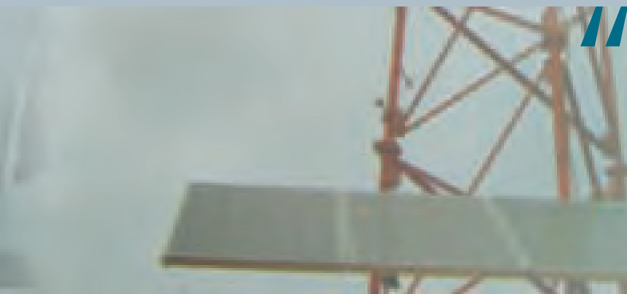
"SSGC is so much better than any other state-run organization. Technical service or any other service, SSGC is rated at the top among all state-run organizations. They come on very short notice; they are just a telephone call away. We have not come across billing problems or any other problems. I hope they maintain their service, in fact I hope they improve their services."

S. I. Ahmad
Managing Director and Chief Executive,
Exide Battery Ltd.

SSGC customers' tributes on the occasion of 50 years of service

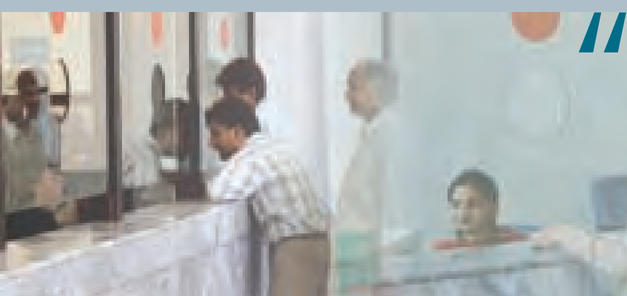
First Class Service





"I rejoice with SSGC in celebrating 50 years of service. Over the years, both KESC and SSGC have become synonymous with national service and have strong bonds of utility-consumer relationship with each other and the public. KESC has been a beneficiary of natural gas since the 1950's. The new millennium has turned KESC into a gas-dependent power utility for cost-effectiveness and efficient power supply. I pray for the everlasting success of SSGC and hope that the relationship between these two utilities interdependent on each other will further grow in the times to come for the prosperity of the country and the well-being of the nation."

Brig. Tariq Saddozai
Managing Director, KESC



"We in our country are used to a service from our utilities where the consumer feels like a beggar. But on 10th May at about 9:30 am, I rang your Customer Service at 119. A very pleasant lady attended the call, and offered to hold on until I found my account number. The next day she sent the company person as promised, who solved my problem. My wife and I were both surprised when he declined to accept any gratification. Hearing this, my daughter in London said, "This is better than British Gas." I want to congratulate you on providing this First World Service in a Third World country!"

Prof. S. H. Shafqat
Former Director and Professor of Cardiology,
J.P.M.C. Karachi

"Gas has been a most reliable resource. By the grace of Allah, we've had a gas connection for 20-25 years, and we have never had any problems. There has never been an interruption in gas supply. Whenever we have asked for an increase in the capacity of transmission, it has been done immediately. SSGC people are very prompt. They don't make the consumer wait. SSGC has done an extremely good job throughout."

Taufiq Chinoy
Managing Director,
International Industry Limited (IIL)

Notable Achievements in the Golden Jubilee Year

Achievement of 1 Billion Landmark

Your Company takes pride in the achievement of a historic milestone of exceeding sale of over 1 billion cubic feet daily during the year.

Monumental Success in Stock Offer

The public stock offer of SSGC by the Privatization Commission created history and three new records were set, namely:
Highest number of applications received – 4 times;
Highest time of over subscription – by 15 times;
Highest value of the offer of stock in terms of PE ratio.

Ziarat Pipeline Completion

SSGC completed the 88 km x 8 inch diameter gas supply pipeline from Bostan to Ziarat town in record time, within cost, in rough terrain, and under extreme weather conditions.

Launching World-Class CIS Solutions

The Company launched a new billing system, based on a world-class Customer Information System (CIS) software to integrate sales, billing and customer services.

Research and Development Initiative

In a first of its kind R&D initiative, SSGC, Pakistan Science Foundation (PSF) and the Institute of Chemical Engineering & Technology (ICET)-University of Punjab launched a program for research and development on the disbondment of pipeline coating.

State-of-the-Art SCADA and New Gas Control System

SSGC commissioned a new online, state-of-the-art SCADA and gas control system for monitoring and control of the pipeline network and bulk customer and compressor stations.

SSGC Making its Mark

Launching of New Projects

Two new unique projects facilitated by gas supply from SSGC were launched with an investment of US $ 130 million by:
i) DHA Cogen for Power/Desalination Plant for supply of 90 MW power and 3 mgd fresh water;
ii) JJVL LPG extraction plant having a capacity of 400 tonnes of LPG/day on BOO basis.

First Time Export of Gas Meters

The Company started exporting gas meters, and shipments were made to Germany against the first trial order, opening up further avenues for export.

Rs.3 billion Financing Agreement

SSGC entered in a Rs. 3 billion loan agreement, largest to date through a consortium of five local banks to fund expansion projects at most competitive terms.

Satellite Imagery for Integration of CIS and GIS

SSGC launched a new programme to integrate hi-resolution satellite data obtained under contract from SUPARCO with demographic and customer information for a comprehensive on-line Customer Information System.

Environment Excellence Award 2004

SSGC has been awarded the 2004 Environment Excellence Award for its proactive measures for the preservation of the environment by the National Forum for Environment & Health.

Excellence Award by WWF

The Company was awarded a special excellence award by World Wildlife Foundation (WWF) for its special awareness and support programmes for safety and environment protection.

Six Years' Financial Highlights

Year ended 30 June	1999	2000	2001	2002	2003	2004
Sales Revenue (Rs in million)	16,350	20,171	25,430	32,235	36,163	47,355
Profit Before Tax (Rs in million)	1,465	1,509	1,975	2,154	2,049	1,572**
Shareholders' Equity (Rs in million)	7,633	8,426	8,711	8,998	9,304	9,348
Capital Expenditure (Rs in million)	1,215	979	778	2,697	1,727	2,214

FINANCIAL RATIOS

	1999	2000	2001	2002	2003	2004
Debt Equity Ratio	57:43	51:49	45:55	45:55	42:58	40:60
Current Ratio (acid test)	0.94	0.95	1.07	1.17	1.26	1.16
Interest Cover Ratio (No. of times)	1.56	1.85	2.63	3.83	3.35	3.26
Transmision & Distribution cost to Sales Revenue (%)	11.76	12.19	10.04	8.42	9.08	7.44
Financial charges to Sales Revenue (%)	15.99	8.77	4.77	2.36	2.41	1.47
Earnings per share - Basic	1.88	1.36	1.93	2.14	2.16	1.49
- Diluted	1.63	1.18	1.93	2.14	2.16	1.49
Dividend per share (%)	15.0*	15.0*	15.0	17.5	18.0	15.0
Dividend Yield (%)	17%	9%	15%	15%	9%	5%
Return on Capital Employed (%)	14.26	10.38	15.34	16.47	16.09	10.71
Fixed Assets Turnover Ratio	0.90	1.12	1.47	1.94	2.20	2.85

*denotes bonus shares

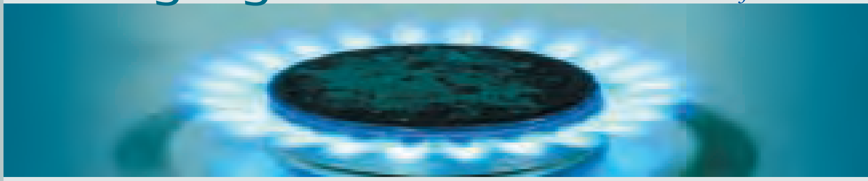
Six Years' Performance Review

The Company achieved significant increase in sales revenue of 189% in 2004 as compared to 1999. It is to be noted that in the year 2004, the sales have shown a record increase of 31%. This was achieved by connecting newly discovered gas fields through transmission system network enhancement and optimizing the gas flows.

Through concerted efforts, transmission and distribution (T&D) costs have been reduced from 11.76% in 1999 to 7.44% of net sales value in 2004, reflecting the efficiency attained by increasing the sales volume and reducing the cost by taking economic measures.

The financial cost has substantially been reduced from 16% in 1999 to 1.47% of net sales value in 2004. This is achieved by improving the debt equity ratio and applying Company's retained earnings into business use.

Six Years' Financial Highlights

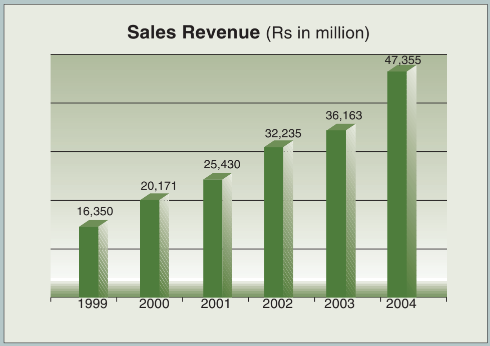


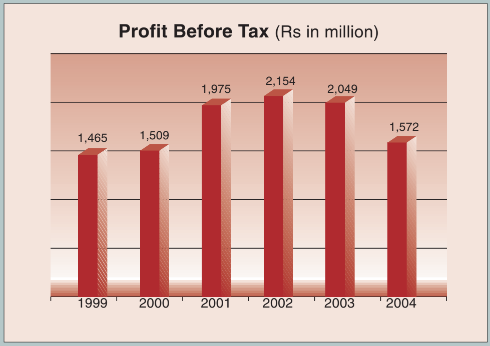
The Company has maintained a strong position of various financial ratios. The fixed asset turnover ratio has increased from 0.90 in 1999 to 2.85 in 2004, reflecting a corresponding increase of net sales value/volume. The current debt equity ratio of the Company is 40:60, reflecting the Company's ability to borrow additional funds for future expansion plans. The current ratio (acid test) of the Company upto the year 2000 was less than one, which has now been improved to 1.16.

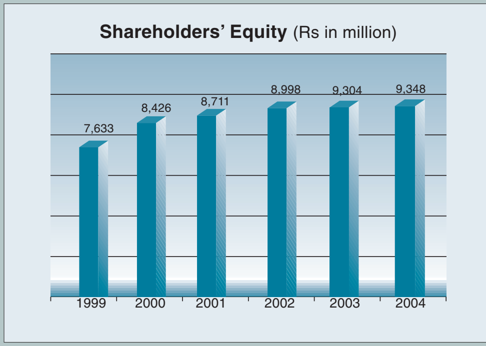
** Despite increase in efficiency and productivity reflected through reduced T&D cost and increase in sales revenue, as discussed above, Company's profits have not increased correspondingly. This is so because under the current tariff regime, Company's profits are capped at 17% of the Net Fixed Assets at the balance sheet date. Also for the current financial year, OGRA while determining SSGC's revenue requirement has made certain disallowances, which have adversely impacted Company's profitability.

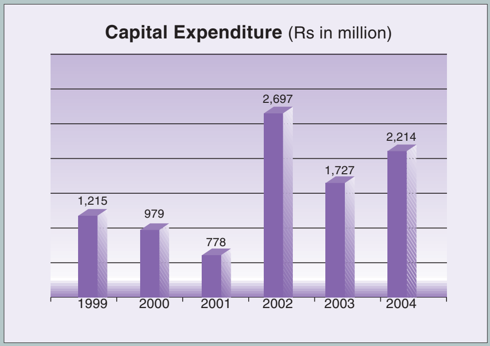
The capital expenditure of the Company has been maintained at an average level of about Rs. 1.5 billion over the past six years. The capex of the current year is Rs. 2.2 billion as compared to 1.7 billion of last year. In addition, an amount of Rs. 1.5 billion has been committed as on close of the year. The capital expenditure would have been higher as per budget plan, but due to an abnormal hike in steel prices in the international market, the suppliers were unable to provide line pipe, equipment etc. as per their commitments. For the year 2004-05 a capital expenditure of Rs. 7 billion has been planned, for which orders are in place and it is expected that the CAPEX targets would be met.

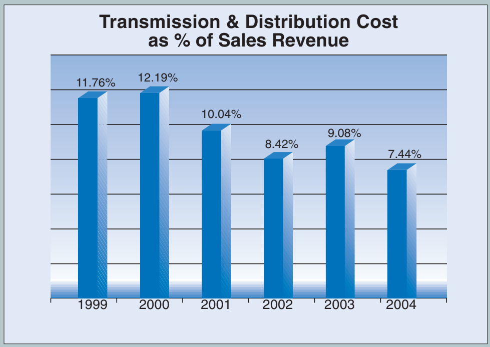
With substantial increase in Company's Asset base in the FY 2004-05 as planned by the Company, and upon success of SSGC's appeal against OGRA's decisions, improvement in Company's profits is expected in FY 2004-05.

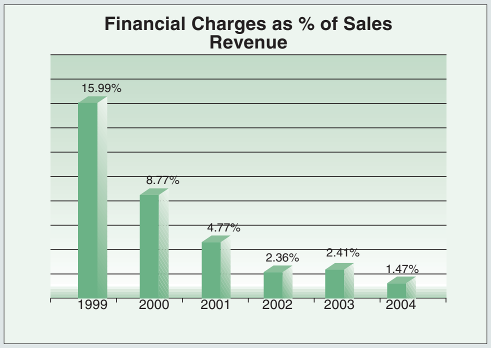


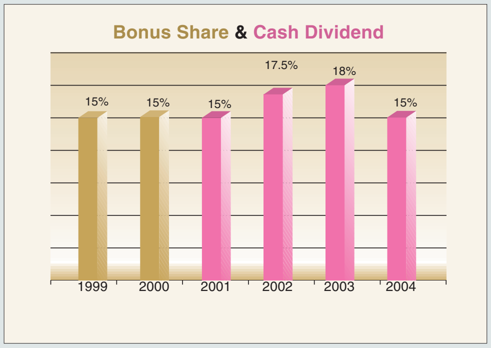






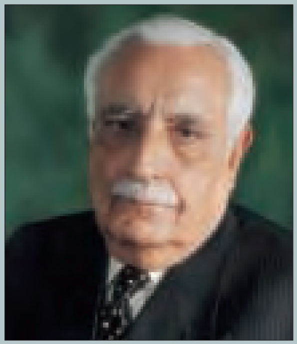






Board of Directors

The Board of Directors



Aitzaz Shahbaz
Chairman

Chairman ISGSL, Petroleum Institute of Pakistan and Lubricants Advisory Committee. Former Chief Executive, Pakistan Burma Shell, former Chairman, Shell Pakistan, Management Association of Pakistan, Oil Companies Advisory Committee, National Refinery Ltd. and Special Olympics Pakistan and Trustee, Lahore University of Management Sciences.

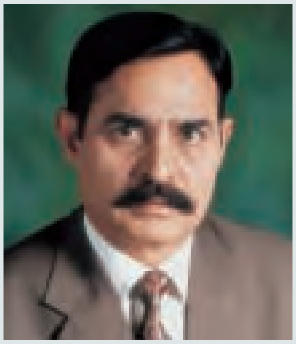
Munawar Baseer Ahmad, P.E.
Chief Executive
& Managing Director

Former CEO, PEPCO. with 32 years diversified experience. Held senior management and engineering positions with leading multinationals in the USA., Middle East and Pakistan in oil, gas, technology and engineering industry. A professional registered engineer in USA (Texas) and Pakistan and member PIP, MAP, CSP and IEEE. He holds a B.Sc. Engg. from UET, Lahore, and M.Sc. Engg. and MBA, from University of Houston, Texas, USA. He is a Director on the Boards of PIP, SNGPL and ISGSL.

Muhammad Naeem Malik
Member

Engineer by profession with 25 years experience in chemical industry and Government of Pakistan. Presently Director General (Gas) and Director General (Administration / Special Projects), Ministry of Petroleum & Natural Resources. Also Director on the Boards of SNGPL, ISGSL and Pirkoh Gas Company (Pvt.) Ltd.

The Board of Directors in discussion during the 338th meeting held at Islamabad on 30th September 2004.



Muhammad Iqbal Awan
Member

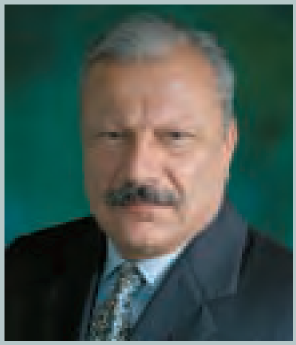
Member Board of Audit and Finance Committee, SSGC. Financial Advisor, Ministry of Petroleum and Natural Resources and Ministry of Health. Director, PPL, Attock Refinery Ltd., NRL, PMDC, PSO, OGDC, Lakhra Coal Development Corporation, SNGPL, and other leading companies. MBA from Columbia University, USA.

Khursheed K. Marker
Member

Chairman, Merck Marker (Pvt.) Ltd. and PICIC. Formerly on Board of State Bank of Pakistan and Habib Bank Ltd. Member, Majlis-e-Shoora, 1982, Federal Minister for Water & Power, 1993. Pioneer Member, Aga Khan Foundation Steering Committee. Well-known for philanthropic contributions.
MA (Cantab).

**Justice (Retd.)
Rasheed Ahmed Razvi**
Member

Former Judge of the High Court (Sindh). Previous key appointments: Chairman, Foreign Exchange Appellate Board, Presiding Officer, Special Court (Offences in Banks) Sindh, President and General Secretary, Karachi Bar Association, Member, Commonwealth Judges Association, Member, Central Executive Committee and SAARC LAW.

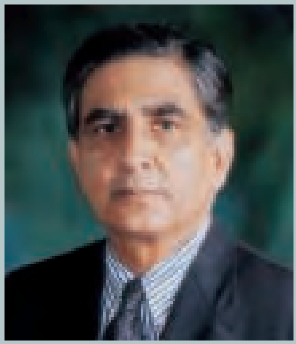


Muhammad Javed Khan
Member

Executive Director, State Life Insurance Corporation of Pakistan, Director PICIC, Director Alpha Insurance Co. Ltd., Formerly Member/Additional Secretary Wafaqi Mohtasib Secretariat, Commissioner of Income Tax, B.A (Hons.) M.A. (Political Science).

Zaffar A. Khan
Member

Chairman Board of Directors of PTCL and Director Engro Chemical Pakistan Ltd. He graduated as a Mechanical Engineer and served for 35 years in the fertilizer/petrochemical industry. Early this year he retired as the President & CEO of Engro Chemicals.

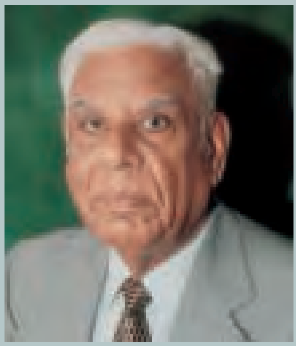


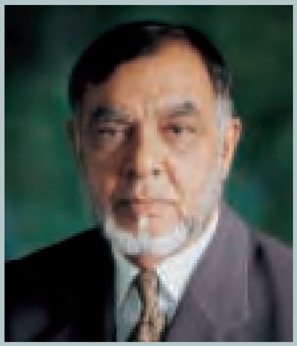
Abdul Rashid Lone
Member

Chief Executive Officer/Managing Director, Sui Northern Gas Pipelines Limited, the largest integrated gas utility in Pakistan. He is also holding the position of Managing Director, Inter State Gas Systems (Pvt.) Limited. He is a Chemical Engineer holding. B.Sc. (Hons) (Chemical Engineering) and M.Sc. (Chemical Engineering) degrees from University of the Punjab, Lahore (Pakistan) and a registered professional Engineer with Pakistan Engineering Council as well as a Fellow Member of Pakistan Institute of Chemical Engineers.

Amanullah Sheikh
Member

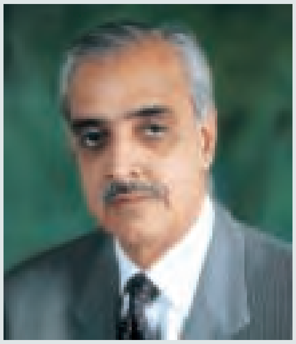
Fellow of the Institute of Petroleum, London and Member, Institute of Engineering, Pakistan. 40 years experience in petroleum industry. Attended advanced management courses at PIM and international executive programmes at IMD, Geneva, Graduate in mechanical and electrical engineering.





Taufiq Ahmad Khan
Member

Served in Balochistan Civil Service for 30 years as Deputy Commissioner, Deputy Secretary, Divisional Commissioner and Provincial Secretary. Has vast experience of field and secretariat responsibilities.



Tariq Iqbal Khan
Member

Managing Director, ICP and NIT. Former Member, CBR and Commissioner, SECP. Former President, Islamabad Stock Exchange. Director of several major corporations and member of various government committees. Fellow of the Institute of Chartered Accountants of Pakistan.

Muzaffar Ahmad
Member

Former Federal Secretary, served in Ministries of Finance, Industries, Production, Commerce and Agriculture and Tariff Commission. Member, Federal Public Service Commission and Public Accounts Committee. President, Pakistan Badminton Association. M.Sc., Political Science, MA, Defence Studies, National Defence College and Diploma in Public Administration.

Sanaullah Qureshi
Member

Former Vice Chairman, ICI Pakistan Chairman, Gillette Pakistan Limited and Director, BOC Pakistan Limited, Atlas Honda Limited, Faysal Bank Limited and MYK Associates (Pvt.) Limited.

Board of Directors' Committees

Audit

The Audit Committee in a meeting.

Audit Committee:

Mr. Sanaullah Qureshi, Chairman
Mr. Muhammad Iqbal Awan, Member
Mr. Taufiq Ahmed Khan, Member
Mr. Muzaffar Ahmad, Member

Finance

Finance Committee:

Mr. Aitzaz Shahbaz, Chairman
Mr. Munawar B. Ahmad, Managing Director
Mr. Muhammad Iqbal Awan, Member
Mr. Khursheed K. Marker, Member
Mr. Muhammad Javed Khan, Member

Human Resource

A meeting of the Human Resource Committee

Human Resource Committee:

Mr. Aitzaz Shahbaz, Chairman
Mr. Munawar B. Ahmad, Managing Director
Mr. Muhammad Naeem Malik, Member
Mr. Sanaullah Qureshi, Member
Mr. Zaffar A. Khan, Member

Management Committee

Standing Left to Right:
Azim Iqbal Siddiqui (ASGM, Customer Relations),
Sirajuddin Shaikh (SGM, Inventory Management),
Syed Hassan Nawab (SGM, Management Services),
Moid-uz-Zafar (SGM, T & D Operations)

Seated Left to Right:
M. Inam-us-Samad (Dy. Managing Director & Chief Financial Officer),
Munawar B. Ahmad (Managing Director),
Anees A. Ansari (SGM, Engineering Services)

The Senior Management of the Company meeting to review monthly progress.

Senior Management Team

Notice of Annual General Meeting

Notice is hereby given that the 50th Annual General Meeting of the members of Sui Southern Gas Company Limited ("Company") will be held at 8.30 a.m. on Wednesday 27 October 2004 at Darbar Hall, Sheraton Hotel, Karachi to transact the following business:

Ordinary Business:

1 To confirm minutes of the 49th Annual General Meeting held on 24.10.2003.

2 To receive, consider and adopt the Audited Financial Statements of the Company for the year ended 30 June, 2004 together with the Directors' and Auditors' Report thereon.

3 To appoint auditors and fix their remuneration for the year ending 30 June, 2005. The present auditors M/s. Taseer Hadi Khalid & Co., Chartered Accountants, retire and offer themselves for reappointment.

4 To consider and, if deemed appropriate, approve payment of cash dividend to the shareholders at the rate of Rs.1.50 per share of Rs. 10/- each for the year ended 30 June 2004.

5 To elect fourteen (14) Directors as fixed by the Board through a resolution dated 8 September 2004 on the Board of the Company under section 178 of the Companies Ordinance, 1984 ("Ordinance") for a period of three years commencing from 27 October 2004 in place of the (14) fourteen retiring Directors, namely:

1	Mr. Aitzaz Shahbaz	2	Mr. Munawar B. Ahmad	3	Mr. M. Naeem Malik
4	Mr. M. Iqbal Awan	5	Mr. Khursheed K. Marker	6	Mr. Abdul Rashid Lone
7	Mr. Sanaullah Qureshi	8	Mr. Zaffar A. Khan	9	Mr. M. Javed Khan
10	Mr. Amanullah Sheikh	11	Mr. Tariq Iqbal Khan	12	Justice (Retd.) Rasheed A. Razvi
13	Mr. Taufiq Ahmad Khan	14	Mr. Muzaffar Ahmad		

Special Business:

6 To consider and, if thought fit, to pass the following resolution as special resolution approving the transmission of quarterly accounts through website in compliance with section 245 of the Ordinance and Securities and Exchange Commission of Pakistan (SECP) circular no. 19 of 2004 dated 14 April 2004 provided it meets all other conditions.

"RESOLVED that the Company may place its quarterly accounts on its website instead of sending the same to members by post, as allowed by the Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 19 of 2004 dated 14 April 2004."

7 To authorise an investment of Rs. 5.1 million in the equity of Inter State Gas Systems (Pvt.) Ltd. (ISGSL), a subsidiary of the Company. ISGSL is a joint venture of the Company with Sui Northern Gas Pipelines Limited. ISGSL has been mandated mainly to analyze the country's overall gas supply demand projections and review possibility of importing gas to meet any shortfalls. ISGSL is also pursuing marketing the Company's expertise abroad. SSGCL and SNGPL intend to contribute towards a research and development fund to make ISGSL functional to enable it to carry out its objective effectively. In this connection to consider, and if thought fit, to pass the following Special Resolution with or without amendment(s).

"RESOLVED THAT pursuant to Section 208 of the Companies Ordinance, 1984, the Company be and is hereby authorized to invest initially a sum of Rs. 5,100,000/- in the equity of Inter State Gas Systems (Pvt.) Limited ("ISGSL"), a subsidiary of the Company, whereby 510,000 shares of Rs. 10/- each in the share capital of ISGSL shall be issued to the Company for the purpose of enabling ISGSL to inter alia: (i) carry out analysis of gas supply and demand projections in the country; (ii) review possibilities to import gas in order to meet any domestic shortfall in the supply thereof; and (iii) pursue marketing of the Company's expertise abroad."

A statement under section 160 (1) (b) of the Ordinance pertaining to the Special Business referred to above is annexed to this Notice of Meeting.

Other Business:

8 To transact any other business as may be placed before the meeting with the permission of the Chair.

By Order of the Board

Aqeel Ahmed Nasir
Company Secretary

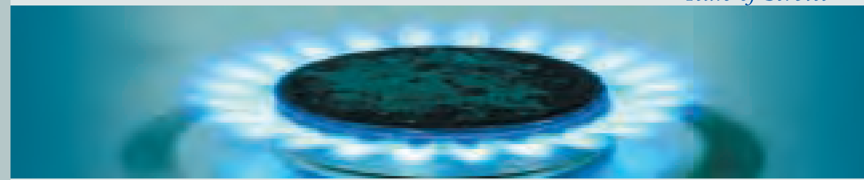
Karachi 30 September 2004

Notes:

i) The Register of Members of the Company will remain closed from 21 October 2004 to 27 October 2004 (both days inclusive) for the purpose of holding the Annual General Meeting.

ii) A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. The instrument appointing a Proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be received at the Registered Office of the Company duly stamped, signed and witnessed not later than 48 hours before the meeting.

iii) Central Depository Company account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.



A. For Attending the Meeting

1. In case of individual, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall, authenticate his identity by showing his original National Identity Card (NIC) or original Passport at the time of attending the Meeting.
2. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies

1. In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirements.
2. The proxy form shall be witnessed by two persons whose name, addresses and NIC numbers shall be mentioned on the form.
3. Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
4. The proxy shall produce his original NIC or original passport at the time of the Meeting.

iv) Members are requested to notify immediately changes, if any, in their registered addresses.

v) Non-Muslim Shareholders are advised to submit application on plain paper for non-deduction of Zakat.

STATEMENT UNDER SECTION 160(1)(b) OF THE ORDINANCE.

1. Placement of Quarterly Accounts on Website

The Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 19 of 2004 dated 14 April 2004 has allowed the listed companies to place the quarterly accounts on their websites instead of sending the same to each shareholder by post. This would ensure prompt disclosure of information to the shareholders, besides saving of costs associated with printing and despatch and of the accounts by post.

The Company maintains a website (http://www.ssgc.com.pk) and latest accounts may be placed there for information of the shareholders and the general public. Prior permission of the Securities and Exchange Commission of Pakistan would be sought for transmitting the quarterly accounts through Company website after the approval of the shareholders. The Company, however will make available printed copies of accounts to the shareholders on demand at their registered address free of charge, within one week of receiving such request.

2. Investment of Rs. 5.1 million in Inter State Gas Systems (Pvt.) Ltd. (ISGSL)

Approval is being sought for investment of Rs. 5.1 million in Inter State Gas Systems (Pvt.) Ltd. (ISGSL), a subsidiary of M/s Sui Southern Gas Company Limited which is a joint venture with Sui Northern Gas Pipelines Limited. ISGSL has been mandated mainly to analyze the countries overall gas supply demand projections and review possibility of importing gas to meet any shortfalls. ISGSL further is also pursuing marketing the Company's expertise abroad. SSGCL and SNGPL intend to contribute towards a research and development fund to make ISGSL functional to enable it to carry out its objective effectively.

3. Interest of Directors

The Directors of the Company have no interest in the special business and/or special resolution save to the extent of their shareholdings and remuneration in the Company.

Statement under SRO 865(I)/2000 dated December 06, 2000

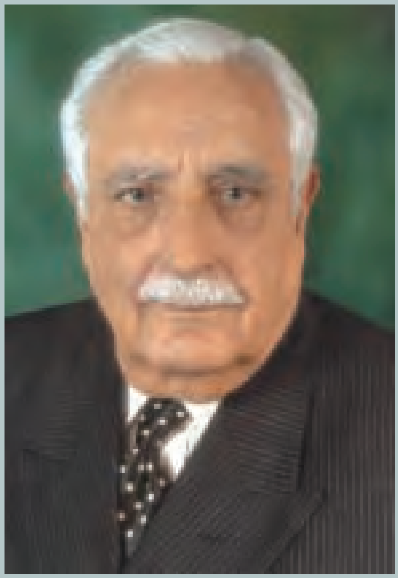
Statement under SRO 865(I)/2000 dated December 06, 2000 is being sent to the members along with the notice of the meeting.

Name of investee company	Inter State Gas Systems (Pvt.) Limited the equity of ISGSL
Nature, amount and extent of investment	Investment of Rs. 5,100,000/- in the equity of ISGSL
Average market price of the Shares intended to be purchased during preceding six months in case of listed companies	Not Applicable
Break-up value of shares intended to be purchased on the basis of last published financial statements	Rs. 10/-
Price at which shares will be purchased	Rs. 10/- (Ten Rupees) per share
Earning per share of investee company in last three years	Not Applicable
Source of funds from where shares will be purchased	The shares shall be purchased from funds internally generated by the company and no borrowings shall be made in this respect.
Period for which investment will be made	Indefinite investment in the equity of ISGSL
Purpose of investment	To enable ISGSL to : (i) carry out analysis of gas supply and demand projections in the country; (ii) review possibilities to import gas in order to meet any domestic shortfall in the supply thereof; and (iii) pursue marketing of the Company's expertise abroad.
Benefit likely to accrue	Since it is a strategic investment, therefore long term benefits will accrue to the Company.

Chairman's Review and Directors' Report

The year marking the Golden Jubilee anniversary was indeed monumental for the Company as it launched its ambitious five year development and expansion plan, and initiated a change management process to enable it to meet the strategic objectives of sustainable growth. Many notable achievements provided reason for satisfaction and celebration. While new opportunities were capitalised, and several initiatives were launched.

We are pleased to share with you, our stakeholders, the significant aspects of the Company's operations, initiatives and achievements, and present before you the Chairman's Review & Directors' Report, Audited Annual Accounts, and review of the Company's performance for the year ended June 30, 2004.



Aitzaz Shahbaz, Chairman

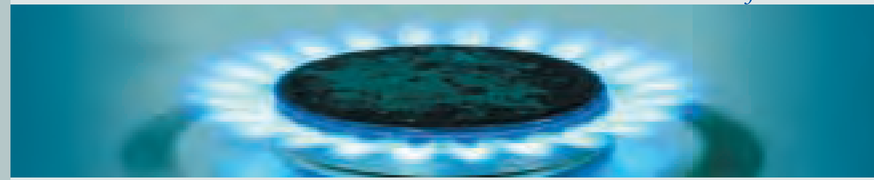
New Dimensions of the Gas Sector

The World energy market has demonstrated significant strength in the past years. Whereas total energy consumption in the year increased by about 3%, gas consumption outside the USA increased by 4%, with LNG showing exceptional growth with a rise of 12%. While the Energy Sector in Pakistan only had an annual growth rate of 2.9% in the past five years, the gas sector registered a 7.4 % growth, increasing its share and tilting the energy mix in its favour. This year the gas sector surpassed 50% of the total energy mix for the first time. Thus Pakistan has clearly achieved the status of a "Gas Country", which provides for new opportunities for your Company.

Munawar Baseer Ahmad, P.E.
Managing Director

With large scale conversion to CNG by the light vehicles transport sector, and meeting of the gas demand of the power sector, the gas sector registered an increase of nearly 1 bcfd in supply, whereas consumption of petroleum products remained mostly static, or even registered a decline in the fuel oil segment.

Worldwide, natural gas being the most eco-friendly fuel, with reserves of over 60 years, by far surpassing those of oil, has attained the status of the fuel of the millennium. The issue of global energy security is thus not driven by supply constraints, but by meeting the challenges of transporting energy from the supply sources to the load centers. Pakistan



Prepaid Gas Meter: Combining technology and service.

Rechargeable Energy Card

is also faced with a similar situation, as there is an abundance of supply sources in neighbouring countries. The quest of the gas sector is to bring those supplies to the load centers in Pakistan through the most cost-effective and sustainable means.

Over the past 50 years, Pakistan has enjoyed the supply of natural gas as a premium fuel both in the domestic and commercial sectors, as well as in general industry. The year saw large-scale conversion of WAPDA & KESC power plants and some IPPs to gas, thus increasing the consumption in both the SSGC and SNGPL systems by over 30%. Now, with the country growth targets set to exceed 6% in the coming years, a surge in economic activity, high demand by industry, the power sector and the domestic sector, the projected demand will outstrip the indigenous gas supplies by about 2010. Both SSGC and SNGPL thus have to consider import sources for meeting their future demand. The main option under current consideration by Interstate Gas Systems Limited, a subsidiary of your Company, is to import gas through one of three prospective trans-national pipelines from Turkmenistan, Iran or Qatar.

Your Company is well-poised to take advantage of these opportunities and to fully exploit its diversification and growth potential in the coming years.

SSGC ISO 9000 Certified Meter Manufacturing Plant expanding to meet national demand from 300,000 to 410,000.

Five Year Development Plan

With the completion of the Gas Infrastructure Rehabilitation and Expansion Plan (GIREP) in 2003, the Company infrastructure achieved its optimum capacity of 1200 mmcfd of gas from a normal capacity of around 600 mmcfd in 2001. Due to the boost given to the gas sector by the economic recovery of the country over the recent years, fresh demand for natural gas registered a steep increase. New discoveries were made, supplemented by finds in the existing fields of Bhit, Zamzama and Sawan. A new five year plan to bring these reserves on-line to meet the country's ever growing appetite for natural gas was conceived in 2003, as reported last year. This five year rolling development plan named GIREP-II, envisages the expansion of the transmission and distribution network including establishing a new SCADA and telemetry system for the expanded network at a cost of Rs. 36 billion. The project aims at expanding the existing gas transmission system capacity on both the Indus Left Bank (ILBP) and Indus Right Bank Pipeline (IRBP) systems by around 500-600 mmcfd, to achieve a total network capacity of 1700-1800 mmcfd.

The first phase of the GIREP-II plan was launched this year, as approved by the Board of Directors, in the budget FY 2003-04. However, due to procedural delays in approvals from OGRA and subsequent delays in pipe and equipment deliveries by manufacturers worldwide, because of a sharp increase in steel costs, the implementation has mostly been rolled over to FY 2004-05. The Company was however able to meet its increased gas supply commitments through network optimization and load management.

The Company has undertaken a master distribution development plan also for infrastructure development to supply additional quantities of gas to large customers, power plants, textile city and other industries. New distribution mains and transmission spurs have been designed accordingly. The gas distribution and supply network for the domestic sector is also being expanded to connect 600 new towns and villages in Sindh and Balochistan, with a focus on the remote areas which were previously deprived. The plan also includes rehabilitation and repair of the existing transmission and distribution system. The estimated outlay for the above projects is about Rs. 20 billion, in addition to the Rs. 16 billion for the transmission network expansion.

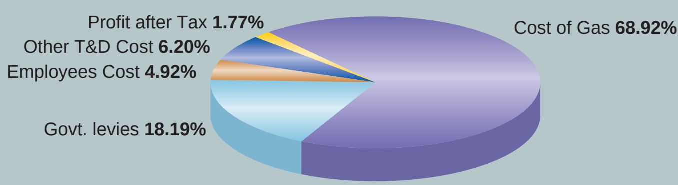
The transmission network will be increased from 2,786 kms to 3,380 kms. The distribution network will increase from 24,996 kms to 31,316 kms and the annual gas sales volume is projected to increase from 318 bcf to 512 bcf. Upon completion of GIREP-II, the gas sales ratio to power/industrial customers versus domestic/commercial would change from 80:20 to 85:15, and the overall customer base will increase from 1.7 million to over 2.0 million, by the addition of 330,000 new customers to the system.

With the five year development plan and GIREP-II launched and the first phase under implementation, the Company is thus well set on a progressive expansion plan which is being annually updated as a 5 year rolling plan.

Sindh Minister for Mineral Development, Mr. Irfan Ullah Marwat, performing the first weld at the ground breaking ceremony of the 116 km, 24 inch Karachi-Hyderabad gas pipeline.

DISTRIBUTION OF GROSS REVENUE

2003-04



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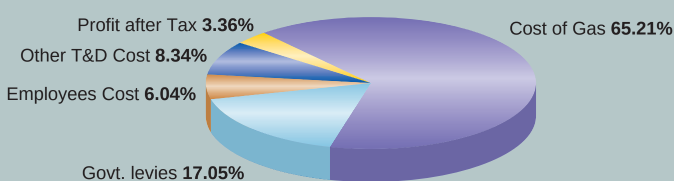


Year in Review

During the year, the gas sales of your Company registered an increase of 25% in volume and 31% in value, increasing the sales volume to 318,068 mmcf against last year's sales volume of 254,349 mmcf, and value of Rs. 47.4 billion against last year value of Rs. 36.2 billion. The highest increase in volume was registered in the power sector of 53% with other industries registering an increase of 14 %. Sales to the power sector constituted 43% of the total sales. KESC was the major customer and accounted for 29% of Company sales. Payment from both KESC and WAPDA for gas sales were received mostly in a timely manner, enabling the Company to provide higher volumes of gas.

With the new increased supply level at 300+ mmcfd to KESC (committed 236 mmcfd) and 120 mmcfd to GENCO1/WAPDA (committed 63 mmcfd), the two utilities have achieved annual saving of Rs.10 billion and Rs. 4 billion respectively, due to the replacement of fuel oil by economic and efficient natural gas.

The gross revenue remained at Rs. 56.2 billion including meter rental, late payment surcharge, sale of condensate and other income.

Prime Minister Shaukat Aziz, the then Finance Minister, presenting the 4th NCR IT Excellence Award to Munawar B. Ahmad, MD SSGC.

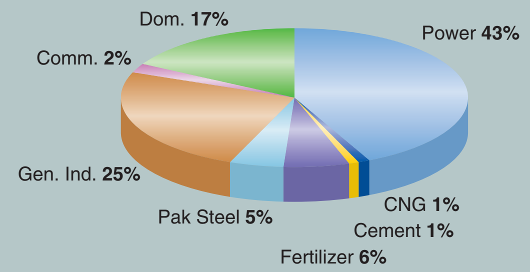
During the year under review, the gas purchases volume registered an increase of 24% from 276,716 mmcf to 341,904 mmcf. This was mainly due to the additional availability of gas from Bhit (68,481 mmcf) and Miano (5,088 mmcf), as well as additional gas from Mazarani (3,517 mmcf) and Sawan (26,093 mmcf). However, this was partially offset by 42,047 mmcf lesser gas supplies from the Sui field As noted above, the Company was able to sell the additional volumes to its major customers.

During the year, distribution projects were undertaken to extend the network to underprivileged areas of Sindh & Balochistan. As a result, gas supply to far flung areas of Ziarat, Sohbatpur, and small villages en route was completed on schedule. Arrangements were put in place to start construction of the pipeline project supplying gas to Kalat and its adjoining areas.

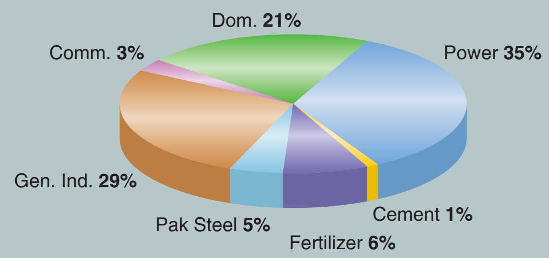
Due to an exorbitant increase in world steel prices, the suppliers could not supply line pipe and material in time. This forced the Company to defer the capital expenditure on some major projects which are however under progress and will be completed in FY 2004-05. Capital expenditure of Rs. 2.2 billion for the FY 2003-04 projects had been committed as on June 30, 2004. Moreover, 57 km of rehabilitation work was carried out in a phased program of replacing old corroded distribution pipelines.

During the year, your Company's customer base increased from 1.669 million to 1.734 million. New connections to commercial and domestic customers stood at 1,244 and 67,064 respectively. While new industrial connections were budgeted at 180, the Company was able to meet the higher demand due to industrial revival and 255 new industrial connections were provided.

Gas Sales by Volume 2003-04



2002-03



Signing Ceremony between SSGC and a consortium of five banks for syndicate financing of Rs. 3 billion.

Foundation stone laying of LPG/NGL extraction plant, by the then Prime Minister Mir Zafar Ullah Khan Jamali.

Your Company is transporting gas from the Hassan gas field in ILBP and the Zamzama gas field in IRBP up to the Sui delivery point for SNGPL. During the year under review, your Company earned a revenue of Rs. 457 million in the shape of pipeline rentals as compared to about Rs. 90 million rental income of last year. Rental is also charged on Bhit-Bajara pipeline through which Bhit gas is injected in the Indus Right Bank Pipeline.

The work of relocating high pressure compressors to Hyderabad has been completed. This has augmented the system capacity and enabled the Company to receive more gas from the Sinjhoro/Badin block, and supply additional gas to Karachi. It is to be noted that through the judicious use of resources and intelligent engineering, and the rehabilitation of existing compressors, your Company was able to undertake the Hyderabad compressor project by relocating compressors from Sui and Shikarpur at a cost of Rs. 527 million, against a cost of Rs. 1,465 million if new compressors and equipment had been purchased. A net savings in capital cost of Rs. 938 million was thus achieved. However this does not contribute to higher profits, as the Company's return is based on a fixed formula of 17% return on net assets in operation, and such cost savings in capital expenditure actually reduce the return.

The wellhead gas prices increased during the year, as these are linked to a basket of international crude oil prices which witnessed a steep rise. Cost of gas as percentage of gas sales (net of sales tax) therefore rose from 78% in the previous year to 82% in the current year, leaving the Company with a narrower operating margin.

The operating cost increased by 7% over the previous year. However the benchmark operating cost decreased from Rs.12.91 per mcf to Rs. 11.08 per mcf. Further, overall transmission and distribution cost as percentage of revenue decreased from 9.08% to 7.44% showing a clear increase in efficiency. The abnormal increase of 85% (Rs. 76 million) in cost of gas consumed internally is mainly due to changes in wellhead prices of gas, plus additional consumption in the relocated compressor station at Hyderabad.

During the year under review, the meter manufacturing plant produced 322,000 gas meters which is higher by 18,250 over the previous year, both self-consumption and sales to SNGPL registered a marginal increase. The plant posted a profit of Rs. 53 million as compared to a profit of Rs. 70 million earned in the previous year. The decrease in profit is mainly due to increase in material and other production costs. The meter plant was geared up through process improvements for a larger production of 410,000 to meet the high demand in FY 2004-05.

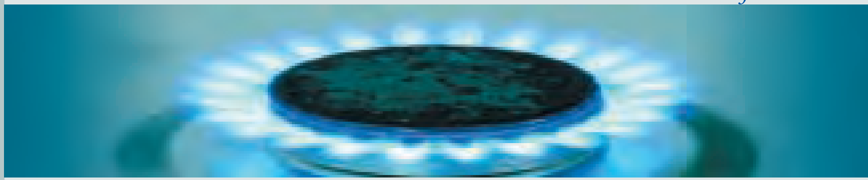
As noted earlier, your Company's profitability continues to be determined by the Regulator so that we earn a return before tax of 17% on net average operating fixed assets (net of deferred credit), excluding financial and non-operating income which is outside the purview of the price formula. The decrease in profit before tax by Rs. 477 million over the previous year is mainly due to disallowance of certain expenditure by the Regulator (details provided later in the Review Report), resulting in decline in profit before tax which stands at Rs. 1,572 million as compared to Rs. 2,049 million in the previous year.

However, financial charges decreased by Rs. 177 million in comparison to last year which substantially offset the unfavourable impact of the decrease due to disallowed items by OGRA and decrease in non-operating income. A decrease in financial charges was due to continuous monitoring in treasury function which enabled the Company to pay off the major portion of high-cost loans. The weighted average cost of debt reduced from 12% compared to the rate of 10% of last year. In addition to this, the Company signed a long-term financing agreement for Rs. 3.0 billion with a consortium of banks led by Standard Chartered Bank. This financing agreement was concluded after a transparent process and vigorous negotiations at a very competitive rate. During the year, the Company has withdrawn Rs.2.0 billion out of this facility, with the option to draw the balance Rs. 1 billion in FY 2004-05.

Security Services

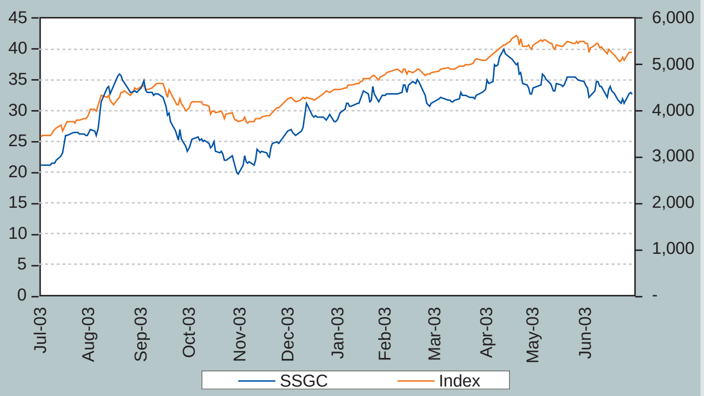
Security Services were augmented along modern lines to meet the increasing threats to pipeline security due to frequent incidents of sabotage. A dedicated security system was created in December 2003 and retired armed forces personnel have been inducted and positioned at Karachi, Hyderabad, Shikarpur and Quetta.

Ground breaking ceremony of the Kalat gas supply project.



Sibi Compressor Station, vital for pumping additional gas to Balochistan.

SSGC Share Performance



This newly created security system is equipped with modern technology including intruder detection system, close circuit TV surveillance, increased patrolling and widening of right of ways. The department is coordinating the security aspects with law enforcement agencies and managing out-sourced security resources efficiently. Security has thus improved significantly across the board in the Company and concept of total security coverage for the Company's assets and life and property of employees has been put in place.

The creation of the system is expected to provide better protection against incidents of sabotage and generally ensure the safety of Company assets, and the life and property of employees.

Stock Performance

This year was another good one for the Company and its shareholders. The stock registered an impressive year-on-year growth of 55% at the end of June 2004, and a substantial rise of 226% in the price since the start of FY 01.

During the year, there were three important achievements:

- The offer for sale (conducted in February) was highly oversubscribed, clearly establishing the confidence in SSGC by its shareholders.
- SSGC's share price achieved an all-time high of Rs 40.05 in April.
- SSGC stock outperformed the KSE-100 index, clearly establishing the Company as a "Blue Chip" stock.

The growth in the share price enhanced the market capitalization to Rs. 22.01 billion from Rs. 8.15 billion in FY02, which is growth in excess of 150% over a two-year period.

The Company now stands in the KSE top ten, in terms of market capitalization.

Work in progress on the Ziarat Gas Pipeline, laid in difficult mountainous terrain.

New Initiatives

The Company has taken a number of new initiatives to improve the productivity, efficiency and well-being of the employees, and the overall image of the Company. They have brought about a notable change in the corporate image of your Company, while also providing better facilities to employees, resulting in employee satisfaction.

Good Housekeeping

As part of an overall plan, the Company has undertaken to improve its office buildings and facilities to achieve a uniformity of image and enforce good housekeeping standards. This is aimed to provide a more congenial and pleasant environment for customers and employees at all locations.

The Company has upgraded its transmission headquarter stations and distribution offices throughout the franchise area, to give them a new look in line with its vision of being a model utility. The employee colonies and facilities have been improved as part of our employee facilitation program.

SSGC employees' improved residential colonies providing a serene and green environment.

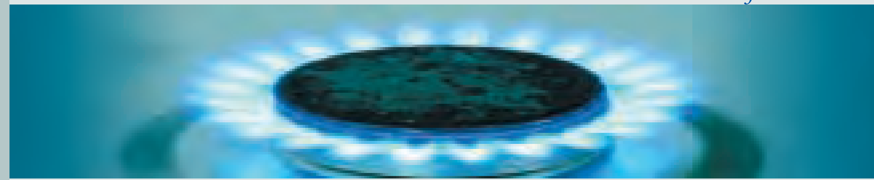
Corporate Conference Centre

The Company has developed a new auditorium at its Head Office Building which has been designed by the building architect M/s. Habib Fida Ali Associates in line with the theme and design of the building. As part of the improvements, the ground floor of the Head Office building has also been remodeled, and customized artwork and two large calligraphic murals have been added to give the building a more elegant, corporate outlook.

Intrusion Detection Systems

Under a pilot project, the Company has installed a monitoring and warning system at ten large customer meter stations located in various parts of the city of Karachi. This system will allow regulated entry into the station and also detection of unauthorized intrusion. This has been installed to ensure greater security of the company's vital installations. Once it is fully evaluated, its use will also be extended to cathodic protection and telecommunication installations.

Another scheme is also under implementation called the Perimeter Intrusion Detection System. This system is being installed at six remote transmission pipeline valve assembly enclosures and any entry will trigger an intrusion alarm at the nearest control room. The radio of the detection unit will utilize the Company's microwave system to send signals to the control room. Thus operating cost will be minimal. This scheme is part of our efforts to use technology to monitor and guard our assets and prevent accidents on transmission pipelines.



Physical Fitness Centre

Physical Fitness Center at the Head Office with well-equipped exercise machines.

A physical fitness centre has also been established at the Head Office which is well-equipped with various exercise machines. Regular fitness training and yoga classes are also being organized. Similar fitness centres are planned for the headquarters and other regional offices.

Gas Control Centre

The gas control room at Karachi Terminal has been revamped and modernized, and now has state-of-the-art SCADA equipment and software from where the operations of the entire transmission and distribution network are monitored and controlled through an on-line network system.

Excellence Awards

The Company initiated for the first time a programme to recognize and reward outstanding performance through a transparent system of evaluation. The awardees were recognized and citations were read in a grand gala function held in December last year, which motivated employees to perform beyond the call of duty.

Improved Medical Facilities

The medical services have undergone comprehensive and programmed restructuring to strike a balance between controlling medical costs and improving the quality of healthcare. The objective of attaining "better quality of healthcare with the optimum use of resources" was achieved by adopting several reforms, including the posting of Company doctors to up-country regions to streamline the system worked by the retainer doctors and to check misuse. A system of electronic ID cards has been introduce and case managers deputed to check unauthorized use of medical facilities at hospitals.

Additionally, consultant physicians/family physicians were deputed to the medical centres at Karachi and Hyderabad. Emergency services were improved by setting up well-equipped emergency rooms and well-furnished ambulances. Enlistment of well reputed hospitals has been ensured by launching the "Hospital Quality Rating System."

Employees of the Company participated enthusiastically in the Health Mela held in May 2004

Engr. Ghazi Anwar, Incharge Shikarpur Compressor Station receiving Excellence Award for the year 2003.

SSGC Auditorium equipped with latest public address system, surround sound system, dome cameras and multimedia projector.

The new control room of the 17,000 HP compressors station relocated from Sui and Shikarpur to Hyderabad using latest digital control systems.

Leading the Way – Becoming the most IT-enabled Company in Pakistan

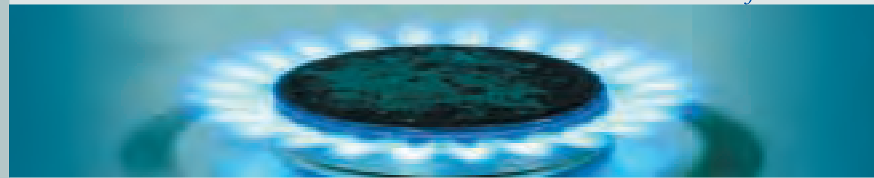
Your Company has set an enviable target for itself – to be the most IT enabled Company in Pakistan. To meet this objective the Company has undertaken important initiatives for the realization, evaluation and implementation of new ICT technologies. The focus is on automation and integration of various independent functions across the entire organization to achieve increased productivity and provide further improved and efficient customer services.

The Company has embarked on a Business Process Reengineering road map by implementing the latest version of Oracle ERP. The business areas being covered are General Ledger, Fixed Assets, Accounts Payable, Accounts Receivable, Cash Management, Purchasing, Inventory/Stores/Warehouse. The overall objective of implementing ERP is focused on setting up automated processes and creating and building a significant shift in the culture of the organization in line with the Company's vision, values, business framework, operating principles and customer-oriented outlook of "Service with a Smile."

The Company is also implementing a world-class Customer Information System (CIS) that will automate its Customer Care and Billing functions. Implementation of CIS is the first ever and one of its kind project in the region. After CIS implementation, the way of doing business at the Company would greatly improve. Functions like Customer Self-Service including online complaints and inquiries, bill payments will facilitate the customers. The Company initiative in implementing the CIS solution has set trends for other gas, water and electric utilities within and outside Pakistan. CIS implementation is a vital step towards the company's vision of becoming the most IT-enabled company in Pakistan.

A contract has been signed with SUPARCO to provide high resolution satellite imagery, providing in-depth data and information about the Company's transmission and distribution network. The satellite data would be integrated with geographic information and customer data into a single database to provide real-time operational data in the commercial, distribution, transmission, and engineering departments of the Company for a more efficient planning process, as well as an effective and prompt customer service system.

Signing Ceremony between IBM & SSGC for high-quality bill printing.



Mr. Munir Ahmed, Chairman OGRA, presiding over a hearing.

New-look, laser- printed customer friendly bill.

Regulatory Environment Enactments – Paving the way for Regulation

After the receipt of the licence for transmission, distribution and sale of natural gas from the Oil & Gas Regulatory Authority (OGRA) in September 2003, the Company is now diligently following the regulatory regime determined by OGRA. Revenue and tariff petitions are being submitted to OGRA in a timely manner. These are heard at public hearings at various cities. This year, hearings were held in the month of June at Quetta and Karachi, which attracted large representations from the general public. Your Company's performance and efficient customer services have been praised by a large segment of the public, as well as industrial customers. However, the main complaint has been against increases in gas prices. It was explained to the public that the increase in gas prices resulted essentially from two reasons: the increase in wellhead gas prices, which are linked through a formula to the international basket of crude oil; and the need to expand the transmission and distribution system to cater for additional supplies of gas, and to expand the network to new towns and villages.

For the year under review, the Authority issued its final determination of revenue requirement (true up) of Rs. 46,364 million against Rs. 46,857 million claimed by the Company i.e. a reduction of Rs. 493 million. The Authority has only allowed Re. 0.06 per MMBTU as the increase in the prescribed price against the requirement of Rs. 2.04 per MMBTU of the Company.

Major items contributing to the reduction are: i) Penalty payment received by the Company from the gas producers on account of short supply of gas amounting to Rs. 123.840 million allowed as non-operating income in the previous years was added back by OGRA in the operating income of the Company this year. ii) Disallowance of Rs. 226.535 million on account of being in excess of targeted UFG over 6.5%, as compared to 7.09% actually achieved by the Company, even though in the prior year 7.57% UFG was accepted. iii) Disallowance of provision for doubtful debts as per IAS 39 requirements, amounting to Rs. 177.327 million.

The Company has reservations on these disallowances, and is preparing to file a motion for review against the decision of the OGRA, as per the provisions of OGRA Ordinance and Rules.

OGRA has also defined an extensive framework of performance and service standards which sets time limits to a number of customer-related activities such as commissioning of new connections, dispatch of bills and the handling of complaints. We are pleased to inform you that your Company has generally complied well with all the standards. This has required additional investment in manpower and equipment in certain areas of the Company's operations.

Effective Human Resources Development

Participants of Electro Volume Correctors course conducted at GTI by Mr. David Chippendale and Mr. Javier Lopez of Mercury Instruments Inc, USA.

Employees of SSGC are its most valuable asset. The Human Resource department has made substantive efforts for keeping the most precious resource of the Company satisfied, by reaching out to all employees, including those in remote areas, and having a regular dialogue with them. Senior management continued to visit all Company locations to further the outreach to employees.

The Company has developed a systematic approach to identify personnel training needs as part of the new "Performance Management System." These training needs are then analyzed and matched with the employee's career development and management, as well as technical training needs. Training requirements in the first tier are generally fulfilled by in-house training at your Company's Gas Training Institute (GTI) and in some instances through other specialized training institutes.

During the year under review, 2909 executives received training at 187 training courses. GTI has now started conducting courses in a wide variety of subjects including gas engineering, IT, management, finance, accounting, customer services etc. Workshops/seminars on technical subjects have also been arranged. Overall, the participation increased from 3% in 2001-2002 to 70% in 2003-2004 clearly indicating the considerable effort and focus the management has put in for human resource development in a cost-effective manner. In addition, 13 executives were sent overseas for special technical/job related training.

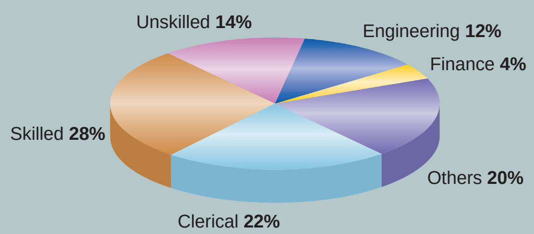
SSGC's fully equipped in-house medical clinic.

As part of its focus to provide for career development, empowerment and motivation to employees of your

Company, a new Promotion Policy based on employee potential, performance, experience, ability and leadership was introduced during 2004. Performance reporting has an in-built Conflict-Resolution mechanism to enhance objectivity and minimize subjective reporting. A Potential Assessment Form has been introduced to assess the potential of the executives to assume higher responsibilities and is completed once in three years. The process of promotion has been delegated to various promotion committees for different levels for closer assessment of executives in a broad, transparent and open manner, ensuring that performance and potential are recognized and rewarded.

MANPOWER POSITION

Non-Executive: 3,347 Executive: 1,948



In compliance with the decision of the Supreme Court of Pakistan, 593 litigants were absorbed after an orientation course on career terms. This large-scale induction without any specific work requirement or vacancies put an adverse strain on the Company, and also resulted in increased salaries, benefits and medical costs. With 3, 347 subordinates and an executives' component of 1,948, the total strength of the Company stands at 5,295. As is evident, the Company now has an acutely lopsided executive to subordinate ratio of less than 1:2, whereas in a normal environment a ratio of 1:6 to 1:10 is desirable. However, your Company is cognizant of the issue, and a full plan and efforts are underway to best utilize the extra manpower through a planned process of training, utilization and restructuring.

The Managing Director on a field visit to Dadu headquarter station, inspecting the quality of equipment and facilities.

Priority on Health, Safety & Environment

Your Company continues to place considerable emphasis on Health, Safety and Environment. The health and safety of our employees is of prime importance and no compromise is allowed. The Company recognizes its obligations not only to preserve the environment, but also to promote its preservation through various support programmes. During the year, detailed HSE audits/inspections were carried out on all its facilities, operational activities i.e. right of way, compressor stations, SMS/PRS/TBS, overhead crossings, transmission pipelines, distribution network, pipeline construction activities, canteens, residential and other operational areas.

Standard Operating Procedures (SOPs) have been developed for solid waste management, emergency response plans, fire fighting plans, accident/incident reporting and investigation, permit to work, HSE risk assessment, contractor management and project camp management.

Safety Audits were also conducted of all CNG stations. The layout design of CNG stations has been modified to improve safety. Your Company is working closely with other leading companies such as Shell and PSO as well as CNG station owners/operators to provide safety guidelines and operating procedures to minimize risks. Periodic environment laboratory testing is being carried out to check air quality, drinking water & waste-water analysis, noise, exhaust and smoke emission for compliance of the Pakistan Environment Protection Act (PEPA-1997). Initial Environment Examination (IEE)/Environment Impact Assessment (EIA) have been carried out for all major pipeline projects. The Company is also placing emphasis on preservation of the environment in areas its pipeline traverses, and other areas that it operates in, by planting trees and implementing other mitigation measures.

Your Company has made arrangements to obtain Environment Management System ISO-14001 & Occupational Health & Safety Management System OHSAS-18001 certification by June 2005, by putting in place a comprehensive HSE management system for all its premises and operational activities. All preparatory work has been done, and the progress in this regard is in line with the implementation plan.

SSGC provided a new look to the approach road to SSGC Head Office.

Meeting Corporate Social Responsibility–Lending a Helping Hand

Special commemorative stamp issued on the occasion of the inauguration of the Ziarat Pipeline Project.

SSGC contributing effectively to environmental conservation by supply of natural gas to Ziarat.

SSGC receiving Environment Excellence Award from Provincial Environment Minister, Government of Sindh.

Your Company has taken the lead by embarking upon a well-considered Corporate Social Responsibility program, after approval from the Board of Directors. A budget of Rs. 15 million was approved for the year, which has been judiciously utilized in various diverse programmes and activities. Projects identified for priority were in the fields of education, health and environmental preservation in the Company's franchise areas.

Your Company has spearheaded the setting-up of a Petroleum and Gas Engineering Facility at the NED University of Engineering and Technology in collaboration with the members of the Petroleum Institute of Pakistan. It has also helped to upgrade schools in remote areas, and the setting-up of adult literacy centres, where over 1200 adults received training to read, write and do simple arithmetic.

Your Company offers a 3 year vocational training programme to fresh matriculates in various technical trades as required under the Apprenticeship Ordinance of 1968. During the year, the Company inducted 75 young apprentices in Instrumentation, Telecommunication and Electrical systems. The apprentices are paid a stipend and the Company also arranges for all the books and training material.

Similarly, during the year, your Board of Directors reviewed the Internship Scheme and increased the number of internees from 25 to 60. This scheme aims at providing corporate exposure to students of graduate and postgraduate classes. 50 students from recognized and prestigious institutes like GIK, LUMS, IBA, Karachi University, Khuzdar and Sindh Universities were provided with internships for a period ranging from 4 to 12 weeks.

Providing adult literacy in small villages of interior Sindh and Balochistan.

Sports Promotion– Inspiring a Competitive Spirit

Your Company was the first to revamp its sports policy in line with the National Sports Policy of the Government as part of its drive to promote sporting activities in the country. Under the policy, all sports facilities are being expanded, revamped and improved, new teams have been formed and promising talent is being mustered from within employees, as well as induction from local and regional clubs and associations.

The Company endeavors to support and produce top-class sports-persons at the provincial and national levels. It is expected that our sportsmen will be the vanguards and flag-bearers of the Company on a corporate national basis. We have attracted top-class sportsmen and our facilitating them to attain national honour while representing your Company and Pakistan at national and international events.

The Company was pleased to attract Sohail Abbas, the world-renowned short corner specialist for the SSGC Hockey team, along with Shabbir Ahmed Khan and Mudassir Abbas, both holding Pakistan Junior colours. Your Company has also been able to acquire affiliation of its hockey team with the Pakistan Hockey Federation, and participated in 51st National Hockey Championship for the first time and played the Quarter Finals in March 2004. During the year, your Company sponsored the All Pakistan Gen. Mohammed Musa Gold Cup Hockey Tournament at Quetta.

The Company also sponsored the 11th Tour De-Pakistan Cycle Race from Karachi to Peshawar under the auspices of the Pakistan Cycling Federation (PCF) with which your Company acquired affiliation. Two cyclists of the Company represented Pakistan for the first time in the Tour de Azerbaijan International Cycle Race in June 2004 and won special recognition for breaking the pack and leading in the final stage.

Start of Karachi-Hyderabad SSGC Golden Jubilee cycle race.

SSGC hockey team in action in the National Championships.

SSGC at the Athens Olympics: Sohail Abbas, World's Best Penalty Corner Striker and record holder for highest goals, in action.

Internal Audit Function

The Internal Audit department in the Company is functional and has received a significant boost after the promulgation of the Code of Corporate Governance. The Board of Directors approved an Internal Audit Policy in August 2003, lending formal recognition to audit as an important pillar of good corporate governance. The department is headed by a senior chartered accountant who reports functionally to the Audit Committee of Directors and administratively to the Managing Director.

The Internal Audit Policy provides for the department to meet or exceed the Standards for Professional Practice as set by the Institute of Internal Auditors, USA. The Company arranged for a tailored training program for the entire Internal Audit department in September and October 2003 under the guidance of the Karachi Chapter of IIA. The Audit Committee of Directors held exclusive meetings to go through the audit findings of both the Internal Auditors and External Auditors and issued necessary directives and guidance. The Audit function is a proactive agent of change, providing impartial opinions on the process reviewed, actions that are workable and solutions that help mitigate business risks in order to enhance value-added business risk assessment and solutions.

Future Outlook – Looking Ahead

This was a banner year for your Company, as it firmly put in place the essential requisites for the ambitious five year development plan. Focused improvements were undertaken which provide for the processes, procedures and human resources which will enable the Company to move ahead and achieve its strategic objectives. We are pleased to report that your Company is well on its way to increase its productivity, enhance its asset base and achieve higher level of sales and revenues as formulated in its five year development plan.

Requisite planning and engineering design for the expansion of the transmission pipeline and distribution network has been undertaken to ensure that the projects will be implemented according to the rolling development plan. Accordingly, the Company under the phased plan will connect new gas supply sources to the main transmission network, while also providing for enhanced distribution capacity to cater to increasing demand from industry, the power sector, as well as a sharp growth in domestic demand.

The Company's expansion plans cater for adding about 500 mmcfd supply to its current base of 1000 mmcfd over the next 4 years. This would provide for a sustainable supply to meet the expected growth in demand, currently projected upto 2010. With the projected economic growth of the country of 6%+ it is expected that there will be further demands from the currently 'suppressed sectors'.

ISGSL, a subsidiary company of SSGC set up as a joint venture with SNGPL, is in an advanced stage of firming up its comparative analysis of the three proposed gas import trans-national pipeline options. It is expected that the Government will narrow down its choice to 1 or 2 options by the year end to enable ISGSL to proceed with further project development, the forming of requisite consortiums and other essential requirements for launching this major transnational pipeline project.

With the availability of supplies from the trans-national pipeline, your Company will be well-positioned to provide increased and sustainable supplies to its industrial, power sector, commercial as well as domestic customers. Further, the trans-national pipeline traversing through Pakistan will also provide for significant volume of construction activity that your Company is well-poised to participate in.

New Hyderabad Compressor Station ensuring increased quantities of Gas to meet the additional requirements of power & industrial sector.

Your Company is further closely working with the Exploration and Production companies to add more supplies from new discovered/existing fields over the next 5-10 years. The expansion in the gas sector is opening up a number of investment opportunities. These could include import of LNG and the setting-up of a storage and re-gasification plant. In the event that there is a major gas recovery off-shore, a project will be required to bring the gas on-shore for injection in the pipeline system. Such opportunities will be examined as and when they arise, and will be submitted as investment proposals to the Board of Directors, for their review and approval.

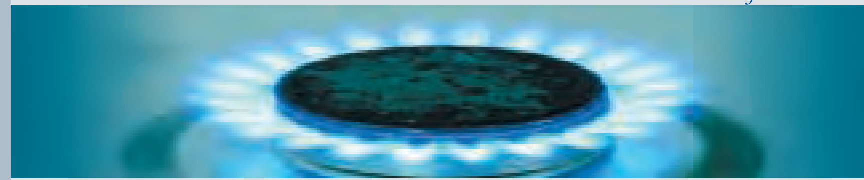
Your Company has been diligently pursuing the strategic objectives set for the five year development plan. The new initiatives launched in the year for BPR, focused improvements, implementation of ERP, world class Enterprise Information System and other productivity enhancement measures have begun to make a notable improvement. The employee empowerment measures have injected a new spirit and drive for collective contribution and achievement of goals. While this has not been an easy task, the focused perseverance and adherence to corporate goals and good governance has made its mark, as also reflected in this report.

Your Company is indeed well-poised to take full advantage of the enormous opportunities in the energy sector, which has now become the driving force of the national economy. Now, having completed 50 years of service to the Nation, looking ahead, we are confident that the Company will diligently undertake its responsibilities to its customers and stakeholders for the next fifty years and beyond.

Mr. Ahmed Waqar, Secretary Petroleum and Natural Resources, then Secretary Privatization, presenting the road show in Lahore for SSGC shares offering.

Statement on Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the company, present fairly its state of affairs the results of its operations, cash flows and changes in equity.
- Proper books of account of the company have been maintained. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.
- Save for minor exceptions as given in paras 4 and 5 of Statement of Compliance, there has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for last decade is summarized and printed on page 106.
- The amounts of sales tax payable and withholding taxes payable appearing in note 12 to the audited financial statements for the year ended 30 June 2004 represent the time lag allowed by statutory provisions in collecting and depositing these taxes in government treasury. The same were subsequently deposited within the time frame allowed and on due dates, except amounts under appeal / litigation.
- The value of investment of provident, gratuity and pension funds based on respective accounts as at 30 June 2004 is given in note 45 to the audited financial statements.
- During the year ten meetings of the Board of Directors and six meetings of the Audit Committee were held. Attendance by each director is summarized and printed on page 59.
- The statement showing the pattern of share holding in the company, as on 30 June 2004 is shown on page 113.
- No trades in shares of the company were carried out by the directors, chief executives, chief financial officer, company secretary, their spouse and minor children.



Appropriations recommended for the year ended June 30, 2004.

The following appropriations are being recommended out of the profit:

	2004	2003
	(Rupees in '000)	
Profit before taxation	1,572,351	2,049,001
Less: Provision for taxation		
Current	825,501	833,168
Deferred	(104,192)	(67,515)
Prior years	(145,670)	(164,543)
	575,639	601,110
Profit after taxation	996,712	1,447,891
Unappropriated profit brought forward	353	576
Profit available for appropriations	997,065	1,448,467
Appropriations:		
Cash dividend proposed at		
Rs. 1.50 per share (2003: Rs. 1.80)	(1,006,761)	(1,208,114)
Transfer from/(to) general reserve	9,696	(240,000)
	(997,065)	(1,448,114)
Unappropriated profit carried forward	-	353
Earnings per share- basic and diluted (Rupees)	1.49	2.16

fuelling national progress

Changes in the Board

Subsequent to the year-end Mr. M. Javed Khan replaced Mr. Tariq Iqbal Puri on the Board. The Board welcomes the new director and records its appreciation for the valuable services rendered by the outgoing director.

Auditors

The present auditors M/s. Taseer Hadi Khalid & Co., Chartered Accountants retire and being eligible, have offered themselves for reappointment.

Acknowledgment

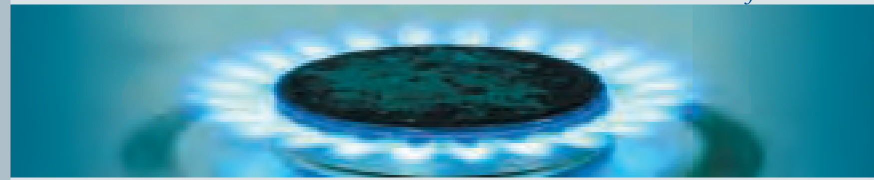
On behalf of the Board and the Management, we wish to place on record our acknowledgment and appreciation for the continued guidance and support extended by the Honourable Minister of Petroleum & Natural Resources (MP&NR), the Secretary, MP&NR and other Ministry officers. We also take this opportunity to present our sincere felicitations to the Oil & Gas Regulatory Authority for their professional handling of its statutory obligations. Our thanks are also due to the Privatization Commission, concerned departments of Sindh and Balochistan Governments, bankers and financial institutions for providing us valuable support. Special thanks are recorded for our valued customers for their continued patronage understanding and co-operation. We assure them that the confidence and trust they have reposed in SSGC is respected and your company will endeavour to come up to their expectations.

Finally the Directors also record their appreciation for the hard team work put in by all categories of the employees in the current demanding environment and hope that they will continue to demonstrate the same zeal and vigour in future.

On behalf of the Board

Munawar B. Ahmad P.E.
Managing Director

Aitzaz Shahbaz
Chairman



Attendance of Directors at Meetings

BOARD MEETINGS

Name of Director	Total number of Board meetings*	Number of meeting(s) attended
Mr. Aitzaz Shahbaz	10	10
Mr. Munawar B. Ahmad	10	10
Mr. Mohammad Naeem Malik	10	06
Mr. Mohammad Iqbal Awan	10	05
Mr. Khursheed K. Marker	10	04
Mr. Zaffar A. Khan	10	08
Mr. Sanaullah Qureshi	10	07
Mr. Justice (R) Rasheed A. Razvi	10	07
Mr. Tariq Iqbal Puri	10	03
Mr. Abdul Rashid Lone	10	06
Mr. Tariq Iqbal Khan	10	03
Mr. Taufiq Ahmad Khan	10	08
Mr. Muzaffar Ahmad	10	06
Mr. Amanullah Sheikh	10	09

AUDIT COMMITTEE MEETINGS

Name of Director	Total number of Meetings*	Number of Meeting(s) attended
Mr. Sanaullah Qureshi	6	5
Mr. Mohammad Iqbal Awan	6	4
Mr. Taufiq Ahmad Khan	6	5
Mr. Muzaffar Ahmad	6	5

FINANCE COMMITTEE MEETINGS

Name of Director	Total number of Meetings*	Number of Meeting(s) attended
Mr. Aitzaz Shahbaz	3	3
Mr. Munawar B. Ahmad	3	3
Mr. Mohammad Iqbal Awan	3	3
Mr. Khursheed K. Marker	3	2
Mr. M. Tariq Iqbal Puri	3	1

HUMAN RESOURCE COMMITTEE MEETINGS

Name of Director	Total number of Meetings*	Number of Meeting(s) attended
Mr. Aitzaz Shahbaz	7	7
Mr. Munawar B. Ahmad	7	7
Mr. Mohammad Naeem Malik	7	2
Mr. Sanaullah Qureshi	7	7
Mr. Zaffar A. Khan	7	7

* Held during the period concerned Director was on the Board

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 Chapter XIII and XI of listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1 The Company encourages representation of independent non-executive directors on its Board. At present the Board includes 13 non-executive directors.

2 The directors of the Company have confirmed that none of them is serving as a director in more than ten listed companies, including this Company, except one who has been permitted by SECP to hold office of director in more than ten listed companies.

3 All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4 Casual vacancies occurring in the Board were filled up by the directors within thirty days thereof.

5 The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors of the Company. The Company is in the process of obtaining signatures of the employees which will be completed shortly.

6 The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. The Company has maintained a complete record of particulars of significant policies along with the dates on which they were approved or amended.

7 All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8 The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9 An orientation course was arranged for the directors in the previous year to apprise them of their duties and responsibilities.

10 The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

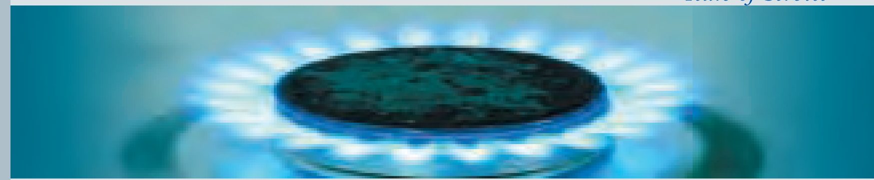
11 The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12 The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13 The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of share holding.

14 The Company has complied with all the corporate and financial reporting requirements of the Code.

15 The Board has formed an audit committee. It comprises four members all of them are non – executive directors including the Chairman of the Committee.



16 The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been framed and advised to the Committee for compliance.

17 The Board has set – up an effective internal audit function for the Company.

18 The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19 The statutory auditors or the persons associated with them have not been appointed to provide other services.

20 We confirm that all other material principles contained in the Code have been duly complied with.

Munawar B. Ahmad P. E.
Managing Director

Karachi
30th September 2004

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Sui Southern Gas Company Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Company is listed.

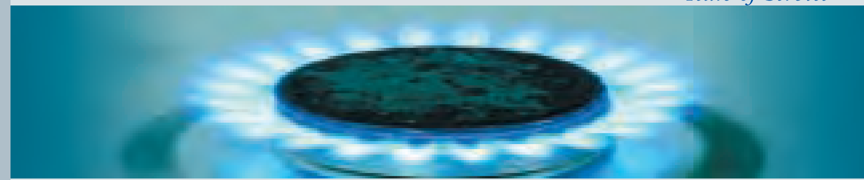
The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system, to enable us to express our opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the statement of compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

Taseer Hadi Khalid & Co.
Chartered Accountants

Karachi
30th September 2004



Auditors' Report to the Members

We have audited the annexed balance sheet of SUI SOUTHERN GAS COMPANY LIMITED as at 30th June 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30th June 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to note 2.13 to the financial statements which explains the provisions of an agreement with Asian Development Bank for a loan, under which the company is required to earn a minimum annual return before taxation of 17% per annum of the net average operating fixed assets for the year, excluding financial and other non-operating charges and non-operating income. During the year ended 30 June 2004, the company's return before taxation was less than minimum required return.

Taseer Hadi Khalid & Co.
Chartered Accountants

Karachi
30th September 2004

Balance Sheet *(as at 30 June 2004)*

	Note	2004	2003
		(Rupees in '000)	
Share capital and reserves			
Share capital			
Authorised 1,000,000,000 ordinary shares of Rs. 10 each		10,000,000	10,000,000
Issued, subscribed and paid-up capital	3	6,711,743	6,711,743
Reserves	4	2,488,662	2,498,358
Surplus on remeasurement of investments available-for-sale		147,166	93,461
Unappropriated profit		-	353
		9,347,571	9,303,915
Redeemable capital	5	4,199,039	4,064,631
Long-term loans	6	445,711	1,357,713
Liabilities against assets subject to finance lease	7	-	43,664
Deferred credit	8	1,711,395	1,438,214
Deferred liabilities	9	3,268,741	3,240,023
Long-term deposits	10	1,609,746	1,427,906
Current liabilities			
Current maturities	11	1,716,578	1,373,411
Creditors, accrued and other liabilities	12	8,531,281	6,778,185
Proposed dividend		1,006,761	1,208,114
		11,254,620	9,359,710
Contingencies and commitments	13		
		31,836,823	30,235,776
Government owned assets held on trust by the company	14	105,965	105,965

The annexed notes 1 to 46 form an integral part of these financial statements.

	Note	2004	2003
		(Rupees in '000)	
Tangible fixed assets			
Operating fixed assets	15	16,664,581	16,606,636
Capital work-in-progress	16	831,987	615,932
		17,496,568	17,222,568
Long-term investments	17	204,490	150,834
Long-term deposits	18	4,072	4,737
Long-term loans	19	136,373	145,958
Current assets			
Stores, spares and loose tools	20	794,232	719,682
Stock-in-trade	21	198,443	162,712
Customers' installation work-in-progress	22	56,019	56,439
Trade debts	23	6,705,704	7,091,038
Advances, deposits and prepayments	24	138,928	89,994
Loans and advances	25	108,464	88,160
Other receivables	26	2,283,955	1,240,484
Taxation recoverable	35.3	668,791	634,032
Cash and bank balances	27	3,040,784	2,629,138
		13,995,320	12,711,679
		31,836,823	30,235,776

Munawar B. Ahmad P.E.
Managing Director

Aitzaz Shahbaz
Chairman

Profit and Loss Account (for the year ended 30 June 2004)

	Note	2004	2003
		(Rupees in '000)	
Gas sales		54,444,623	41,572,344
Sales tax		(7,089,741)	(5,408,934)
		47,354,882	36,163,410
Gas development surcharge		(2,555,192)	(1,326,953)
Net sales		44,799,690	34,836,457
Cost of gas	28	(38,713,079)	(28,060,613)
Gross profit		6,086,611	6,775,844
Meter rental income - net of sales tax		436,530	421,133
Amortisation of deferred credit	8	145,239	126,836
Sale of gas condensate - net of sales tax		216,120	136,325
		6,884,500	7,460,138
Transmission and distribution cost			
Transmission and distribution cost (excluding depreciation)	29	(3,525,147)	(3,282,663)
Depreciation	15.4	(1,922,195)	(1,883,960)
		(5,447,342)	(5,166,623)
Operating profit		1,437,158	2,293,515
Late payment surcharge		232,226	222,110
Meter manufacturing division profit - net	30	53,047	70,230
Other income	32	649,732	486,965
		2,372,163	3,072,820
Other charges	33	(104,215)	(151,271)
		2,267,948	2,921,549
Financial charges	34	(695,597)	(872,548)
Profit before taxation		1,572,351	2,049,001
Taxation	35	(575,639)	(601,110)
Profit after taxation		996,712	1,447,891
Unappropriated profit brought forward		353	576
Profit available for appropriation		997,065	1,448,467
Appropriations:			
Proposed cash dividend: Rs. 1.50 per share (2003: Rs. 1.80)		(1,006,761)	(1,208,114)
Transfer from / (to) general reserve		9,696	(240,000)
		(997,065)	(1,448,114)
Unappropriated profit carried forward		-	353
Earnings per share - basic and diluted	36	1.49	2.16

The annexed notes 1 to 46 form an integral part of these financial statements.

Munawar B. Ahmad P.E.	Aitzaz Shahbaz
Managing Director	Chairman

Cash Flow Statement (for the year ended 30 June 2004)

	2004	2003
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,572,351	2,049,001
Adjustments for non cash items:		
Depreciation	1,937,823	1,891,885
Financial charges	695,597	872,548
Provision against doubtful debts	239,460	195,629
Provision for compensated absences	14,081	4,927
Provision for post retirement medical and gas supply facilities	118,829	132,237
Provision for other retirement benefits	181,268	144,390
Amortisation of deferred credit to the profit and loss account	(145,239)	(126,836)
Dividend income	(5,293)	(5,025)
Provision against impairment of value of investments	50	1,374
Return on bank deposits	(93,526)	(182,278)
Gain on disposal of fixed assets	(17,321)	(7,047)
Written down value of assets written off	-	36,201
	2,925,729	2,958,005
Net cash flows from operations	4,498,080	5,007,006
Service charges received from new customers	418,420	139,770
Long-term deposits received - net	181,840	124,645
Loans and advances recovered	(10,719)	7,690
Long-term deposits	665	64,498
Changes in working capital		
- Stores, spares and loose tools	(74,550)	(3,422)
- Stock-in-trade	(35,731)	10,129
- Customers' installation work-in-progress	420	(19,113)
- Trade debts	145,874	(139,728)
- Advances, deposits and prepayments	(48,934)	(32,630)
- Redemption of KESC demand promissory note	-	375,000
- Other receivables	(1,077,161)	909,088
- Creditors, accrued and other liabilities	1,684,619	80,648
	594,537	1,179,972
Retirement benefits paid	(117,673)	(86,207)
Income tax paid	(714,590)	(760,854)
Financial charges paid	(664,899)	(1,793,255)
Net cash flows from operating activities	4,185,661	3,883,265
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(2,213,996)	(1,727,251)
Proceeds from sale of fixed assets	19,494	666,274
Return on bank deposits	98,101	188,725
Dividend received	5,293	5,025
Net cash flows from investing activities	(2,091,108)	(867,227)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redeemable capital less repayments	392,885	788,251
Repayments of long term loans	(827,208)	(1,118,435)
Repayment of liabilities against assets subject to finance leases	(43,768)	(277,276)
Dividend paid	(1,204,816)	(1,174,555)
Net cash flows from financing activities	(1,682,907)	(1,782,015)
Net increase in cash and cash equivalents	411,646	1,234,023
Cash and cash equivalents at beginning of the year	2,629,138	1,395,115
Cash and cash equivalents at end of the year	3,040,784	2,629,138

The annexed notes 1 to 46 form an integral part of these financial statements.

Munawar B. Ahmad P.E.
Managing Director

Aitzaz Shahbaz
Chairman

Statement of Changes in Equity (for the year ended 30 June 2004)

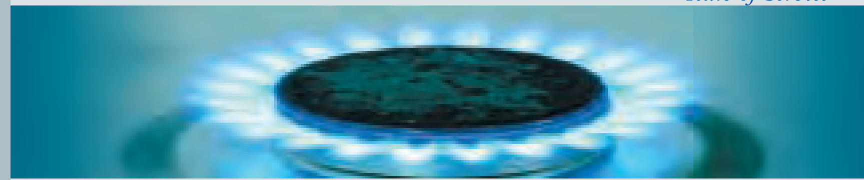
(Rupees in '000)

	Issued, subscribed and paid-up capital	Capital reserves	Revenue reserves	Surplus on revaluation of investments	Unappropriated profit	Total
Balance at 30 June 2002	6,711,743	234,868	2,023,490	27,627	576	8,998,304
Unrealised gain on remeasurement of investments available-for-sale	-	-	-	65,834	-	65,834
Profit after taxation for the year ended 30 June 2003	-	-	-	-	1,447,891	1,447,891
Proposed dividend	-	-	-	-	(1,208,114)	(1,208,114)
Transfer to general reserve	-	-	240,000	-	(240,000)	-
Balance at 30 June 2003	6,711,743	234,868	2,263,490	93,461	353	9,303,915
Unrealised gain on remeasurement of investments available-for-sale	-	-	-	53,705	-	53,705
Profit after taxation for the year ended 30 June 2004	-	-	-	-	996,712	996,712
Transfer from general reserve	-	-	(9,696)	-	9,696	-
Proposed dividend	-	-	-	-	(1,006,761)	(1,006,761)
Balance at 30 June 2004	6,711,743	234,868	2,253,794	147,166	-	9,347,571

The annexed notes 1 to 46 form an integral part of these financial statements.

Munawar B. Ahmad P.E.
Managing Director

Aitzaz Shahbaz
Chairman



Notes to the Financial Statements (for the year ended 30 June 2004)

1. STATUS AND NATURE OF BUSINESS

Sui Southern Gas Company Limited is a public limited company incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The address of its registered office is ST-4/B, Block-14, Sir Shah Muhammad Suleman Road, Gulshan-e-Iqbal, Karachi, Pakistan. The company is engaged in following activities:

- transmission of natural gas from Sui, Badin, Zamzama, Miano, Kandhkot, Sawan, Mazarani, Hundi Sari, Mari, Daru, Bhit, Kadanwari, Rustam (ex- Hasan), Ghotki (ex-Qadirpur) and Naimat Baisal gas fields in Sindh and Balochistan provinces.
- distribution of natural gas in Sindh and Balochistan provinces.
- manufacturing and sale of gas meters.
- sale of gas condensate as a by-product.
- construction contracts for laying of pipelines.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, except that certain financial instruments are carried at their fair values and certain employee benefits are stated at present value.

2.2 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise such International Accounting Standards as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance 1984, or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance 1984, or the requirements of the said directives take precedence.

2.3 Tangible fixed assets

2.3.1 Cost

Tangible fixed assets are stated at cost less accumulated depreciation except freehold and leasehold land and capital work-in-progress which are stated at cost.

2.3.2 Depreciation

Under a loan agreement with Asian Development Bank, the company is required to recognize a minimum depreciation charge at 6% per annum of the gross value of its operating fixed assets under the straight line method.

Compressors and transmission lines

Depreciation is calculated under the straight-line method over the estimated useful lives of assets. Depreciation on these assets is charged from the dates these projects are available for intended use up to the date these are disposed off.

Other operating fixed assets

Depreciation on other operating fixed assets is calculated so as to write off the assets over their estimated useful lives under the straight-line method with the exception of assets of meter manufacturing division which are depreciated under the diminishing balance method.

A full year's depreciation is charged in the year of addition while no depreciation is charged in the year the asset is disposed off, except for assets sold to employees under the service rules, in which case, depreciation is charged until the date of disposal.

2.3.2.1 Depreciation is charged at rates mentioned in note 15 to these financial statements.

2.3.3 Subsequent expenditure (including normal repairs and maintenance)

Expenditure incurred to replace a component of an item of fixed assets is capitalised and the asset so replaced is retired. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of fixed asset. All other expenditure (including repairs and normal maintenance) is recognized in the profit and loss account as an expense when it is incurred.

2.3.4 Borrowing costs

Borrowing costs incurred on long-term finances obtained for the construction of qualifying assets are capitalised up to the date the respective assets are available for the intended use. All other mark-up, interest and other related charges are taken to the profit and loss account currently.

2.3.5 Gains and losses on disposal

Gains and losses on disposal are taken to the profit and loss account currently.

2.3.6 Leased assets

Leased assets in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses, if any. Lease payments are accounted for as described in note 2.9 to these financial statements.

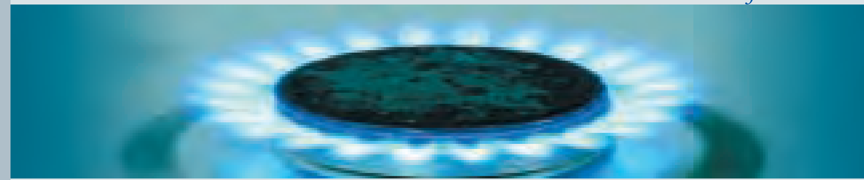
Depreciation on assets subject to finance lease is recognized in the same manner as for owned fixed assets.

2.4 Investments

Investments available-for-sale

Investments available-for-sale (including the investments in related parties which are available-for- sale) are stated at fair value with any resultant gains or losses recognized directly in equity. These are recognized / derecognized by the company on the date it commits to purchase / sell the investments.

All quoted investments are initially recognized at cost inclusive of transaction costs and are subsequently marked to market using closing market quotation of Karachi Stock Exchange at the close of the financial year. Impairment losses are charged to the Profit and Loss account.



Investments in associated companies

Investments in associated companies (and not held for disposal purposes) are carried at cost less impairment losses, if any.

2.5 Stores, spares and loose tools

These are valued at cost determined under the moving average basis less impairment losses, if any. Goods-in-transit are valued at cost incurred up to the balance sheet date.

2.6 Stock-in-trade

Gas in pipelines

Stock of gas in transmission pipelines is valued at the lower of cost, determined on weighted average basis, and net realisable value. Up to the previous year, the cost of stock of gas in pipelines was valued under the first in first out basis. Effective from the current year, the method has been changed to weighted average method. The change has been made to ensure the uniformity of gas prices for customers throughout the country in accordance with the policy guidelines issued by the Government of Pakistan (discussed more fully in note 28.1 to these financial statements). However, the financial effect of the change of valuation method from first in first out method to weighted average method is not material.

Meter manufacturing division

Components (materials) are valued at lower of moving average cost and net realisable value. Work-in-process includes the cost of components only (determined on a moving average basis). Finished goods are stated at the lower of cost determined on an average basis and net realisable value and includes appropriate portion of labour and production overheads. Components in transit are stated at cost incurred up to the balance sheet date.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.7 Trade debts and other receivables

- Trade debts are carried at cost (invoiced amount, which is the fair value of the consideration receivable for sale of gas) less an estimate for impaired receivables.
- Other receivables are stated at cost less impairment losses, if any.
- Bad debts are written off when identified.

2.8 Trade and other payables

Trade and other payables are stated at cost.

2.9 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less repayments, while the difference between the cost (reduced for periodic payments) and redemption value is recognized in the profit and loss account over the period of the borrowings on an effective mark-up basis.

The company accounts for lease obligations by recording the asset and the corresponding liability there against determined on the basis of discounted value of minimum lease payments. Financial charges are recognized in the profit and loss account using the effective mark-up rate method.

2.10 Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

2.11 Deferred credit

Amounts received from customers and the Government as contributions and grants for providing service connections, extension of gas mains, laying of transmission lines, etc. are deferred and recognized in the profit and loss account over the useful lives of the related assets.

2.12 Taxation

Income tax on the profit and loss for the year comprises current and deferred tax.

Current

Provision for current taxation is based on taxable income at the current rates of taxation, after taking into account the available tax credits and rebates.

Deferred

Deferred tax is recognized using the balance sheet liability method on all significant temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit can be realised. Deferred tax is calculated at rates that are expected to apply to the period when the differences reverse based on tax rates that has been enacted or substantially enacted at the balance sheet date.

2.13 Revenue recognition

- revenue from gas sales is recognized on the basis of gas supplied to customers at rates periodically announced by the Oil and Gas Regulatory Authority (OGRA).

- meter rental income is recognized monthly at specified rates for various categories of customers on an accrual basis.

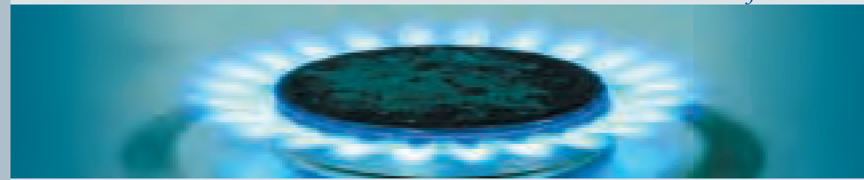
- revenue from sale of meters and gas condensate is recognized on dispatch to the customers.

- deferred credit income is amortised to the profit and loss account over the useful lives of related assets (refer note 2.11 also).

- dividend income on equity investments is recognized when right to receive the same is established.

- profit on investments in securities, term deposits and pipeline rental income is recognized on an accrual basis.

- late payment surcharge is recognized from the date the billed amount is due.



- under the provisions of an agreement with Asian Development Bank for loan no. 1138-Pak, the company is required to earn a minimum annual return before taxation of 17% per annum of the net average operating fixed assets for the year, excluding financial and other non-operating charges and non-operating income. Income earned in excess / short of the above guaranteed return is payable to / recoverable from the Government of Pakistan (GOP) and is adjusted from / to the gas development surcharge balance payable to / receivable from GOP.

2.14 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the profit and loss account.

2.15 Staff retirement benefits

The company operates following retirement schemes for its employees:

- Approved funded pension and gratuity schemes for all employees.

  Contributions to the schemes are made on the basis of actuarial valuations under the projected unit credit method.

  Unrecognised actuarial gains and losses relating to executive employees defined benefit plans are recognized in the profit and loss account over the vesting period for past service cost i.e. the period over which the past service costs become vested. Unrecognised actuarial gains and losses, relating to non-executive employees defined benefit plans, exceeding ten percent of the greater of the present value of defined benefit obligations and the fair value of plan assets, are recognized in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise the actuarial gains or losses are not recognized.

  Past service cost is recognized in the profit and loss account over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the profit and loss account.

- Unfunded free medical and gas supply facility schemes for its executive employees.

  Liability under these schemes is recognized in the period in which the benefit is earned based on the actuarial valuations carried out under the projected unit credit method.

  The free gas supply facility has been discontinued for employees retiring after 31 December 2000.

  Unrecognised actuarial gains or losses, exceeding ten percent of the present value of the defined benefit obligation, are recognized in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gains or losses are not recognized.

  Actuarial valuations of all the retirement benefit schemes are carried out at least once in every three years.

- Approved contributory provident funds for all employees (defined contribution scheme).

  Contributions by the company and employees are made on the basis of basic salary.

- A non-contributory benevolent fund, under which only the employees contribute to the fund.

2.16 Compensated absences

The liability for accumulated compensated absences of employees is recognized in the period of absences.

2.17 Foreign currency translation

Transactions in foreign currencies during the year are translated into Pak. rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak. rupees at the rates of exchange ruling on the balance sheet date. Exchange gains and losses are taken to the profit and loss account currently.

2.18 Derivative financial instruments

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, the derivative financial instruments are stated at fair value. The company currently is maintaining hedging relationships for two foreign currency loans discussed in note 2.19 below. Changes in fair value of this derivative instrument are recognized in the profit and loss account, along with any changes in the carrying value of the hedged liability.

2.19 Hedging

The company has obtained foreign currency loans from Asian Development Bank (ADB) which are covered under the exchange risk coverage scheme of the Government of Pakistan. Under this arrangement, the company is entitled to claim from the Government the differential between the actual payments to ADB and the contracted value of principal and interest amounts. As stated in note 2.18 above, changes in the fair value of hedged liability are recognized in the profit and loss account. For financial statements presentation purposes, the fair values of the hedging instrument and the hedged liability are off set and net amounts reported, while relevant break-ups are given in the notes to the financial statements (refer note 6 to these financial statements). The above hedging qualify as a fair value hedge.

2.20 Fiduciary assets

Assets held in trust or in a fiduciary capacity by the company are not treated as assets of the company and accordingly are not included in these financial statements.

2.21 Off-setting

Financial assets and liabilities are off set and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognized amount and the company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

2.22 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand and deposits in banks, short term running finance under mark-up arrangement, term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2004 (Number)	2003 (Number)		Note	2004 (Rupees in '000)	2003 (Rupees in '000)
219,566,554	219,566,554	Ordinary shares of Rs. 10 each fully paid in cash		2,195,666	2,195,666
451,607,777	451,607,777	Ordinary shares of Rs. 10 each issued as fully paid bonus shares		4,516,077	4,516,077
671,174,331	671,174,331			6,711,743	6,711,743

4. RESERVES

	Note	2004	2003
Capital reserves			
Share capital restructuring reserve (due to merger)		146,868	146,868
Fixed assets replacement		88,000	88,000
		234,868	234,868
Revenue reserves			
Dividend equalisation		36,000	36,000
Special reserves	4.1	333,141	333,141
General reserves:			
- Balance at 1 July		1,894,349	1,654,349
- Transferred during the year		(9,696)	240,000
- Balance at 30 June		1,884,653	1,894,349
		2,253,794	2,263,490
		2,488,662	2,498,358

4.1 This represents accumulated balance arising on a price increase of Rs. 4.10 per MCF granted to the company by the Government of Pakistan in January 1987 retrospectively from 1 July 1985 to enable the company to meet the requirements of Asian Development Bank regarding debt / equity ratio and other financial covenants specified in loan agreements with them.

5. REDEEMABLE CAPITAL - (non-participatory) LONG-TERM FINANCES UTILISED UNDER MARK-UP ARRANGEMENTS

Financier:	Installment payable	Repayment period	Note	2004	2003
				(Rupees in '000)	
Unsecured					
Consumer financing	monthly	1999 - 2007	5.1	44,811	29,284
Government of Pakistan loans on acquisition of assets	-	-		-	1,020,716
Cash development loans	-	-		-	268,366
				44,811	1,318,366
Secured					
United Bank Limited	half-yearly	2005 - 2009	5.2	1,000,000	1,000,000
Standard Chartered Bank led syndicated loan	half-yearly	2006 - 2009	5.3	2,000,000	-
Term finance certificates (secured)					
Term finance certificates (TFC 1)	half-yearly	2001 - 2006	5.4	666,140	999,200
Term finance certificates (TFC 2)	half-yearly	2002 - 2007	5.4	1,249,000	1,249,500
				4,915,140	3,248,700
				4,959,951	4,567,066
Current maturity					
Long-term finances utilised under mark-up arrangement - unsecured				(11,520)	(168,868)
Term finance certificates				(749,392)	(333,567)
				(760,912)	(502,435)
				4,199,039	4,064,631

5.1 This represents the outstanding balance of contributions received from certain industrial customers for the laying of distribution mains for supply of gas to their premises. These balances carry mark-up at varying rates upto 15 percent per annum and are adjustable in 48 installments through credits in their monthly gas bills.

5.2 The loan is secured by a first pari passu fixed charge created by way of hypothecation over movable fixed assets of the company comprising compressor stations, transmission pipelines, distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 1 percent above last six months treasury bills auction cut-off rate and is repayable in equal semi-annual installments of Rs. 125 million (principal amount) commencing from 25 December 2005.

5.3 The loan is secured by a first pari passu fixed charge created by way of hypothecation over all its present and future movable fixed assets comprising, compressor stations, transmission and distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 0.9 percent above the average six months KIBOR and is repayable in semi-annual installments of Rs. 333 million commencing from 28 December 2006. The total facility available to the company is Rs. 3.0 billion, out of which Rs. 2.0 billion has been drawn by the company by the year end.

5.4 Liability against term finance certificates (TFC) is secured by pari passu charge on all present and future machinery and equipment and other moveable properties at specified locations along with the mortgage by deposit of title deeds of the company's head office building. These TFCs have been rated as AA by Pakistan Credit Rating Agency

(Private) Limited (PACRA). Mark-up not due on these TFCs, as at 30 June 2004, amounted to Rs. 342.075 million (at floor rate).

Salient features of the TFCs are as follows:

Particulars	Total tenure	Semi annual installments	Profit rate (before prompt payment rebate)	Prompt payment rebate
TFC 1	5 years	- Rs. 0.20 million from 1 December 2001to 1 June 2003	- 14.15% during the first two years of issuance (fixed rate).	- None.
		- Rs. 166.53 million from 1 December 2003 to 1 June 2006	- SBP discount rate plus 1.10% per annum.	- If TFC installment is redeemed on or prior to the scheduled redemption date and is linked to the SBP discount rate.
			- Floor of 13% per annum and cap of 18% per annum throughout the remaining life of issuance.	
TFC 2	5 years	- Rs. 0.25 million from 1 December 2002 to 1 June 2004	- SBP discount rate plus 1.10% per annum.	- None.
		- Rs. 208.167 million from 1 December 2004 to 1 June 2007	- Floor of 11.5% per annum and cap of 16% per annum throughout the remaining life of issuance.	

6. LONG TERM LOANS

	Installment payable	Interest rate per annum (%)	Repayment period	Note	2004	2003
					(Rupees in '000)	
Foreign currency loans from Asian Development Bank - secured						
836-Pak - at year end spot exchange rate	half-yearly	14.5	1994 - 2005		273,695	426,291
1138-Pak - at year end spot exchange rate	half-yearly	14.5	1996 - 2005		2,093,574	3,354,038
					2,367,269	3,780,329
Exchange loss recoverable from GOP				6.1	(1,009,556)	(1,595,408)
					1,357,713	2,184,921
Current maturity					(912,002)	(827,208)
					445,711	1,357,713

6.1 The company has obtained exchange risk cover from the Government of Pakistan (GOP) in respect of its foreign currency loans 836-Pak and 1138-Pak acquired from Asian Development Bank (ADB). The exchange risk coverage arrangement allows the company to claim the differential between the actual payments to ADB and the contracted value of principal and interest amounts from the GOP. Repayment of these loans have been guaranteed by the GOP.

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

These represent gas distribution systems and equipments leased from a leasing company. Minimum lease payments have been discounted by using finance rate of 19 per cent per annum. The company intends to exercise its option to purchase the leased assets after the adjustment of security deposit of Rs. 1.02 million (2003: Rs.4.02 million) on the repayment of related lease obligations.

	2004	2003
	(Rupees in '000)	
Lease payments are due as under:		
30 June 2004	-	50,400
30 June 2005	45,851	45,851
	45,851	96,251
Finance charges not due	(2,187)	(8,819)
	43,664	87,432
Current maturity	(43,664)	(43,768)
	-	43,664

	Principal	Mark-up	Total
Payable in the next financial year (upto 30 June 2005)	43,664	2,187	45,851

8. DEFERRED CREDIT

	Note	2004	2003
Balance at 1 July		1,438,214	1,425,280
Additions during the year	8.1	418,420	139,770
		1,856,634	1,565,050
Transferred to profit and loss account		(145,239)	(126,836)
Balance at 30 June		1,711,395	1,438,214

8.1 These represent amounts received from customers and the Government of Pakistan for the cost of service lines and gas mains, etc. As stated in note 2.11 to these financial statements, deferred credit is being amortized to profit and loss account over the estimated useful lives of related assets.

	Note	2004	2003
		(Rupees in '000)	

9. DEFERRED LIABILITIES

	Note	2004	2003
Deferred tax liability on:			
- taxable temporary difference (accelerated tax depreciation)		3,247,128	3,312,267
- deductible temporary differences:			
- provision against employee benefits		(281,640)	(327,368)
- provision against doubtful trade debts		(433,803)	(349,992)
- others		(35,266)	(34,296)
		(750,709)	(711,656)
Net deferred tax liability		2,496,419	2,600,611
Employee benefits:			
Provision for post retirement medical and gas supply facilities - executives	31.2.1	650,069	531,240
Provision for compensated absences - executives		122,253	108,172
		772,322	639,412
		3,268,741	3,240,023

10. LONG-TERM DEPOSITS

	Note	2004	2003
Security deposits from:			
- Gas customers	10.1	1,591,115	1,412,722
- Gas contractors	10.2	18,631	15,184
		1,609,746	1,427,906

10.1 Customers' deposits represent gas supply deposits based on an estimate of three months consumption of gas sales to industrial and commercial customers while deposits from domestic customers are based on the rates fixed by the Government of Pakistan. These deposits are repayable / adjustable on disconnection of gas supply. Mark-up at 5 per cent per annum is payable by the company on deposits from the industrial and commercial customers. No mark-up is payable on deposits received from domestic customers.

10.2 These represent security deposits received from the contractors. These deposits are mark-up free and are refundable on the cancellation of contract.

11. CURRENT MATURITIES

	Note	2004	2003
Current maturity of:			
Redeemable capital	5	760,912	502,435
Long term loans	6	912,002	827,208
Liabilities against assets subject to finance lease	7	43,664	43,768
		1,716,578	1,373,411

	Note	2004	2003
		(Rupees in '000)	

12. CREDITORS, ACCRUED AND OTHER LIABILITIES

	Note	2004	2003
Creditors for			
- gas		5,882,140	4,723,849
- supplies		127,725	129,797
Amount received from customers / Government of Pakistan for laying of mains, etc.		931,469	429,827
Gas development surcharge payable to the Government of Pakistan		433,655	-
Accrued liabilities		308,005	605,030
Accrued financial charges	12.1	168,401	137,704
Payable to staff gratuity funds	31.1.3	153,342	118,860
Sales tax payable		123,999	145,150
Workers' profit participation fund	12.2	82,837	107,922
Deposits / retention money		79,541	68,808
Bills payable		23,097	225,516
Advance for sharing right of way	12.3	18,088	18,088
Unclaimed dividend		11,020	7,722
Withholding tax payable		3,961	2,715
Unclaimed term finance certificate redemption profit		3,883	561
Others	12.4	180,118	56,636
		8,531,281	6,778,185

12.1 Accrued financial charges

	Note	2004	2003
Mark-up payable on redeemable capital - secured		39,369	304
Mark-up / interest and other charges on:			
- secured loans	12.1.1	15,497	25,036
- deposits from customers		40,214	34,748
- late payment of gas development surcharge		55,417	55,417
		111,128	115,201
Accrued profit on term finance certificates		17,694	21,702
Accrued finance charge on liabilities against assets subject to finance lease		210	497
		168,401	137,704

12.1.1 This includes interest of Rs. 2.577 million (2003: Rs. 6.602 million) payable to Asian Development Bank on long term loans acquired from them. This amount is net of exchange loss of Rs. 1.656 million (2003: Rs. 4.327 million) which will be received from the Government of Pakistan on payment of interest as stated in note 2.19.

12.2 Workers' profit participation fund

	Note	2004	2003
Balance at 1 July		107,922	113,477
Allocation for the year	33	82,837	107,935
Mark-up on funds utilised in the company's business	34	1,557	1,792
		192,316	223,204
Amount deposited with the Government / paid to employees		(109,479)	(115,282)
Balance at 30 June		82,837	107,922

12.3 This amount was received by Sui Gas Transmission Company Limited (now Sui Southern Gas Company Limited - SSGCL) from Pak Arab Refinery Limited (PARCO) in accordance with an agreement dated 12 October 1988. It represents consideration for 50 percent share of PARCO in the Indus Right Bank Pipeline Common Right of Way and is the full settlement of PARCO's total liability for its share, irrespective of the final amount of compensation payable to the land owners by SSGCL. The final liability of SSGCL has not been estimated, as the amount of compensation due to land owners have not been determined by the authorities. Accordingly the amount received from PARCO has been classified as an advance.

12.4 This includes advance pipeline rental of Rs. 79.947 million (2003: Rs. 10.789 million).

13. CONTINGENCIES AND COMMITMENTS

		Note	2004	2003
			(Rupees in '000)	
13.1	Claims against the company not acknowledged as debt	13.10	98,345	92,415
13.2	Aggregate commitments for capital and other expenditure		2,894,033	849,107
13.3	Guarantees issued on behalf of the company		10,160	29,114

13.4 Demand finance facilities have been given to the company's employees by certain banks for the purchase of vehicles against the company's guarantee and hypothecation of company's stock of pipes, gas meters, regulators, etc. valuing Rs. 75 million and company's investment in shares having a face value of Rs. 0.5 million (2003: Rs. 1.1 million). Loan outstanding at the year end was Rs. 28.671 million (2003: Rs. 31.958 million).

13.5 Water and Power Development Authority (WAPDA) has lodged a claim against the company amounting to Rs. 491.11 million for short supply of gas under the provisions of an agreement dated 10 April 1995 between the company and WAPDA. The company has not accepted the claim and has filed a counter claim due to its (WAPDA) failure to uplift minimum quantities during certain other periods. Provision against this liability has not been made as the company is confident that ultimately the resolution of the claim lodged would be in its favour.

13.6 WAPDA has also raised a claim of Rs. 98.941 million for the alleged low Gas Chlorofic Value (GCV) measurement for the period from January 2002 to December 2002 and February 2003 as compared to the actual GCV billed by the company. The company has not accepted the claim as it is still disputing WAPDA's measurement. Provision against this liability has not been made as the company is confident that ultimately the resolution of the claim would be in its favour.

13.7 The company is in litigation against certain temporary assignees who were relieved in the previous years. The Federal Services Tribunal (FST) had ordered the company to absorb 870 of these assignees. The company had filed an appeal before the Honourable Supreme Court of Pakistan against the orders of the FST, which was dismissed by the Honourable Supreme Court. The company has filed a Review Petition with the Honourable Supreme Court against the rejection of the company's appeal and the Federation has also filed a Civil Miscellaneous Application (CMA) against the said order. In addition, there are 1,081 cases pending with the FST, 47 cases with the Honourable Sindh High Court and 1,061 with the Honourable Supreme Court of Pakistan on identical issues. No provision has been made in these financial statements as the same cannot be quantified at this stage.

13.8 Oil and Gas Development Company Limited (OGDCL) has raised a claim of Rs. 346 million for supply of gas to the customers of Dera Bugti and Pirkoh areas from its Loti gas field from June 2001 to June 2004, after the discontinuation of gas purchases by the company due to full dedication of Loti gas field to Sui Northern Gas Pipelines Limited. The company has not accepted the claim as neither a formal agreement has been executed with them for the above supply of gas, nor has the company received any gas in its system. The company has approached the Director General (Gas), Ministry of Petroleum and Natural

Resources, Government of Pakistan and is hopeful of a decision in its favour. Accordingly no provision has been made in these financial statements for the above amount of Rs. 346 million.

13.9 Oil and Gas Regulatory Authority (OGRA) vide its short order dated 22 September 2004 has disallowed certain expenses / made add backs of Rs. 614.168 million for the purposes of the determination of final gas development surcharge liability of the company for the year ended 30 June 2004. These disallowances / add backs include:

- Discount of Rs. 123.84 million received by the company during the financial year ended 30 June 2003 from the gas producers on account of default gas added by the Authority to the operating income of the company;

- Disallowance of Rs. 226.535 million or 0.59% on account of unaccounted-for gas (UFG) being in excess of the targeted UFG over of 6.5% as compared to 7.09% claimed by the company.

The company's management has certain reservations on the above disallowances by OGRA and is considering possible options for presenting its case at appropriate forum. However, full provision in respect of these items has been recognized in these financial statements.

In case, company succeeds to get favourable decision on these items at appropriate level, profits of the company may increase accordingly.

13.10 The management is confident that ultimately these claims (note 13.1) would not be payable.

14. GOVERNMENT OWNED ASSETS HELD ON TRUST BY THE COMPANY

This represents Government financed gas distribution projects which are held on trust on behalf of the Government of Pakistan (GOP) and are not recognized in the company's financial statements.

			(Rupees in '000)		
Description		Naudero	Sanghar	Mirpurkhas	Total
Receipts for GOP Projects					
GOP Funds for construction of projects		14,102	36,218	56,286	106,606
Return on GOP funds		1,192	1,018	-	2,210
Accumulated profit / (loss) on acquisition		(453)	49	(2,447)	(2,851)
	2004	**14,841**	**37,285**	**53,839**	**105,965**
	2003	14,841	37,285	53,839	105,965
Assets acquired out of the receipts					
Gas distribution system		9,278	43,878	51,887	105,043
Transport vehicles		-	642	-	642
Plant and machinery		-	168	-	168
Tools and equipment		-	-	68	68
Office furniture		-	11	29	40
Telecommunication		-	3	-	3
Office equipment		-	-	1	1
	2004	**9,278**	**44,702**	**51,985**	**105,965**
	2003	9,278	44,702	51,985	105,965

15. OPERATING FIXED ASSETS

(Rupees in '000)

	Note	Cost at 1 July 2003	Additions/ (deletions)/ adjustments*	Cost at 30 June 2004	Accumulated depreciation at 1 July 2003	Charge for the year/(accumulated depreciation on deletions)/ adjustments*	Accumulated depreciation at 30 June 2004	Written down value at 30 June 2004
Owned								
Gas transmission system	15.1	18,910,257	650,822	19,551,182	12,249,360	963,863	13,204,657	6,346,525
			(9,897)			(8,560)		
						(6) *		
Gas distribution system	15.2							
- Karachi, Sindh		8,210,798	665,204	8,882,425	3,161,470	493,860	3,647,598	5,234,827
			(12,607)			(11,771)		
			19,030 *			4,039 *		
- Other areas of Sindh		4,874,002	339,479	5,217,807	1,886,567	294,938	2,178,331	3,039,476
			(6,643)			(6,643)		
			10,969 *			3,469 *		
- Balochistan		2,575,767	336,438	2,911,920	853,455	171,471	1,024,641	1,887,279
			(285)			(285)		
		15,660,567	1,341,121	17,012,152	5,901,492	960,269	6,850,570	10,161,582
			(19,535)			(18,699)		
			29,999 *			7,508 *		
Meter manufacturing division	15.3	223,062	5,998	229,060	155,796	7,571	163,367	65,693
		34,793,886	1,997,941	36,792,394	18,306,648	1,931,703	20,218,594	16,573,800
			(29,432)			(27,259)		
			29,999 *			7,502 *		
Leased								
Gas distribution system	15.2	131,999	-	102,000	12,601	6,120	11,219	90,781
			(29,999) *			(7,502) *		
	2004	**34,925,885**	**1,997,941**	**36,894,394**	**18,319,249**	**1,937,823**	**20,229,813**	**16,664,581**
			(29,432)			**(27,259)**		
	2003	34,746,434	2,834,089	34,925,885	18,422,775	1,891,885	18,319,249	16,606,636
			(2,654,638)			(1,995,411)		

15.1 Operating fixed assets - gas transmission system

(Rupees in '000)

	Cost at 1 July 2003	Additions/ (deletions)/ adjustments*	Cost at 30 June 2004	Accumulated depreciation at 1 July 2003	Charge for the year/(accumulated depreciation on deletions)/ adjustments*	Accumulated depreciation at 30 June 2004	Written down value at 30 June 2004	Depreciation rate (%) / remaining life (years)**
Owned								
Freehold land	47,747	-	47,747	-	-	-	47,747	-
Leasehold land	92,517	2,045 976 *	95,538	-	-	-	95,538	-
Buildings on freehold land	279,291	-	279,291	101,837	13,964	115,801	163,490	5
Buildings on leasehold land	900,060	5,697 (976) *	904,781	101,373	44,737	146,110	758,671	5
Gas transmission pipelines	13,335,901	227,260	13,563,161	8,518,309	664,792	9,183,101	4,380,060	2-38**
Compressors	2,196,924	81,321	2,278,245	1,894,727	35,657	1,930,384	347,861	1-14**
Telecommunication	579,778	3,012	582,790	466,707	57,592	524,299	58,491	15
Plant and machinery	352,763	37,356	390,119	171,904	36,781	208,685	181,434	10
Tools and equipment	82,968	6,613	89,581	78,320	5,703	84,023	5,558	33.33
Motor vehicles	264,191	59,642 (9,897)	313,936	213,696	31,236 (8,560)	236,372	77,564	20
Furniture and equipment	251,392	26,972	278,364	197,972	31,182 (6) *	229,148	49,216	20
Computer & ancillary equipments	81,957	21,789	103,746	59,747	13,338	73,085	30,661	20
Supervisory control and data acquisition system	-	138,832	138,832	-	20,824	20,824	118,008	15
Construction equipment	444,768	40,283	485,051	444,768	8,057	452,825	32,226	20
2004	**18,910,257**	**650,822 (9,897)**	**19,551,182**	**12,249,360**	**963,863 (8,560) (6) ***	**13,204,657**	**6,346,525**	
2003	20,066,605	1,491,734 (2,648,082)	18,910,257	13,113,755	1,124,460 (1,988,855)	12,249,360	6,660,897	

** Depreciation is being charged as stated in note 2.3.2

15.2 Operating fixed assets - gas distribution system

(Rupees in '000)

	Cost at 1 July 2003	Additions/ (deletions)/ adjustments*	Cost at 30 June 2004	Accumulated depreciation at 1 July 2003	Charge for the year/(accumulated depreciation on deletions)/ adjustments*	Accumulated depreciation at 30 June 2004	Written down value at 30 June 2004	Depreciation rate (%)
Owned								
Freehold land	9,859	-	9,859	-	-	-	9,859	-
Leasehold land	32,877	-	32,877	-	-	-	32,877	-
Buildings on freehold land	45,201	-	45,201	21,385	1,996	23,381	21,820	5
Buildings on leasehold land	75,575	14,602	90,177	35,693	4,296	39,989	50,188	5
Gas distribution system, related facilities and equipment	14,683,161	1,246,826 29,999 *	15,959,986	5,178,135	896,199 7,502 *	6,081,836	9,878,150	5
Telecommunication	7,002	962	7,964	6,308	485	6,793	1,171	15
Plant and machinery	229,256	12,309 (672)	240,893	180,097	12,273 (672)	191,698	49,195	10
Roads, pavements and related infrastructures	1,010	-	1,010	1,010	-	1,010	-	5
Tools and equipment	41,328	3,216 (34)	44,510	35,318	4,496 (34)	39,780	4,730	33.33
Motor vehicles	281,781	43,799 (18,829)	306,751	223,966	25,510 (17,993)	231,483	75,268	20
Furniture and equipment	58,065	6,043	64,108	51,321	3,355 6 *	54,682	9,426	20
Computer and ancillary equipment	96,336	13,364	109,700	69,143	11,659	80,802	28,898	20
Supervisory control and data acquisition system	99,116	-	99,116	99,116	-	99,116	-	15
	15,660,567	1,341,121 (19,535) 29,999 *	17,012,152	5,901,492	960,269 (18,699) 7,508 *	6,850,570	10,161,582	
Leased								
Gas distribution system	131,999	- (29,999) *	102,000	12,601	6,120 (7,502) *	11,219	90,781	5
2004	**15,792,566**	**1,341,121 (19,535)**	**17,114,152**	**5,914,093**	**966,389 (18,699) 6 ***	**6,861,789**	**10,252,363**	
2003	14,457,384	1,341,738 (6,556)	15,792,566	5,161,149	759,500 (6,556)	5,914,093	9,878,473	

15.3 Operating fixed assets - meter manufacturing division

(Rupees in '000)

	Cost at 1 July 2003	Additions	Cost at 30 June 2004	Accumulated depreciation at 1 July 2003	Charge for the year	Accumulated depreciation at 30 June 2004	Written down down value at 30 June 2004	Depreciation rate (%)
Owned								
Building on leasehold land	7,314	208	7,522	6,254	127	6,381	1,141	10
Telecommunication	103	-	103	57	4	61	42	10
Plant and machinery	208,993	671	209,664	145,693	6,642	152,335	57,329	10 & 40
Tools and equipment	2,367	793	3,160	1,014	215	1,229	1,931	10
Furniture and equipment	3,491	4,010	7,501	2,382	512	2,894	4,607	10
Computer & ancillary equipment	794	316	1,110	396	71	467	643	10
2004	223,062	5,998	229,060	155,796	7,571	163,367	65,693	
2003	222,445	617	223,062	147,871	7,925	155,796	67,266	

15.4 Details of the depreciation charge for the year are as follows:

	Note	2004 (Rupees in '000)	2003 (Rupees in '000)
Profit and loss account (transmission and distribution costs)		1,922,195	1,883,960
Meter manufacturing division			
- Profit and loss account	30	4,293	4,101
- Gas meters components produced		3,278	3,824
		7,571	7,925
Capital projects		8,057	-
		1,937,823	1,891,885

15.5 Disposal of operating fixed assets

Details of disposal of operating fixed assets are as follows:

	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain on sale	Particulars of buyers
	(Rupees in '000)					
Plant and machinery						
Written down value not exceeding Rs. 5,000 each	672	672	-	-	-	Written Off
	672	672	-	-	-	
Tools						
Written down value not exceeding Rs. 5,000 each	34	34	-	-	-	Written Off
	34	34	-	-	-	
Motor vehicles						
Written down value not exceeding Rs. 5,000 each	22,967	22,549	418	16,882	16,464	Various
As per the service rules of the company	935	677	258	258	-	M.H. Asif (ex-employee- executive)
As per the service rules of the company	560	236	324	324	-	M. Sadiq Jarral (ex-employee- executive)
As per the service rules of the company	546	405	141	141	-	Jaleel Siddiqui (ex-employee- executive)
As per the service rules of the company	793	398	395	395	-	Ishrat Ali (ex-employee- executive)
Insurance claim	2,925	2,288	637	1,494	857	National Insurance Company Ltd.
	28,726	26,553	2,173	19,494	17,321	
30 June 2004	**29,432**	**27,259**	**2,173**	**19,494**	**17,321**	
30 June 2003	2,654,638	1,995,411	659,227	666,274	7,047	

15.6 Borrowing costs capitalised during the year amounted to Rs. 24.009 million (2003: Rs. 63.90 million).

	Note	2004	2003
		(Rupees in '000)	

16. CAPITAL WORK-IN-PROGRESS

	Note	2004	2003
Projects:			
- Gas distribution system		163,358	99,980
- Indus right bank pipeline (IRBP) compression project		24,441	24,441
- Cost of buildings under construction		2,641	13,154
- Gas infrastructure rehabilitation and expansion project		89,104	-
		279,544	137,575
Stores and spares held for capital projects	16.1	554,970	496,164
Advances for land acquisition		6,389	4,326
Others		15,525	2,308
		576,884	502,798
		856,428	640,373
Provision for impairment (IRBP)		(24,441)	(24,441)
		831,987	615,932

16.1 Stores and spares held for capital projects

	2004	2003
Gas transmission	195,682	191,422
Gas distribution	401,459	346,913
	597,141	538,335
Provision for slow moving and obsolete stores	(42,171)	(42,171)
	554,970	496,164

Stores and spares held for capital projects include goods in transit amounting to Rs. 1.34 million (2003: Rs. 67.7 million)

17. LONG-TERM INVESTMENTS

	Note	Percentage of holding (if over 10%)	2004	2003
			(Rupees in '000)	
Listed companies - available for sale (at fair value)				
Sui Northern Gas Pipelines Limited (associated company) 1,900,178 (2003: 1,900,178) ordinary shares of Rs. 10 each value based on net assets at 30 June 2003 was Rs. 32.57 million (2002: Rs. 29.09 million)			122,942	62,896
Pakistan Refinery Limited 200,000 (2003: 200,000) ordinary shares of Rs. 10 each			30,000	36,340
Harnai Woolen Mills Limited 200 (2003: 200) ordinary shares of Rs. 10 each			2	2
			152,944	99,238
Unlisted companies - available for sale (at fair value)				
Pakistan Tourism Development Corporation 5,000 (2003: 5,000) ordinary shares of Rs. 10 each (less than 10 percent equity in the investee company's equity) [Chief Executive: Maj. (ret.) Muhammad Habib Khan]. Value based on net assets at 30 June 2001: Rs. 0.135 million.			50	50
United Bank Limited 50,197 (2003: 50,197) ordinary shares of Rs. 10 each (less than 10 percent equity in the investee company's equity) [Chief Executive: Mr. Atif R. Bukhari]. Value based on net assets at 31 December 2003: Rs. 1.345 million (2002: Rs. 0.836 million).			2,751	2,751
			2,801	2,801
Provision against impairment in value of unlisted investments			(2,801)	(2,751)
			-	50
Related parties - at cost less impairment losses				
Civic Centre Company (Private) Limited 6,500,001 (2003 : 6,500,001) ordinary shares of Rs. 10 each. Value based on net assets at 30 June 2003 was Rs. 51.55 million (associated company).		14.5	65,000	65,000
Inter State Gas System (Private) Limited 51 (2003: 51) ordinary shares of Rs. 10 each. Value based on net assets at 30 June 2003 was Rs. 0.001 million (2003: Rs. 0.001 million) (joint venture company).		51	1	1
Sui Southern Gas Provident Fund Trust Company (Private) Limited 100 (2003: 100) ordinary shares of Rs. 10 each. Value based on net assets as at 30 June 2003 was Rs. 0.027 million (2003: Rs. 0.027 million) (subsidiary company).	17.1	100	1	1
			65,002	65,002
Provision against impairment in value of investment in an associated company			(13,456)	(13,456)
			51,546	51,546
			204,490	150,834

17.1 The financial position of the company is not considered to be material to require the issuance of consolidated financial statements. The Securities and Exchange Commission of Pakistan (SECP) has also relaxed the requirements of Companies Ordinance, 1984 in respect of the issuance of consolidated financial statements. The details of the assets, liabilities and equity position of the subsidiary / joint venture companies based on the financial statements as of 30 June 2004 are as follows:

	Assets	Liabilities	Equity
		(Rupees in '000)	
Sui Southern Gas Provident Fund Trust Company (Private) Limited	50	10	40
Inter State Gas System (Private) Limited	4,901	-	4,901

17.2 Copies of the above financial statements are available for inspection by the shareholders during the annual general meeting.

	Note	2004	2003
		(Rupees in '000)	

18. LONG-TERM DEPOSITS

		2004	2003
Deposits against finance leases		1,020	4,020
Others		4,072	3,717
		5,092	7,737
Current maturity		(1,020)	(3,000)
		4,072	4,737

19. LONG-TERM LOANS - secured, considered good

	Note	2004	2003
Executives		68,791	85,211
Other employees		95,541	89,485
		164,332	174,696
Recoverable within one year:	25		
- Executives		(11,977)	(13,193)
- Other employees		(15,982)	(15,545)
		(27,959)	(28,738)
		136,373	145,958
Outstanding for period:			
- Exceeding three years		83,422	102,537
- Less than three years		52,951	43,421
		136,373	145,958

19.1 Above loans represents house building and transport loans to the employees under the terms of employment and are recoverable in monthly installments over a period of six to twelve years. These loans are secured against the retirement benefit balances of respective employees and deposit of title deeds. Loans to the executive staff, carrying a mark-up of 10% per annum, have been discontinued under the revised compensation package of the company. Loans to non-executive employees do not carry mark-up.

19.2 The maximum aggregate amount of loans due from the executives at the end of any month during the year was Rs. 83.906 million (2003: Rs.103.327 million).

20. STORES, SPARES AND LOOSE TOOLS

	2004	2003
	(Rupees in '000)	
Stores	247,033	147,956
Spares	435,226	408,073
Stores and spares in transit	126,930	178,585
Loose tools	1,450	1,504
	810,639	736,118
Provision against impaired stores and spares	(16,407)	(16,436)
	794,232	719,682

Stores, spares and loose tools are held for the following operations:

	2004	2003
Transmission	629,176	533,416
Distribution	165,056	186,266
	794,232	719,682

21. STOCK-IN-TRADE

	2004	2003
Gas		
Gas in pipelines	95,642	96,908
Gas meters		
Components	85,280	49,522
Work-in-process	13,004	11,418
Finished meters	4,517	4,864
	102,801	65,804
	198,443	162,712

22. CUSTOMERS' INSTALLATION WORK-IN-PROGRESS - at cost

This represents cost of work carried out by the company on behalf of the customers at their premises. Upon completion of work, the cost thereof is transferred to transmission and distribution cost and recoveries from such customers are shown as deduction there from as reflected in note 29 to these financial statements.

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	Note	2004	2003
		(Rupees in '000)	

23. TRADE DEBTS

		2004	2003
Considered good			
- secured		2,406,524	2,104,832
- unsecured		4,299,180	4,986,206
		6,705,704	7,091,038
Considered doubtful		1,239,436	999,976
		7,945,140	8,091,014
Provision against impaired debts		(1,239,436)	(999,976)
		6,705,704	7,091,038

24. ADVANCES, DEPOSITS AND PREPAYMENTS

		2004	2003
Advances for goods and services - unsecured, considered good		111,392	17,241
Trade deposits - unsecured, considered good		21,905	13,384
Prepayments		5,631	59,369
		138,928	89,994

25. LOANS AND ADVANCES

	Note	2004	2003
Current portion of long term loans	19		
- Executives		11,977	13,193
- Other employees		15,982	15,545
		27,959	28,738
Advances to:			
- Executives		36,811	21,196
- Other employees		43,694	38,226
		80,505	59,422
		108,464	88,160

The maximum aggregate amount of advances due from executives at the end of any month during the year was Rs. 80.116 million (2003: Rs. 42.128 million).

26. OTHER RECEIVABLES - considered good

	Note	2004	2003
		(Rupees in '000)	
Receivable from Government of Pakistan (GOP) under exchange risk coverage scheme	26.1	629,987	566,513
Gas development surcharge receivable from GOP		-	185,911
Receivable from staff pension funds	31.1.3	130,580	159,693
Balance receivable for sale of gas condensate		43,468	37,439
Receivable from Sui Northern Gas Pipelines Limited (SNGPL)	26.2	1,028,771	19,662
Profit accrued on fixed deposits		13,142	17,717
Insurance claim receivable		11,600	-
Receivable from the Privatisation Commission, GOP	26.3	8,659	8,659
Receivable from ADP projects		987	987
Claims receivable		757	757
Miscellaneous receivables	26.4	417,489	244,631
		2,285,440	1,241,969
Provision against impaired receivables		(1,485)	(1,485)
		2,283,955	1,240,484

26.1 Subsequent to the year end Rs. 237.8 million was received by the company.

26.2 This include pipe line rent receivable of Rs. 63.86 million (2003: Rs. 15 million) and Rs. 908.811 million (2003: Nil) receivable under the uniform cost of gas agreement with SNGPL (refer note 28.1 to these financial statements for details).

26.3 Subsequent to the year end the amount was received by the company.

26.4 This includes Rs. 394.629 million (2003: Rs. 205.253 million) recoverable from Government of Pakistan under deferred tariff adjustment.

27. CASH AND BANK BALANCES

	Note	2004	2003
With banks:			
On deposit accounts	27.1	2,555,933	2,569,192
On current accounts		482,583	58,002
		3,038,516	2,627,194
Cash in hand		2,268	1,944
		3,040,784	2,629,138

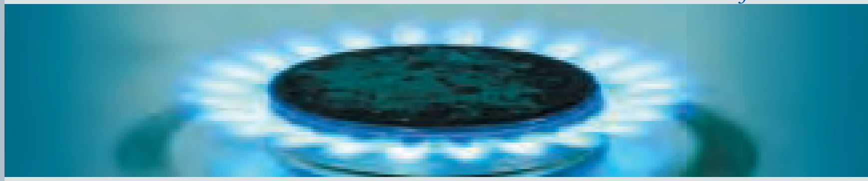
27.1 This includes Rs. 0.465 million (2003: Rs. 0.465 million) held under lien by a commercial bank against a bank guarantee issued on behalf of the company.

28. COST OF GAS

	Note	2004 Volume in MCF*	2004 (Rupees in '000)	2003 Volume in MCF*	2003 (Rupees in '000)
Gas in pipelines at 1 July		751,484	96,908	872,064	73,979
Gas purchases from:					
Pakistan Petroleum Limited		43,253,750	2,298,999	82,517,912	3,167,290
Oil and Gas Development Company Limited		5,198,002	482,552	3,810,954	360,013
BP (Pakistan) Exploration and Production Incorporated		73,402,092	10,175,040	74,892,368	8,976,617
Orient Petroleum Inc.		4,105,087	550,061	-	-
Eni Pakistan Limited		106,864,760	16,464,799	41,639,360	6,386,962
Mari Gas Company Limited		262,763	5,839	241,103	5,477
Sui Northern Gas Pipelines Limited		253,115	27,309	147,953	14,098
BHP Petroleum (Pakistan) Pty Limited		34,304,842	3,742,276	31,149,181	3,170,121
OMV (Pak) Exploration GmBH		76,363,719	10,863,866	44,289,225	6,096,498
		344,008,130	44,610,741	278,688,056	28,177,076
Gas available for sale		344,759,614	44,707,649	279,560,120	28,251,055
Gas consumed internally (including the domestic use)		(1,900,832)	(164,994)	(2,092,135)	(93,534)
Inward price adjustment	28.1	-	(5,722,334)	-	-
Insurance claim receivable		(103,248)	(11,600)	-	-
Gas in pipelines at 30 June		(851,138)	(95,642)	(751,484)	(96,908)
		(2,855,218)	(5,994,570)	(2,843,619)	(190,442)
		341,904,396	38,713,079	276,716,501	28,060,613

* Thousand Cubic Feet.

28.1 Under section 21 of the Oil and Gas Regulatory Authority Ordinance, 2002, the Government of Pakistan has issued a policy guideline to ensure the uniformity of gas prices for consumers throughout the country. Accordingly under this policy guideline and persuant to an agreement between the company and Sui Northern Gas Pipelines Limited effective from 1 July 2003, the cost of gas purchased is being worked out by both the companies on an overall average basis in such a manner that input of gas for both companies become uniform. Under this agreement the company with lower weighted average cost of gas is required to pay to the other company with higher weighted average cost of gas by computing overall weighted average rate of well head gas price of both the companies. The averaging has resulted in an inward price adjustment by Rs. 5.722 billion. However, this averaging has not effected the profit and loss account of the company as in the absence of averaging, the simultaneous effect would have been to gas development surcharge account in the profit and loss account.



	Note	2004	2003
		(Rupees in '000)	

29. TRANSMISSION AND DISTRIBUTION COST (excluding depreciation)

	Note	2004	2003
Salaries, wages and benefits		2,388,158	2,252,412
Contribution / accruals in respect of staff retirement benefit scheme	29.1	378,463	347,740
Repairs and maintenance		253,521	403,537
Stores, spares and supplies consumed		225,884	204,813
Provision against doubtful debts		239,460	195,629
Gas consumed internally		164,994	89,466
Legal and professional charges		96,298	88,629
Electricity		52,698	49,324
Security expenses		70,337	44,208
Insurance and royalty		40,781	40,250
Travelling		36,581	36,064
Material and labour used on consumers' installation		34,361	30,923
Gas bills collection charges		31,547	28,116
Postage and revenue stamps		25,637	23,702
Rent, rates and taxes		17,236	14,773
Welfare and other expenses		8,923	-
Bad debts written off		-	5,802
Others	29.2	93,002	67,063
		4,157,881	3,922,451
Recoveries/allocations to:			
Gas distribution system capital expenditure		(502,912)	(493,621)
Installation cost recovered from customers		(71,648)	(69,404)
Recoveries from others		(22,663)	(41,031)
Meter manufacturing division		(35,511)	(35,732)
		(632,734)	(639,788)
		3,525,147	3,282,663

29.1 Contributions to / accrual in respect of staff retirement benefit schemes

	Note	2004	2003
Contribution to the provident fund		66,863	62,638
Charge in respect of amount due to the pension funds			
- Executive	31.1.4	76,961	59,829
- Non-executive	31.1.4	26,588	23,665
Charge in respect of amount due to the gratuity funds			
- Executive	31.1.4	47,691	40,763
- Non-executive	31.1.4	30,028	20,133
Accrual in respect of unfunded post retirement			
- Medical facility	31.2.2	130,404	138,458
- Gas facility	31.2.2	8,441	9,915
		386,976	355,401
Expenses relating to the meter manufacturing division and construction division		(8,513)	(7,661)
		378,463	347,740

	Note	2004	2003
		(Rupees in '000)	

29.2 Transmission and distribution cost - others

	Note	2004	2003
Advertisement		26,146	16,698
Communication		18,176	13,556
Water charges		7,239	6,549
Subscriptions		5,396	3,490
Bank charges		4,137	3,459
Freight and handling		2,329	853
Cost of services provided by PPL		-	433
Miscellaneous		29,579	22,025
		93,002	67,063

30. METER MANUFACTURING DIVISION PROFIT - net

	Note	2004	2003
Gross sales of gas meters			
- Company's consumption	30.1	195,024	153,685
- Outside sales		421,700	440,785
		616,724	594,470
Sales tax		(84,106)	(81,096)
Net sales		532,618	513,374
Cost of sales			
- Finished meters as on 1 July		4,864	15,553
- Material consumed		388,293	349,843
- Direct labour		36,232	34,459
- Overheads		46,883	43,307
- Depreciation	15.4	4,293	4,101
- Packing cost		4,312	4,051
		484,877	451,314
Finished meters as at 30 June		(4,517)	(4,864)
		480,360	446,450
Operating profit		52,258	66,924
Other income		789	3,306
		53,047	70,230

30.1 Gas meters used by the company are included in tangible fixed assets at manufacturing cost (including sales tax). However sales tax thereon is paid at commercial selling prices, under the provisions of Sales Tax Act, 1990.

31. STAFF RETIREMENT BENEFITS

31.1 Funded post retirement pension and gratuity schemes

31.1.1 As mentioned in note 2.15 to these financial statements, the company operates approved funded pension and gratuity schemes for all employees. Contributions are made to these schemes based on actuarial recommendations. Latest actuarial valuations were carried out as at 30 June 2004 under the projected unit credit method for both non-executive and executive staff members.

31.1.2 Fair value of plan assets and present value of obligations

The fair value of plan assets and present value of defined benefit obligations of the pension and gratuity schemes at the valuation date were as follows:

	Note	Executives		Non-executives	
		Pension	Gratuity	Pension	Gratuity
		(Rupees in '000)			
Fair value of plan assets		257,181	1,035,178	224,551	772,612
Present value of defined benefit obligation		(550,282)	(1,010,954)	(8,134)	(862,829)
Net surplus / (deficit)		(293,101)	24,224	216,417	(90,217)
Unrecognised past service (gain)/cost		212,383	(448,066)	-	-
Unrecognised actuarial loss / (gain)		143,484	341,337	(125,896)	19,380
		62,766	(82,505)	90,521	(70,837)
Restriction in the recognition of asset under the asset ceiling clause of International Accounting Standard		(2,369)	-	(20,338)	-
Asset / (liability) recognised in the balance sheet	31.1.3	60,397	(82,505)	70,183	(70,837)

31.1.3 Movement in amount receivable from / (payable) to defined benefit plans

Movements in amount receivable from / (payable to) staff retirement benefit funds during the year are as follows:

	Note	Executives		Non-executives	
		Pension	Gratuity	Pension	Gratuity
		(Rupees in '000)			
Asset / (liability) as on 1 July 2003		65,353	(64,176)	94,340	(54,684)
Charge for the year	31.1.4	(76,961)	(47,691)	(26,588)	(30,028)
Payments during the year		72,005	29,362	2,431	13,875
Asset / (liability) as on 30 June 2004		60,397	(82,505)	70,183	(70,837)

31.1.4 Amount recognized in the profit and loss account

Amounts charged to the profit and loss account during the current year in respect of the above schemes were as follows:

	Executives		Non-executives	
	Pension	Gratuity	Pension	Gratuity
	(Rupees in '000)			
Current service cost	8,080	64,378	1,442	50,629
Mark-up cost	10,132	72,699	1,082	41,850
Recognition of actuarial loss / (gain)	(51,377)	132,092	(2,662)	(3,636)
Expected return on plan assets	(15,713)	(50,872)	(8,986)	(43,441)
Recognition of past service cost / (gain)	42,477	(89,613)	-	-
Amount not recognised as asset	2,369	-	20,338	-
Inter fund transfers	80,993	(80,993)	15,374	(15,374)
	76,961	47,691	26,588	30,028
Actual return	54,660	113,626	36,003	101,338

31.1.5 Principal actuarial assumptions

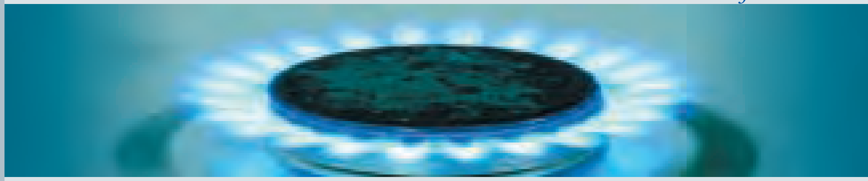
Significant assumptions used for the valuation of above schemes are as follows:

	Executives	Non-executives
	%	%
Discount rate	9	9
Expected rate of increase in salary level	8	8
Expected rate of return on plan assets	9	9
Increase in pension	3	3

31.2 Unfunded post retirement medical benefit and gas supply facilities

31.2.1 As mentioned in note 2.15 to these financial statements the company provides free medical and gas supply facilities to its retired executive employees. The free gas supply facility has been discontinued for employees who had retired after 31 December 2000. The latest valuations of the liability under these schemes were carried out as at 30 June 2004 under the projected unit current cost method, results of which are as follows:

	Post retirement medical facility	Post retirement gas facility
	(Rupees in '000)	
Projected benefit obligation	616,733	30,367
Unrecognised actuarial (loss) / gain	(21,628)	24,597
Liability recognised in the balance sheet	595,105	54,964



31.2.2 Amounts charged to the profit and loss account during the current year in respect of the above benefits are as follows:

	Post retirement medical facility	Post retirement gas facility
	(Rupees in '000)	
Current service cost	26,157	-
Mark-up cost - net	34,244	1,631
Amortisation of transitional obligation	70,003	9,011
Amortisation of actuarial gain	-	(2,201)
	130,404	8,441

31.2.3 Significant assumptions used for the valuation of above schemes are as follows:

	Executives %	Non-executives %
Discount rate	9	9
Medical inflation rate	6	6

	Note	2004	2003
		(Rupees in '000)	

32 . OTHER INCOME

	Note	2004	2003
Return on:			
- term and profit and loss bank deposits		93,526	182,278
- staff loans		3,894	4,239
- reverse repo transactions		302	9,672
- demand promissory notes of Karachi Electric Supply Corporation		-	42,188
Pipeline rental income		457,122	89,672
Recoveries from consumers		19,491	21,112
Gain on sale of fixed assets	15.5	17,321	7,047
Liquidated damages recovered		10,624	2,684
Dividend income		5,293	5,025
Income from sale of tender documents		2,427	1,774
Rentals and service charges recovered		-	367
Miscellaneous		39,732	120,907
		649,732	486,965

33. OTHER CHARGES

	Note	2004	2003
Auditors' remuneration			
Statutory audit		830	780
Special audits and certifications		177	-
Out of pocket expenses		200	40
		1,207	820
Workers' profit participation fund	12.2	82,837	107,935
Sports club expenses		14,514	4,941
Corporate social responsibility		5,607	-
Provision against impairment in value of investment		50	1,374
Written down value of fixed assets written off		-	36,201
		104,215	151,271

	Note	2004	2003
		(Rupees in '000)	

34. FINANCIAL CHARGES

	Note	2004	2003
Interest, commitment charges, exchange risk coverage fee and Government guarantee fee on foreign currency loans		287,906	453,838
Financial charges on liabilities against assets subject to finance lease		6,344	40,471
Mark-up on:			
Redeemable capital		356,811	317,778
Customers' deposits		42,074	35,760
Workers' profit participation fund	12.2	1,557	1,792
Late payment of gas development surcharge		-	21,632
Others		905	1,277
		695,597	872,548

35. TAXATION

	Note	2004	2003
For the year			
- Current		825,501	833,168
- Deferred		(104,192)	(67,515)
For prior years		(145,670)	(164,543)
	35.2	575,639	601,110

35.1 The income tax assessments of the company have been finalised upto the Financial year ended 30 June 2003.

35.2 Relationship between accounting profit and tax expense for the year is as follows:

	2004	2003
Accounting profit for the year	1,572,351	2,049,001
Tax charge @ 35% (2003: 35%)	550,323	717,150
Tax effect of expenses that are not deductible in determining taxable profit	172,574	50,011
Effect of lower tax rate on dividend income	(1,588)	(1,508)
Prior years' tax reversal	(145,670)	(164,543)
	575,639	601,110

35.3 Taxation recoverable

	2004	2003
Advance tax	1,494,292	2,361,859
Provision for tax	(825,501)	(1,727,827)
	668,791	634,032

36. EARNINGS PER SHARE - basic and diluted

	2004	2003
	(Rupees in '000)	
Profit after taxation	996,712	1,447,891
	(Number of shares)	
Average number of ordinary shares	671,174,331	671,174,331
	(Rupees)	
Earnings per share - basic and diluted	1.49	2.16

37. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	30 June 2004		30 June 2003	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees in '000)			
Managerial remuneration	1,704	602,162	1,436	490,323
Housing	600	264,743	510	208,391
Retirement benefits	335	170,058	268	103,091
Utilities	128	57,305	90	46,289
	2,767	1,094,268	2,304	848,094
Number	1	1,881	3*	1,357

* These persons who had worked at different times.

37.1 The Chairman, Chief Executive and certain executives are also provided company maintained vehicles in accordance with their entitlements. In addition, the Chairman of the company was paid Rs. 0.3 million (2003: Rs. 0.3 million). All executives are also provided free medical facilities in accordance with their entitlement.

37.2 Aggregate amount charged in these financial statements in respect of fee paid to 14 directors was Rs. 0.032 million 2003: Rs. 0.035 million for 17 directors).

38. NUMBER OF EMPLOYEES

Total number of employees at 30 June 2004 was 5,295 (30 June 2003: 5,398).

39. CAPACITY AND ACTUAL PERFORMANCE

39.1 Natural gas transmission

	30 June 2004		30 June 2003	
	MMCF	HM3	MMCF	HM3
Transmission operation				
Capacity - annual rated capacity at 100% load factor with compression	358,680	101,053,965	306,600	86,381,024
Utilisation - volume of gas transmitted	341,979	96,348,650	277,772	78,259,067
Capacity utilisation factor (%)	95.3	95.3	90.6	90.6

39.2 Natural gas distribution

The company has no control over the rate of utilisation of its capacity as the use of available capacity is dependent on off-takes by the consumers.

39.3 Meter manufacturing division

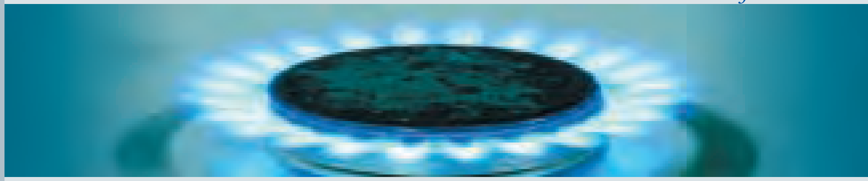
During the year meter manufacturing division produced and assembled 322,000 meters (2003: 303,750 meters) against an annual capacity of 310,000 meters on a single shift basis.

40. TRANSACTIONS WITH RELATED PARTIES

The company has related party relationship with its subsidiary and joint venture companies (note 17), associated companies (note 17), employees benefit plans (notes 2.15 and 31) and the company's directors and executives officers (including their associates). Purchase and sale of gas from/to the related parties are determined at rates fixed and notified by Ministry of Petroleum and Natural Resources and Oil and Gas Regulatory Authority and the prices and other conditions are not influenced by the company (comparable uncontrolled price method).

The details of other transactions with related parties are as follows:

	2004	2003
	(Rupees in '000)	
Pipeline rental income	341,766	15,000
Sale of gas meters and condensate	580,894	516,682
Purchase of pipelines, etc.	132,409	52,233
Contribution to the provident fund	66,863	62,638
Accrual in respect of obligation to defined benefit plans	181,268	144,390
Provision against impairment in value of investment in an associated company	50	1,374



Pipeline rental income is determined at cost plus method and comparable prices for the specific category of pipeline and other conditions effecting the determination of pipeline rental is not determinable.

Sale of gas meters is made at cost plus method. The company is the only manufacturer of gas meters in the country and as such it is difficult to determine the comparable uncontrolled prices in the country. However, the prices of comparable goods available in international market are not materially different from the prices at which the goods (meters) are sold by the company. Sale of gas condensate is at a price formula advised by the Ministry of Petroleum and Natural Resources.

Contribution to the defined contribution and benefit plans are in accordance with the terms of the entitlement of the employees and / or actuarial advice. Balance payable to / receivable from these employees benefit plans are disclosed in notes 12, 26 and 31 to these financial statements.

Remuneration to the executive officers of the company (disclosed in note 37 to the financial statements) and loans and advances to them (disclosed in notes 19 and 25 to the financial statements) are determined in accordance with the terms of their employment.

Mark-up free security deposits for gas connections to the executive staff of the company is received at rates prescribed by the Government of Pakistan.

41. MARK-UP / INTEREST RATE RISK

Information about the company's exposures to mark-up / interest rate risk based on contractual refinancing and maturity dates, whichever is earlier, at 30 June 2004 is as follows:

(Rupees in '000)

	Effective mark-up / interest rate (%)	Mark-up / interest bearing				Non mark-up/ interest bearing	Total
		Maturity less than one month	Maturity between one month to one year	Maturity between one year to five years	Maturity after five years		
Financial assets							
Investments	-	-	-	-	-	204,490	204,490
Loans and advances	10	-	11,977	56,814	-	176,046	244,837
Trade debts	-	-	-	-	-	6,705,704	6,705,704
Trade deposits	-	-	-	-	-	25,977	25,977
Other receivables	-	-	-	-	-	1,758,746	1,758,746
Cash and bank balances	1 to 3	2,245,735	310,198	-	-	484,851	3,040,784
		2,245,735	322,175	56,814	-	9,355,814	11,980,538
Financial liabilities							
Redeemable capital	3.23 to 15	-	760,912	4,199,039	-	-	4,959,951
Long term loans	14.5	-	912,002	445,711	-	-	1,357,713
Long-term deposits	5	-	-	-	897,748	711,998	1,609,746
Liabilities against assets subject to finance lease	19	-	43,664	-	-	-	43,664
Creditors, accrued and other liabilities	-	-	-	-	-	6,888,810	6,888,810
Proposed dividend	-	-	-	-	-	1,006,761	1,006,761
		-	1,716,578	4,644,750	897,748	8,607,569	15,866,645
On-balance sheet gap (a) - **2004**		**2,245,735**	**(1,394,403)**	**(4,587,936)**	**(897,748)**	**748,245**	**(3,886,107)**
2003		2,538,994	(386,068)	(5,615,877)	(835,707)	730,100	(3,568,558)

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

42. CONCENTRATION OF CREDIT RISK

At 30 June 2004, the financial assets which were subject to credit risk amounted to Rs. 11.34 billion. The company believes that it is not exposed to major concentration of credit risk. The company attempts to control credit risks by monitoring credit exposures, including transactions with specific customers and continuing assessment of credit worthiness of customers.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of all financial instruments reflected in the financial statements approximate their fair values.

44. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Directors of the company in the meeting held on 30th September, 2004.

45. DETAILS OF INVESTMENTS BY EMPLOYEES RETIREMENT BENEFIT FUNDS

Details of the value of investments by the Provident, Gratuity and Pension funds based on respective financial statements at 30 June 2004 and 2003, are as follows:

	2004	2003
	(Rupees in '000)	
	Based on unaudited financial statements	Based on audited financial statements
Executive staff provident fund	450,464	369,339
Non-executive staff provident fund	413,320	400,959
Executive benevolent fund	22,133	19,133
Non-executive staff gratuity fund	571,687	504,130
Executive staff gratuity fund	446,470	402,993
Executive staff pension fund	313,974	271,986
Non-executive staff pension fund	224,172	117,092

46. GENERAL

Figures have been rounded off to the nearest thousand rupees. Corresponding figures have been rearranged and reclassified, where necessary, for the purpose of comparison.

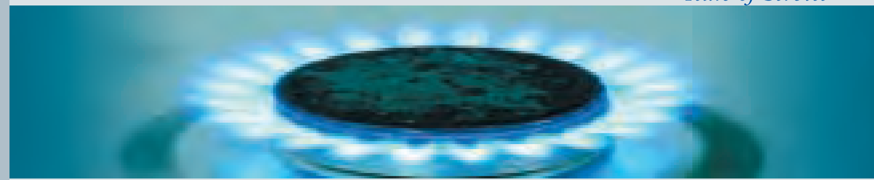
Munawar B. Ahmad P.E.
Managing Director

Aitzaz Shahbaz
Chairman

Ten years at a glance

		1994-95	1995-96
General	Mains - Transmission (km) - Cumulative	2,420	2,486
	Mains and Services - Distribution (km) - Additions	2,130	1,852
	New connections	97,476	98,941
	Gas sales (MMCF)	151,430	172,371
	LPG sales (M. Tons)	26,478	29,578
	Gas meters produced / assembled	247,500	351,000
Balance Sheet - Summary	Paid - up share capital	3,031.4	3,488.6
	Reserves and accumulated profit	1,781.8	1,864.1
	Redeemable capital	-	500.0
	Deferred credit	943.3	1,058.0
	Deferred liabilities -Taxation	1,650.3	2,034.7
	Deferred liabilities - Gratuity	196.1	177.0
	Provision for medical and gas supply facilities - Executives	-	-
	Provision for compensated absences - Executives	-	-
	Obligation under finance lease	769.5	1,832.8
	Long term loans outstanding:		
	Foreign	5,563.7	6,190.7
	Local	1,156.4	2,042.9
	Long term deposits	627.3	734.5
		15,719.8	19,923.3
	Represented by:		
	Fixed assets	14,073.3	17,146.1
	Other assets (net)	1,646.5	2,777.2
		15,719.8	19,923.3
Profit and Loss - Summary			
Income	Gas sales	9,557.7	13,042.2
	General sales tax	-	-
		9,557.7	13,042.2
	Less: gas development surcharge	1,241.8	620.7
	Net sales	8,315.9	12,421.5
	Cost of gas	4,549.6	7,953.3
	Gross profit	3,766.3	4,468.2
	Meter rentals	71.4	93.1
	Late payment surcharge	76.0	93.0
	Recognition of income against deferred credit	65.3	75.0
	LPG bottling division profit / (loss)	(41.5)	(33.0)
	Meter manufacturing division profit	16.0	70.3
	Recoveries from SNGPL	288.5	353.1
	Other income, sale of gas condensate and gain on sale of LPG business	215.8	309.1
		4,457.8	5,428.8
Expenditure	Purification, transmission and distribution cost	1,901.6	2,168.3
	Depreciation	904.2	1,171.4
	Financial charges	779.7	993.2
	Workers' (profit) participation fund / others	43.6	54.8
		3,629.1	4,387.7
Profit	Profit before taxation	828.7	1,041.1
	Provision for taxation	238.8	503.8
	Profit after taxation	589.9	537.3
Dividend	Cash dividend	0%	0%
	Bonus shares	15%	15%
Rate of Corporate tax		36%**	36%**

* Adjusted against purification charges shown under cost of gas.

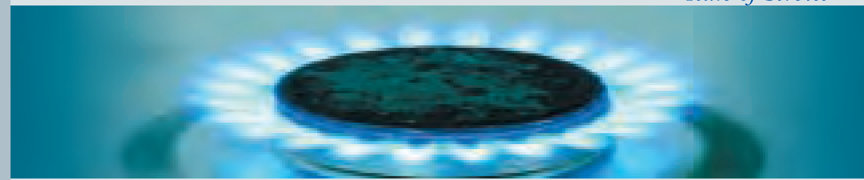


1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
2,486	2,682	2,764	2,764	2,777	2,724	2,786	**2,786**
1,933	1,050	829	705	404	703	526	**924**
112,474	95,629	82,040	81,542	52,506	61,616	56,789	**68,563**
174,940	169,214	177,153	198,281	206,967	234,553	254,349	**318,068**
16,596	18,622	19,708	16,423	5,044	-	-	**-**
336,000	231,800	293,000	390,200	292,750	289,850	303,750	**322,000**
			(Rupees in Million)				
4,011.9	4,613.7	5,075.0	5,836.3	6,711.7	6,711.7	6,711.7	**6,711.7**
2,016.2	2,066.1	2,557.5	2,589.3	1,998.9	2,286.6	2,592.2	**2,635.9**
2,043.1	2,853.5	3,509.1	3,101.7	2,726.8	3,778.8	4,567.1	**4,960.0**
1,183.2	1,273.7	1,333.4	1,411.8	1,413.3	1,425.2	1,438.2	**1,711.4**
2,138.4	2,481.8	2,870.7	2,715.2	2,628.2	2,668.1	2,600.6	**2,496.4**
162.9	142.2	123.1	-	-	-	-	**-**
-	-	-	177.4	272.2	399.0	531.2	**650.0**
-	-	-	105.8	84.6	103.2	108.2	**122.0**
1,313.0	1,390.1	793.0	607.6	434.1	364.7	87.4	**43.7**
6,454.4	6,805.8	5,831.7	4,969.0	4,102.3	3,303.4	2,184.9	**1,357.7**
-	-	-	-	-	-	-	**-**
871.1	981.0	1,116.7	1,277.9	1,166.9	1,303.3	1,428.0	**1,610.0**
20,194.2	22,607.9	23,210.2	22,792.0	21,539.0	22,344.0	22,249.5	**22,298.8**
19,635.8	21,924.8	21,024.2	19,650.4	17,947.1	18,082.6	17,222.6	**17,496.6**
558.4	683.1	2,186.0	3,141.6	3,591.9	4,261.4	5,026.9	**4,802.2**
20,194.2	22,607.9	23,210.2	22,792.0	21,539.0	22,344.0	22,249.5	**22,298.8**
14,790.3	15,623.1	16,349.6	22,931.1	29,237.1	37,061.1	41,572.3	**54,444.6**
-	-	-	2,759.9	3,807.1	4,826.1	5,408.9	**7,089.7**
14,790.3	15,623.1	16,349.6	20,171.2	25,430.0	32,235.0	36,163.4	**47,354.9**
214.1	(210.8)	2,294.0	393.3	1,112.9	3,719.4	1,327.0	**2,555.2**
14,576.2	15,833.9	14,055.6	19,777.9	24,317.1	28,515.6	34,836.4	**44,799.7**
10,007.4	10,098.0	8,107.6	13,524.3	18,428.4	22,216.5	28,060.6	**38,713.1**
4,568.8	5,735.9	5,948.0	6,253.6	5,888.7	6,299.1	6,775.8	**6,086.6**
160.6	173.2	185.1	385.2	399.5	407.7	421.1	**436.5**
143.2	156.2	158.3	169.6	201.3	212.7	222.1	**232.2**
85.4	94.6	102.7	111.7	116.3	121.3	126.8	**145.2**
18.6	59.5	37.6	(1.0)	3.4	-	-	**-**
184.7	52.7	97.3	83.9	64.4	41.6	70.2	**53.1**
*	*	*	*	*	*	*	*****
384.9	1,270.7	1,402.3	815.5	1,128.8	674.6	623.3	**865.9**
5,546.2	7,542.8	7,931.3	7,818.5	7,802.4	7,757.0	8,239.3	**7,819.5**
1,700.4	1,928.9	1,922.2	2,458.2	2,552.3	2,712.8	3,287.6	**3,525.2**
1,366.2	1,753.5	1,849.4	1,977.8	1,956.7	1,989.5	1,884.0	**1,922.2**
1,576.9	2,779.3	2,615.4	1,767.6	1,214.0	762.2	872.4	**695.6**
45.8	54.7	79.5	105.8	104.9	138.1	146.3	**104.2**
4,689.3	6,516.4	6,466.5	6,309.4	5,827.9	5,602.6	6,190.3	**6,247.2**
856.9	1,026.4	1,464.8	1,509.1	1,974.5	2,154.4	2,049.0	**1,572.3**
181.5	374.7	512.0	716.6	682.2	719.8	601.1	**575.6**
675.4	651.7	952.8	792.5	1,292.3	1,434.6	1,447.9	**996.7**
0%	0%	0%	0%	15%	17.5%	18%	**15%**
15%	10%	15%	15%	0%	0%	0%	**0%**
33%**	33%**	33%**	33%**	35%**	35%**	35%**	**35%****

** Excluding turnover and corporate assests taxes.

Gas Sales - Classified Breakdown 2003-2004

Category	Sales in Million Cubic Feet					Customers as at 30 June 2004 Number				
	Karachi	Sindh (Interior)	Balochistan	Total	%	Karachi	Sindh (Interior)	Balochistan	Total	%
Power Stations	93,203	35,187	8,275	136,665	43.0	9	2	3	14	-
Cement Plants	2,089	1,774	2	3,865	1.2	2	3	1	6	-
Pakistan Steel	14,453	-	-	14,453	4.5	1	-	-	1	-
Fertilizer	22,585	-	-	22,585	7.1	2	-	-	2	-
Textiles	24,831	360	-	25,191	7.9	705	14	-	719	-
Chemicals, Refineries & Pharmaceuticals	3,306	109	-	3,415	1.1	139	5	-	144	-
Glass & Ceramics	2,535	1,299	-	3,834	1.2	33	67	-	100	-
Iron & Steel	1,790	214	-	2,004	0.6	64	7	-	71	-
Oil & Soap	1,393	684	-	2,077	0.7	51	13	-	64	-
Metallurgy	1,048	-	-	1,048	0.3	96	-	-	96	-
C.N.G Stations	2,935	262	4	3,201	1.0	93	13	1	107	-
Other Industries	28,089	9,177	186	37,452	11.8	1,142	133	39	1,314	0.2
Industrial	198,257	49,066	8,467	255,790	80.4	2,337	257	44	2,638	0.2
Commercial	5,614	1,090	458	7,162	2.3	13,504	3,166	1,482	18,152	1.0
Domestic	37,027	11,648	6,441	55,116	17.3	1,227,528	350,210	135,415	1,713,153	98.8
Total	**240,898**	**61,804**	**15,366**	**318,068**	**100.0**	**1,243,369**	**353,633**	**136,941**	**1,733,943**	**100.0**



Gas Sales - Ten years of Progress

NUMBER OF CUSTOMERS AS AT 30 JUNE / SALES IN MILLION CUBIC FEET

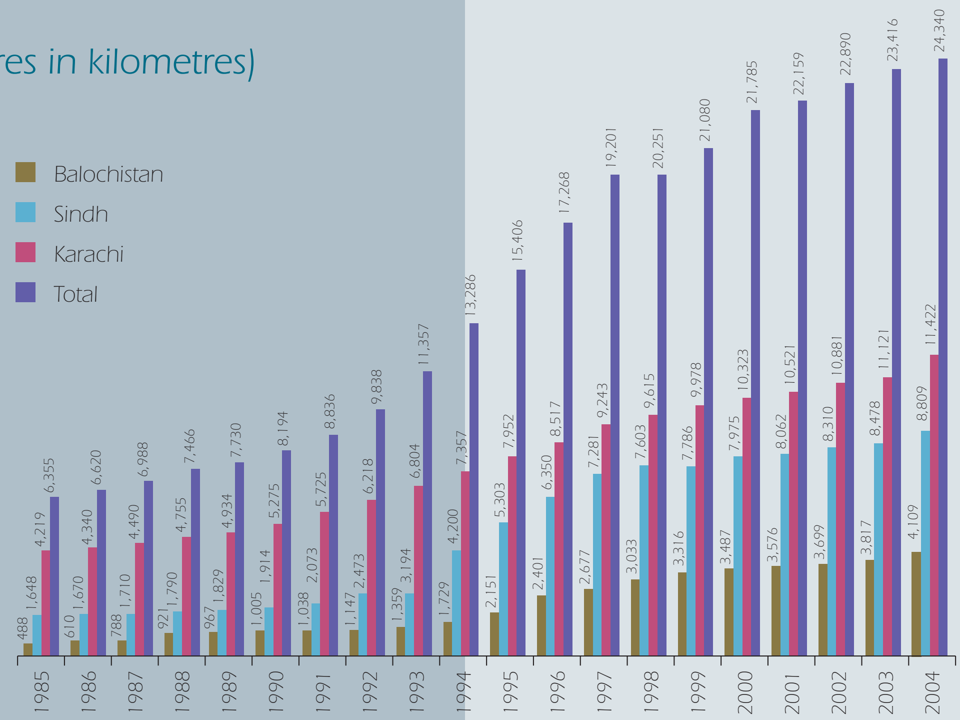
		INDUSTRIAL		COMMERCIAL		DOMESTIC		TOTAL	
		Customers	Sales	Customers	Sales	Customers	Sales	Customers	Sales
1	Karachi	1,516	71,861	10,390	3,559	796,597	25,126	808,503	100,546
9	Sindh (Interior)	196	33,025	3,100	982	196,794	7,431	200,090	41,438
9	Balochistan	20	4,700	1,660	362	68,879	4,384	70,559	9,446
5	Total	1,732	109,586	15,150	4,903	1,062,270	36,941	1,079,152	151,430
1	Karachi	1,585	78,423	10,478	3,482	851,829	27,532	863,892	109,437
9	Sindh (Interior)	227	40,910	3,271	1,051	226,269	9,788	229,767	51,749
9	Balochistan	68	4,633	1,768	449	81,181	6,103	83,017	11,185
6	Total	1,880	123,966	15,517	4,982	1,159,279	43,423	1,176,676	172,371
1	Karachi	1,674	77,967	11,248	3,878	911,635	30,259	924,557	112,104
9	Sindh (Interior)	227	37,456	3,574	1,122	253,451	10,650	257,252	49,228
9	Balochistan	70	6,216	1,867	455	89,283	6,937	91,220	13,608
7	Total	1,971	121,639	16,689	5,455	1,254,369	47,846	1,273,029	174,940
1	Karachi	1,706	76,983	11,869	3,878	975,806	31,848	989,381	112,709
9	Sindh (Interior)	231	32,525	3,809	1,156	281,047	11,105	285,087	44,786
9	Balochistan	78	4,132	1,891	474	95,910	7,113	97,879	11,719
8	Total	2,015	113,640	17,569	5,508	1,352,763	50,066	1,372,347	169,214
1	Karachi	1,779	90,059	12,688	4,418	1,027,393	31,113	1,041,860	125,590
9	Sindh (Interior)	229	27,764	3,930	1,213	295,607	10,515	299,766	39,492
9	Balochistan	87	5,383	1,953	486	106,453	6,202	108,493	12,071
9	Total	2,095	123,206	18,571	6,117	1,429,453	47,830	1,450,119	177,153
2	Karachi	1,892	101,803	13,540	4,753	1,081,061	31,711	1,096,493	138,267
0	Sindh (Interior)	230	32,764	4,065	1,205	312,053	10,702	316,348	44,671
0	Balochistan	96	8,329	1,924	484	114,208	6,530	116,228	15,343
0	Total	2,218	142,896	19,529	6,442	1,507,322	48,943	1,529,069	198,281
2	Karachi	1,901	114,007	13,274	5,015	1,112,269	33,198	1,127,444	152,220
0	Sindh (Interior)	228	27,952	3,592	1,164	317,577	10,896	321,397	40,012
0	Balochistan	55	7,840	1,547	454	118,937	6,441	120,539	14,735
1	Total	2,184	149,799	18,413	6,633	1,548,783	50,535	1,569,380	206,967
2	Karachi	2,006	131,221	12,951	5,061	1,142,564	34,254	1,157,521	170,536
0	Sindh (Interior)	229	36,616	3,225	1,088	326,241	11,250	329,695	48,954
0	Balochistan	50	8,413	1,476	432	123,231	6,218	124,757	15,063
2	Total	2,285	176,250	17,652	6,581	1,592,036	51,722	1,611,973	234,553
2	Karachi	2,134	146,281	12,933	5,562	1,184,923	35,990	1,199,990	187,833
0	Sindh (Interior)	232	39,247	3,058	1,039	335,879	11,148	339,169	51,434
0	Balochistan	46	8,029	1,438	472	128,072	6,581	129,556	15,082
3	Total	2,412	193,557	17,429	7,073	1,648,874	53,719	1,668,715	254,349
2	Karachi	2,337	198,257	13,504	5,614	1,227,528	37,027	1,243,369	240,898
0	Sindh (Interior)	257	49,066	3,166	1,090	350,210	11,648	353,633	61,804
0	Balochistan	44	8,467	1,482	458	135,415	6,441	136,941	15,366
4	Total	2,638	255,790	18,152	7,162	1,713,153	55,116	1,733,943	318,068

Gas Sales Pattern 2003-04

	Customers		Volume		Value	
	Number	%	MMCF	%	Rupees in '000	%
Karachi						
Industrial	2,337	0.19	198,257	82.30	30,727,106	87.66
Commercial	13,504	1.08	5,614	2.33	1,048,403	2.99
Domestic	1,227,528	98.73	37,027	15.37	3,277,901	9.35
Total	1,243,369	100.00	240,898	100.00	35,053,410	100.00
Sindh (Interior)						
Industrial	257	0.07	49,066	79.39	8,785,138	87.45
Commercial	3,166	0.90	1,090	1.76	215,286	2.14
Domestic	350,210	99.03	11,648	18.85	1,045,270	10.41
Total	353,633	100.00	61,804	100.00	10,045,694	100.00
Balochistan						
Industrial	44	0.03	8,467	55.10	1,444,017	64.01
Commercial	1,482	1.08	458	2.98	89,701	3.98
Domestic	135,415	98.89	6,441	41.92	722,060	32.01
Total	136,941	100.00	15,366	100.00	2,255,778	100.00
Total						
Industrial	2,638	0.15	255,790	80.42	40,956,261	86.49
Commercial	18,152	1.05	7,162	2.25	1,353,390	2.86
Domestic	1,713,153	98.80	55,116	17.33	5,045,231	10.65
Total	1,733,943	100.00	318,068	100.00	47,354,882	100.00

Distribution Network 1985 - 2004

(Figures in kilometres)



DIA METER		As at July 1, 2003				Addition during FY 2003 - 04				As at June 30, 2004			
MM	INCHES	Karachi	Interior Sindh	Balochistan	Total	Karachi	Interior Sindh	Balochistan	Total	Karachi	Interior Sindh	Balochistan	Total
MAINS													
Steel Pipe													
12.5		0	1	0	1	0	0	0	0	0	1	0	1
20	3/4	1,397	41	4	1,442	0	0	2	2	1,397	41	6	1,444
25	1	2,931	2,207	572	5,710	63	80	7	150	2,994	2,287	579	5,860
38	1½	1	50	0	51	0	0	0	0	1	50	0	51
50	2	1,551	1,499	1,035	4,085	32	59	66	157	1,583	1,558	1,101	4,242
75	3	0	15	0	15	0	0	0	0	0	15	0	15
100	4	613	739	455	1,807	13	61	55	129	626	800	510	1,936
150	6	333	403	139	875	11	8	13	32	344	411	152	907
200	8	149	177	172	498	10	3	90	103	159	180	262	601
250	10	15	33	6	54	0	0	0	0	15	33	6	54
300	12	85	5	28	118	2	0	0	2	87	5	28	120
400	16	87	0	19	106	0	0	0	0	87	0	19	106
450	18	0	0	28	28	0	0	0	0	0	0	28	28
500	20	78	0	0	78	0	0	0	0	78	0	0	78
600	24	52	0	0	52	0	0	0	0	52	0	0	52
750	30	12	0	0	12	0	0	0	0	12	0	0	12
Total Steel Mains		7,304	5,170	2,458	14,932	131	211	233	575	7,435	5,381	2,691	15,507
Polyethylene Pipe													
40		669	674	33	1,376	52	24	0	76	721	698	33	1,452
63		528	505	351	1,384	23	10	20	53	551	515	371	1,437
125		109	159	89	357	9	1	1	11	118	160	90	368
180		21	0	4	25	6	0	0	6	27	0	4	31
Total P.E. Mains		1,327	1,338	477	3,142	90	35	21	146	1,417	1,373	498	3,288
Total Mains		8,631	6,508	2,935	18,074	221	246	254	721	8,852	6,754	3,189	18,795
SERVICES													
Steel Pipe		2,265	1,779	801	4,845	62	65	32	159	2,327	1,844	833	5,004
Polyethylene Pipe		225	191	81	497	18	20	6	44	243	211	87	541
Total Services		2,490	1,970	882	5,342	80	85	38	203	2,570	2,055	920	5,545
TOTAL NETWORK		11,121	8,478	3,817	23,416	301	331	292	924	11,422	8,809	4,109	24,340

fuelling national progress

Town-wise Detail of Customers *(as at 30 June 2004)*

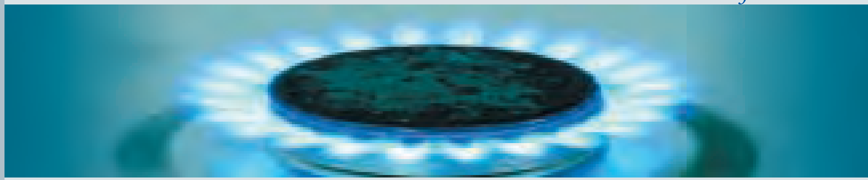
Towns (Including adjoining areas)	Industrial	Commercial	Domestic	Total
KARACHI	2,337	13,504	1,227,528	1,243,369
SINDH (Interior):				
Hyderabad Region:				
Badin	-	15	3,341	3,356
Bhan Saeedabad/Boobak	-	1	647	648
Dadu	-	31	5,530	5,561
Dhabeji / Nooriabad / Thatta	24	38	5,067	5,129
Hala & Bhit Shah	-	10	4,988	4,998
Hyderabad	142	1,292	102,470	103,904
Khairpur Nathan Shah	-	9	1,516	1,525
Kotri / Jamshoro	47	68	10,617	10,732
Matli	-	7	2,528	2,535
Mehar	-	24	2,746	2,770
Mirpurkhas	3	125	14,847	14,975
Nasarpur / Palijani	1	4	895	900
Phulji /Piaro Goth	-	1	457	458
Radhan	-	3	518	521
Rehmania Nagar	-	14	753	767
Sehwan Sharif	-	9	1,375	1,384
Shahdadpur	-	34	5,814	5,848
Tando Adam	2	64	7,680	7,746
Tando Allahyar	-	26	7,410	7,436
Tando Jam	-	13	3,928	3,941
Tando Mohammad Khan	-	20	4,060	4,080
Thana Bola Khan	-	-	979	979
Tharri Mohabat	-	3	261	264
	219	1,811	188,427	190,457
Sukkur Region:				
Gambat	-	14	2,479	2,493
Ghotki	-	32	3,640	3,672
Khairpur	-	81	9,093	9,174
Kot Diji	-	7	716	723
Mirpur Mathelo	-	34	4,341	4,375
Pano Aqil	2	17	3,095	3,114
Pirjo Goth	-	29	4,032	4,061
Ranipur	1	30	3,092	3,123
Rohri	2	39	5,031	5,072
Sukkur	22	286	25,472	25,780
	27	569	60,991	61,587
Larkana Region:				
Badah	-	6	999	1,005
Gari Yasin	-	12	4,379	4,391
Jacobabad	-	59	7,047	7,106
Kandhkot	-	16	2,578	2,594
Larkana	3	192	17,289	17,484
Miro Khan	-	5	406	411
Naudero	-	8	1,744	1,752
Rato Dero	-	27	2,623	2,650
Shahdad Kot / Kamber / Warah	-	66	9,327	9,393
Shikarpur	5	106	10,159	10,270
Thul	-	16	1,816	1,832
	8	513	58,367	58,888
Nawabshah Region:				
Moro	1	28	4,956	4,985
Naushero Feroz	-	46	5,169	5,215
Nawabshah	2	144	18,392	18,538
Qazi Ahmed	-	-	4,185	4,185
Sanghar	-	50	5,115	5,165
Sinjhoro	-	5	4,608	4,613
	3	273	42,425	42,701
	257	3,166	350,210	353,633
BALOCHISTAN:				
Belpat/Bhag	-	2	621	623
Bostan	-	2	434	436
Dera Allah Yar	-	6	1,876	1,882
Dhadar/Lehri	-	2	762	764
D.M. Jamali/Garhi Khairo/Sohbat Pur	-	5	2,002	2,007
Huramzai	-	-	2,829	2,829
Kuchlak	-	22	4,875	4,897
Mach/Kolpur/Pringabad	-	8	1,397	1,405
Mastung	-	21	2,730	2,751
Pishin-	-	58	3,381	3,439
Quetta	43	1,302	106,407	107,752
Sibi	1	29	3,841	3,871
Sui Field/Dera Bugti/Pirkoh	-	2	1,391	1,393
Usta Muhammad	-	20	2,149	2,169
Yaru	-	3	720	723
	44	1,482	135,415	136,941
	2,638	18,152	1,713,153	1,733,943

Pattern of Share holding (as at 30 June 2004)

No. of shareholders	Share holding From	Share holding To	Total shares held	%age
3,522	1	100	121,303	0.02
2,883	101	500	822,642	0.12
23,898	501	1,000	8,352,620	1.25
4,690	1,001	5,000	12,229,127	1.82
932	5,001	10,000	7,068,385	1.05
309	10,001	15,000	3,885,844	0.58
187	15,001	20,000	3,342,515	0.50
99	20,001	25,000	2,288,304	0.34
63	25,001	30,000	1,791,299	0.27
44	30,001	35,000	1,445,051	0.22
45	35,001	40,000	1,736,142	0.26
28	40,001	45,000	1,205,879	0.18
40	45,001	50,000	1,963,036	0.29
13	50,001	55,000	678,869	0.10
16	55,001	60,000	926,456	0.14
12	60,001	65,000	760,515	0.11
9	65,001	70,000	622,322	0.09
10	70,001	75,000	741,569	0.11
11	75,001	80,000	868,851	0.13
6	80,001	85,000	499,757	0.07
7	85,001	90,000	616,034	0.09
2	90,001	95,000	181,500	0.03
17	95,001	100,000	1,693,793	0.25
6	100,001	105,000	622,013	0.09
6	105,001	110,000	639,315	0.10
4	110,001	115,000	451,457	0.07
4	115,001	120,000	470,150	0.07
2	120,001	125,000	249,500	0.04
5	125,001	130,000	640,250	0.10
8	130,001	135,000	1,062,112	0.16
5	135,001	140,000	684,077	0.10
3	140,001	145,000	431,299	0.06
6	145,001	150,000	897,109	0.13
7	150,001	155,000	1,069,855	0.16
6	155,001	160,000	952,055	0.14
1	160,001	165,000	161,422	0.02
2	165,001	170,000	340,000	0.05
3	170,001	175,000	515,652	0.08
1	175,001	180,000	177,981	0.03
1	180,001	185,000	185,000	0.03
5	185,001	190,000	941,459	0.14
1	190,001	195,000	193,000	0.03
10	195,001	200,000	1,980,444	0.30
3	200,001	205,000	610,000	0.09
2	205,001	210,000	416,350	0.06
4	210,001	215,000	847,035	0.13
4	215,001	220,000	873,704	0.13
1	220,001	225,000	224,300	0.03
2	225,001	230,000	455,000	0.07
3	235,001	240,000	718,000	0.11
1	245,001	250,000	250,000	0.04
1	260,001	265,000	261,500	0.04
5	265,001	270,000	1,341,970	0.20
1	280,001	285,000	282,500	0.04
1	285,001	290,000	289,800	0.04
1	290,001	295,000	292,500	0.04
5	295,001	300,000	1,497,000	0.22
1	310,001	315,000	311,948	0.05
2	315,001	320,000	634,400	0.09
1	325,001	330,000	329,000	0.05
1	330,001	335,000	330,702	0.05
1	335,001	340,000	339,000	0.05
1	340,001	345,000	343,000	0.05

Pattern of Share holding (as at 30 June 2004)

No. of shareholders	Share holding From	Share holding To	Total shares held	%age
1	345,001	350,000	350,000	0.05
1	365,001	370,000	365,523	0.05
1	375,001	380,000	380,000	0.06
1	380,001	385,000	381,144	0.06
1	385,001	390,000	388,933	0.06
1	390,001	395,000	391,699	0.06
1	395,001	400,000	400,000	0.06
2	400,001	405,000	802,712	0.12
1	415,001	420,000	416,113	0.06
1	430,001	435,000	430,850	0.06
1	445,001	450,000	450,000	0.07
1	450,001	455,000	452,000	0.07
1	460,001	465,000	460,500	0.07
1	475,001	480,000	475,500	0.07
3	495,001	500,000	1,500,000	0.22
1	500,001	505,000	504,000	0.08
1	505,001	510,000	506,639	0.08
1	520,001	525,000	524,500	0.08
1	525,001	530,000	526,650	0.08
1	530,001	535,000	533,895	0.08
1	550,001	555,000	551,000	0.08
2	570,001	575,000	1,142,433	0.17
1	590,001	595,000	591,165	0.09
2	665,001	670,000	1,337,500	0.20
1	670,001	675,000	674,423	0.10
1	675,001	680,000	680,000	0.10
1	700,001	705,000	700,500	0.10
1	720,001	725,000	721,100	0.11
1	725,001	730,000	727,000	0.11
1	740,001	745,000	742,791	0.11
1	770,001	775,000	774,000	0.12
1	780,001	785,000	782,950	0.12
1	790,001	795,000	794,000	0.12
1	800,001	805,000	800,450	0.12
1	885,001	890,000	886,900	0.13
1	925,001	930,000	929,186	0.14
1	960,001	965,000	962,500	0.14
1	995,001	1,000,000	1,000,000	0.15
1	1,280,001	1,285,000	1,284,000	0.19
2	1,290,001	1,295,000	2,583,000	0.38
1	1,295,001	1,300,000	1,297,666	0.19
1	1,460,001	1,465,000	1,462,963	0.22
1	1,495,001	1,500,000	1,500,000	0.22
1	1,570,001	1,575,000	1,571,708	0.23
1	1,695,001	1,700,000	1,696,000	0.25
1	1,705,001	1,710,000	1,708,500	0.25
2	1,780,001	1,790,000	3,570,793	0.53
1	1,815,001	1,820,000	1,819,500	0.27
1	2,000,001	2,005,000	2,003,097	0.30
1	2,035,001	2,040,000	2,040,000	0.30
1	2,260,001	2,265,000	2,261,179	0.34
1	2,415,001	2,420,000	2,416,000	0.36
1	2,605,001	2,610,000	2,606,752	0.39
1	2,740,001	2,745,000	2,742,402	0.41
1	2,975,001	2,980,000	2,979,500	0.44
1	4,420,001	4,425,000	4,422,110	0.66
1	8,335,001	8,340,000	8,336,423	1.24
1	9,670,001	9,675,000	9,671,792	1.44
1	29,965,001	29,970,000	29,968,357	4.47
2	35,000,001	400,000,000	75,440,171	11.24
1	400,000,001	500,000,000	405,600,190	60.43
37,039			671,174,331	100.00



Categories of Shareholders *(as at 30 June 2004)*

Categories of shareholders	Number		Shares held		Percentage
Associated Companies, Undertakings and Related Parties	-		-		-
NIT AND ICP	2		33,405,641		4.98
National Bank of Pakistan Trustee Deptt.		33,378,836		4.97	
Investment Corporation of Pakistan		26,805		0.01	
Directors, MD & their Spouses and Minor Children	2		79,120		0.01
Mr. Munawar B. Ahmed, MD		1,500			
Mr. Khursheed K. Marker, Director		77,620			
Executives	26		84,309		0.01
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	306		98,543,435		14.68
Banks, Development Finance Institutions	28	8,782,159		1.31	
Non-Banking Finance Institutions	263	46,415,182		6.91	
Insurance Companies	9	38,729,559		5.77	
Modarabas and Mutual Funds	6	4,616,535		0.69	
Shareholders holding ten percent or more voting interest in the Company					
President of the Islamic Republic of Pakistan	1		405,600,190		60.43
Individual	36,673		130,451,136		19.44
Others	29		3,010,500		0.45
Administrator of Abandoned Properties, Associations, Foundations, Societies, Institutions and Nazir of the High Court					
	37,039		671,174,331		100.00

SSGC People At Work

A classic corporate environment, well laid out work places, providing for better productivity and employee satisfaction.

FORM OF PROXY
50th ANNUAL GENERAL MEETING

I, ...

of ....

being a Member of Sui Southern Gas Company Limited and holder of .... ordinary shares as per Share Register Folio No. / CDC Participant I/D No. / Account No. ....

....

hereby appoint .... of
(Name)

....

who is also a member of Sui Southern Gas Company Limited, as my Proxy to vote for me and on my behalf at the 50th Annual General Meeting of the Company to be held on 27 October 2004 and at any adjournment thereof.

Signed this .... day of .... 2004.

[ ] Folio No.

Witnesses:

1. Signature ....
   Name ....
   Address ....
   ....
   NIC or ....
   Passport No. ....

2. Signature ....
   Name ....
   Address ....
   ....
   NIC or ....
   Passport No. ....

SIGNATURE ON RUPEES FIVE REVENUE STAMP

The Signature should agree with the specimen registered with the Company.

Notes:

1. This Form must be signed across Five Rupees Revenue Stamp and it should be deposited in the Registered Office of the Company not later than 48 hours before the time of holding the Meeting (Article 67).

2. No person shall be appointed a proxy who is not a member of the Company and qualified to vote save that a Corporation being a member of the Company may appoint as its Proxy, any person though not a member. An agent duly authorized under a power of attorney shall not be entitled to be present and vote on behalf of his appointer unless the agent is himself a member qualified to vote at the time of his being present at the meeting at which he proposes to vote as such agent (Article 65).

For CDC account holders / corporate entities:

In addition to the above the following requirements have to be met:

i) The Proxy Form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
ii) Attested copies of NIC or the passport of the beneficial owners and the Proxy shall be furnished with the Proxy Form.
iii) The Proxy shall produce his original NIC or original passport at the time of the Meeting.
iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with Proxy Form to the Company.