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STATEMENT

of

SOUTHERN NATURAL GAS COMPANY

before

ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD

NOVEMBER 22, 1976

WRITTEN STATEMENT BEFORE
ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD
NOVEMBER 22, 1976

Southern Natural Gas Company (Southern) is the major supplier of natural gas in the southeastern United States, providing service to numerous markets in Louisiana, Alabama, Georgia, South Carolina and Mississippi and portions of Tennessee. It also supplies gas to a portion of northern Florida through its wholly-owned subsidiary, South Georgia Natural Gas Company.

Southern Natural Gas Company is a wholly-owned subsidiary of Southern Natural Resources, Inc., which is a diversified, billion dollar company. Its publicly held stock is listed on the New York Stock Exchange, and it has stockholders in all 50 states.

Pipeline System and Operations of Southern Natural Gas Company

Southern operates a 7,700-mile pipeline system traversing the southeastern portion of the United States. Attached is a map depicting Southern's pipeline system. (Attachment No. 1).

Southern sells gas for resale to 9 distributing companies, to 102 municipalities and gas districts and to 3 connecting interstate pipeline companies. The population of the area served by Southern is about 7,000,000.

Southern also makes direct sales of gas to industrial customers located throughout the southeast. These industrial customers are very important to the economy of the southeast, and some are major U. S. companies. Attached is a list of Southern's major resale customers and its direct industrial customers (Attachment No. 2).

Southern, through a subsidiary, is a 50% owner of a major gas supply system, known as Sea Robin Pipeline Company, which consists of 335 miles of pipeline extending into the Gulf of Mexico from Louisiana.

Southern is a participant in a trailblazing project to import liquefied natural gas (LNG) into the United States from Algeria. This is the first (and only) major base load LNG project which has received all necessary governmental approvals. Through a subsidiary, Southern is constructing and will operate an LNG terminal on an island near Savannah, Georgia (see page 3, infra) for further details regarding this extraordinary project.

In 1976, Southern will sell about 575 billion cubic feet of gas from its pipeline system. The rated delivery capacity of the pipeline system is 2.230 billion cubic feet per day.

Southern's Gas Supplies

Southern presently obtains its gas supplies from fields in south Louisiana, the Gulf of Mexico offshore Louisiana, north Louisiana, east Texas, Mississippi and from one source in Alabama. Southern presently purchases over 50% of its gas supplies in the Gulf of Mexico and this percentage is increasing each year.

Since the late 1960's, Southern has been unable to acquire enough gas to replace that used on its system each year. Because of this, the Company notified all of its customers in 1970 that it could not accept any new customers or increase the contractual volumes it was obligated to deliver to existing customers until the gas supply situation improved. Unfortunately, this situation has not improved, either on Southern's system or nationwide.

Recognizing that the natural gas shortage was developing, Southern in the late 1960's intensified its efforts to obtain new gas supplies and undertook bold and innovative gas supply programs.

In recent years, Southern has made major investments, at a cost of about $243 million, in offshore natural gas pipeline systems in the Gulf of Mexico and has relied on that area for virtually all of its new gas reserve additions.

Prior to 1970, Southern and its affiliates owned interests in 13 offshore Gulf of Mexico blocks. Since 1970, Southern and its affiliates have made successful bids, totaling approximately $69,000,000, for interests in 33 additional offshore federal blocks.

Southern also aggressively pursued the FPC's advance payment program as a means of obtaining new domestic gas supplies. During that program's existence, Southern made a cumulative total of $151,000,000 in advance payments.

Another major and significant step was Southern's development of the Muldon Gas Storage Field in northeastern Mississippi several years ago. Developed at an initial cost of over $45,000,000, this field is one of the largest underground gas storage fields in the U. S. which is owned by a single company. It has become a major factor in helping Southern meet its winter peak delivery obligations. Expansion of this facility is in progress at a cost of approximately $18,000,000. This expansion will increase Southern's storage capacity from 20% to 34% of its winter peak-day requirements. This underground gas storage facility can be of great utility in accomplishing the distribution by substitution and exchange of the Prudhoe Bay gas into Southern's service area.

As the Company saw the gas supply shortage beginning to threaten in the late 1960's, it initiated studies, internally and through outside consultants, to determine the most appropriate means of supplementing the depleting domestic gas supplies. The studies concluded that, over and above the major initiatives described above, Southern must undertake non-conventional, non- traditional gas supply efforts if it hoped to supply the existing requirements of its customers in future years. The studies also concluded that, at that time, the first, most immediate, viable non-traditional supplementary supply available to Southern was the importation of liquefied natural gas from overseas.

LNG Project

In 1970, Southern contracted to purchase LNG to be imported from Algeria.

It is interesting to note that a prime mover in this project is a subsidiary of El Paso Natural Gas Company, which had agreed to purchase the LNG from Sonatrach, the Algerian national oil company, and to transport it to the USA. Southern became one of three east coast USA purchasers to contract, in turn, for the purchase of the LNG from El Paso.

This was the first base load LNG project ever proposed for the USA -- and, although others have since been proposed, it is the only one which has received all of the necessary governmental approvals. It is, in every sense, a trailblazing effort. However, the LNG to be supplied through this project represents a supplementary gas supply source and does not answer the nation's and the southeast's desperate need for significant new domestic gas supplies.

The type of effort, described below, put forth to obtain approvals for this LNG project is visualized as the type effort that will be required and undertaken in support of the Alaska project.

At the time of the project's inception, Southern realized that the project could only succeed through a concerted effort between Southern and many other people, and groups, including state and federal governmental officials, federal and state legislators, Southern's customers, environmental groups and state Public Service Commission officials. The project required the support and approval of all of these groups -- which was achieved as a result of concerted efforts spanning a period of nearly five years.

During this five-year period, Southern held many meetings and conferences with governors in the southeast, and their staffs. In particular, since the LNG terminal and facilities were to be constructed in the State of Georgia and the LNG would be used, in part, to meet natural gas requirements in that state, Southern consulted with then Georgia Gov. Maddox and with his successor, Gov. Carter, and their respective staffs. Since the State of South Carolina also would benefit from the gas and some of Southern's LNG facilities would be located in that state, Southern also met with then Gov. John C. West. These governors understood the importance of an adequate energy supply to the States of Georgia, South Carolina and the southeast and they demonstrated a keen interest in the project. Their backing was essential -- and it was forthcoming.

Southern concluded it should so design its LNG terminal that its construction and operation would cause absolute minimum degradation to the environment. It was Southern's view that it should cooperate with -- rather than confront -- environmental groups which might have a concern about the construction and operation of these facilities. Accordingly, Southern engaged highly regarded environmental experts from the Institute of Ecology of the University of Georgia system to advise the Company on ways to construct and operate its terminal facilities with the minimal possible adverse effects on the environment.

The results of this approach were little short of spectacular! Potential objections from environmental groups were allayed, and wide recognition quickly developed among environmental groups, concerned citizens, and political forces in Georgia that Southern had approached the problem in an intelligent and statesmanlike fashion. There were no environmental problems with Southern's Savannah terminal facilities. This became a major factor in generating a substantial degree of political support for Southern's construction of these facilities.

Throughout the course of the LNG project, Southern held numerous meetings and conferences with its customers and with officials at many levels of the states within the market area. The Company conducted innumerable planned meetings with various civic groups, and kept the news media informed of the planning and development of the project.

Equally important, on the political front Southern carefully planned and put into effect a program during these five years to personally inform the U. S. Senators and Representatives in its service area of the project and to keep them personally up-to-date on its planning and progress. The Company conducted these same efforts with various State Senators and Representatives.

As a result of these joint efforts by Southern and these many other people, the LNG importation project has received all required local, state, and federal governmental approvals (which included about 90 permits and authorizations). The necessary facilities in Algeria, the required LNG tankers and Southern's receiving terminal at Savannah are now in advanced stages of construction.

Through advanced planning and cooperative efforts of all concerned, Southern overcame possible environmental and other problems related to this project. This result was quite unique, considering the problems which others have faced. The Company expects to receive the first shiploads of LNG in early 1978. The total investment of Southern in the LNG terminal and related pipeline facilities is in the order of $170,000,000.

Attached is an artist's rendition of how the LNG terminal will look when it is completed, and two recent aerial photographs showing the present stage of completion of these facilities (Attachments Nos. 3, 4 and 5).

Although this LNG project is essential to the southeast, it by no means diminishes the need of the nation and the southeast for new domestic gas supplies. In fact, the Southern – Algeria LNG project is expected to only supply 15% of the requirements of Southern's customers.

Other Activities

The Company is studying the feasibility of purchasing additional LNG. For example, Southern is in close touch with every major potential source of new LNG that logically could come into the east coast -- such as Algeria, Venezuela, Nigeria, Iran, the Arabian Gulf, etc. The LNG terminal at Savannah, one of the only two base load LNG facilities approved by the FPC, puts Southern in an advantageous position to purchase LNG from these sources. Also, Southern is studying the feasibility of other synthetic fuels, such as coal gasification.

But, while LNG and other synthetic forms of energy are needed to supplement dwindling gas supplies, they do not take the place of new domestic gas supplies. Southern, its customers, and state officials and legislators representing its service area, are firmly convinced that the best source of gas for the southeastern United States is from new domestic sources -- such as Alaska royalty gas.

Southern's Need for a Portion of Alaska's Royalty Gas

In spite of its intensified efforts, Southern's domestic gas supply additions have diminished drastically in recent years. During the five-year period 1971-75, Southern was successful in adding under new contracts reserves amounting to only 40% of the total gas consumed during that period. Thus, Southern considers the Alaska royalty gas from the Prudhoe Bay Field to be a very significant and important source of new domestic gas supplies for its customers in the southeastern United States. No other Prudhoe Bay gas has been contracted for markets in the southeast.

Although Southern's farsighted gas supply efforts have enabled it to maintain service to its customers without curtailment of high priority users, that situation cannot continue unless Southern adds significant new gas reserves to its system. At the time of commencement of deliveries of the Prudhoe Bay gas, Southern will be serving only users of the very highest priorities. The addition of a portion of Alaska's royalty gas to Southern's supplies will, therefore, be vital to Southern's continuation of high priority gas service. This fact is completely demonstrable and will clearly substantiate Southern's vital need for this gas.

Southern's Action Plan

Southern has carefully reviewed the various gas pipeline proposals relating to the Prudhoe Bay gas reserves pending before the FPC and has concluded that the Trans-Alaska pipeline proposal is in the nation's best interest.

The Company will take vigorous action to assure that the Trans-Alaska pipeline is approved by governmental authorities. This action will take many forms. While circumstances may arise in the future which require action not specifically referred to below, the Company is confident from past experience, planning and contacts that it has the means and ability to take such additional action.

Based upon the many contacts which Southern has had in the past with these Senators and Representatives, the Company is convinced that they are keenly aware of and understand the energy problems facing the nation and the southeastern United States. For example, during the last session of Congress the Company worked very closely with them on myriads of proposed legislation affecting the oil and gas industry. On such issues as gas price deregulation, divestiture and OCS amendments, the great majority of them supported the industry's position.

4. The Company holds regular meetings with its major customers. They support the Alaska royalty gas purchase. Southern will continue to meet with its customers and will urge them to actively support the Trans-Alaska pipeline. The Company is confident that their efforts will also make a meaningful contribution. In this connection, Southern's largest customer is Atlanta Gas Light Company, which is the major gas distributing company in Georgia. Atlanta Gas has stated its approval of the Company's purchase of a portion of the Alaska royalty gas and the Company will urge Atlanta Gas' active support of the Trans-Alaska pipeline project. This should be very helpful. Southern is important to the people of Georgia since it supplies more energy to Georgia than all other sources of energy combined. In 1975, the Company supplied about 89% of the total quantity of natural gas consumed in Georgia.

5. The Company maintains relationships with the governors of the southeastern states, their staffs and key state legislators. In the immediate future, officials of Southern plan to meet personally (or, where appropriate, have its customers meet) with them regarding this project. The Company expects to hold additional meetings with them as circumstances may require.

The Company fully expects to be able to enlist the support of the governors and the key state legislators.

6. The Company is active in numerous business and trade associations representing many varied business and industry segments of the southeastern United States. It has in the past sought support of these associations on matters affecting the oil and gas industry and the gas-consuming public and they have been very helpful in such matters. Southern will actively urge their support of the Trans-Alaska pipeline project.

SOUTHERN NATURAL RESOURCES Annual Report 1975

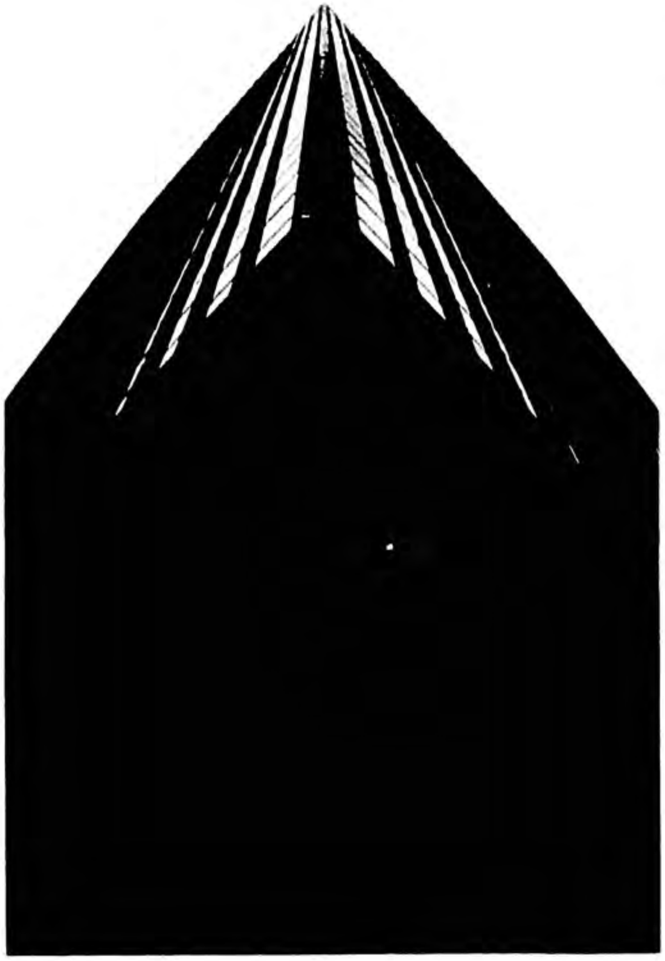
Southern Natural Gas
South Georgia Natural Gas
Southern Deepwater Pipeline
Southern Energy

The Offshore Company
SONAT Exploration
Southern Forest Products

Energy Is Our Prime Business

Your Company's trading symbol on the New York Stock Exchange is NRG—"energy." Nothing could be more appropriate.

Southern Natural Resources, Inc., with headquarters in Birmingham, Alabama, is the parent company for seven energy-related and natural resource companies. Southern Natural Gas Company and its subsidiary, South Georgia Natural Gas Company, are natural gas pipeline companies. Southern Energy Company will own and operate a liquefied natural gas receiving terminal near Savannah, Georgia. Southern Deepwater Pipeline Company is a 50% participant in Sea Robin Pipeline Company, which operates a large offshore gas supply system in the Gulf of Mexico. In 1975, the Company's natural gas pipeline system was able to meet all the residential, commercial and essential industrial requirements of its customers.



The Offshore Company is one of the world's largest contract drilling firms and is principally engaged in drilling for oil and gas in offshore and onshore areas around the globe. SONAT Exploration Company is engaged in oil and gas exploration and production activities. Southern Forest Products, Inc. holds a 50% interest in Boise Southern Company, a forest products joint venture.

We are committed to the thoughtful development and careful use of the earth's vast natural resources.

Table of Contents

Southern Natural Resources, Inc. and Subsidiaries

ANNUAL REPORT TO STOCKHOLDERS/YEAR ENDED DECEMBER 31, 1975

Highlights Years Ended December 31, 1975 and 1974

	1975	1974
Revenues:		
Pipeline*	$442,625,000	$377,989,000
Contract drilling	141,743,000	109,300,000
Exploration and production	34,370,000	33,025,000
Forest products	3,133,000	5,081,000
Other	30,043,000	20,819,000
Intercompany sales of produced gas	(11,843,000)	(7,642,000)
Total	$640,071,000	$538,572,000
Earnings Applicable to Common Shares:		
Pipeline*	$ 37,152,000	$ 35,064,000
Contract drilling*	24,435,000	18,706,000
Exploration and production	2,136,000	1,217,000
Forest products	2,338,000	3,310,000
Other	2,523,000	196,000
Total	$ 68,584,000	$ 58,493,000

*Revenue includes the equity in earnings of joint ventures accounted for by the equity method and the corresponding category of Earnings Applicable to Common Shares includes the related net income. For revenues of joint ventures, see Notes [illegible] and [illegible] of the Notes to Financial Statements.

	1975	1974
Common Stock Data:		
Earnings Per Share		
Primary	$6.82	$5.82
Fully Diluted	$6.53	$5.65
Dividends Per Share	$1.65	$1.525
Net Assets Per Share	$40.54	$35.37
Number of Shares Outstanding	10,057,932	10,057,03[illegible]
Capitalization Ratios:		
Stockholders' Equity	43%	42%
Minority Interest	1%	1%
Total Debt Including Amounts Due Within One Year	56%	57%

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Directors

JOHN S. SHAW JR.
Chairman of the Board and President of the Company

HENRY C. GOODRICH
Manufacturing executive; Chairman, President and Chief Executive Officer, Inland Container Corporation

U. V. GOODWYN
Executive Vice President of the Company

HENRY R. LINDEN
Research engineer; President and Member Board of Trustees, Institute of Gas Technology, Chicago

EDWARD S. REDINGTON
Attorney; Senior Partner, Hughes Hubbard & Reed, New York

F. EDWIN SMART
Airline executive; Vice Chairman, Chairman of Finance Committee, Member Executive Committee and Director, Trans World Airlines, Inc.

PETER G. SMITH
Executive Vice President and General Counsel of the Company

AUGUSTUS H. STERNE
Banker; Chairman and President, Trust Company of Georgia

CHARLES M. WILLIAMS
Professor, George Gund Professor of Commercial Banking, Graduate School of Business Administration, Harvard University

*Member Audit Committee

Officers

JOHN S. SHAW JR.
Chairman of the Board and President

U. V. GOODWYN
Executive Vice President

PETER G. SMITH
Executive Vice President and General Counsel

JOHN L. [illegible] JR.
Vice President

J. ROBERT DOOLY
Vice President – Finance and Chief Financial Officer

CHARLES M. [illegible]
Vice President

W. L. MATHEWS JR.
Vice President

HUGH F. MORGAN JR.
Vice President

RONALD L. [illegible] JR.
Secretary

A. S. [illegible]
Comptroller

[illegible] SCHAFT
Assistant Secretary and Assistant Treasurer

WILLIAM A. SMITH
Assistant Secretary

AGO 668204

To the Stockholders:

The Growth Continues
It was another record year for your Company, and the outlook continues bright.

Dear Stockholders:

The year 1975 was another year of record accomplishments for the Company. Consolidated earnings rose to $6.82 per share, compared with $5.82 per share in 1974. This represents an increase of 17% and 1975 was the sixteenth consecutive year in which your Company had earnings increases. Over the past sixteen years, our earnings have grown at a compound rate of 14.3%, a record which very few companies can claim.

Our earnings for 1975 include 26 cents per share primarily resulting from a $66,000,000 annual rate increase by Southern Natural Gas which became effective October 16, 1975, and which is pending before the Federal Power Commission. Any portion of the increased rates which might be disallowed will be refunded.

Sea Robin Pipeline Company, our 50% owned joint venture offshore gas supply system, and South Georgia Natural Gas Company, a wholly owned subsidiary, have also filed annual rate increases of approximately $13,000,000 and $1,600,000, respectively, to become effective, subject to refund, on May 15 and April 10, 1976, respectively.

During 1975 deliveries of gas by our natural gas transmission companies were about 3% below the 1974 sales levels, but, unlike many gas transmission and distribution companies, we were able to meet all the residential, commercial and essential industrial requirements of our customers and expect to meet them again in 1976.

We have received authority to expand the working capacity of our Muldon Storage Field at a cost of $17,200,000. By the 1976-1977 winter heating season, Muldon Field will be able to supply 34% of our present peak day gas requirements.

Maintaining our gas supply continues to be our top priority and we have spent over $800,000,000 in recent years on supply related facilities, including our investments in offshore pipelines and related transmission facilities, underground storage, liquefied natural gas (LNG) and advance payments for gas. Our LNG project is scheduled to come on stream in 1977 or 1978.

AGO 668205

A Significant Increase The Offshore Company's earnings increased more than one-third in 1975, and contributed $25,973,000 to consolidated earnings.

[illegible]

[illegible]

[illegible]

New Leases Acquired During 1975 SONAT and Offshore acquired interests in 16 leases in the offshore Louisiana and Texas areas of the Gulf of Mexico.

[illegible]

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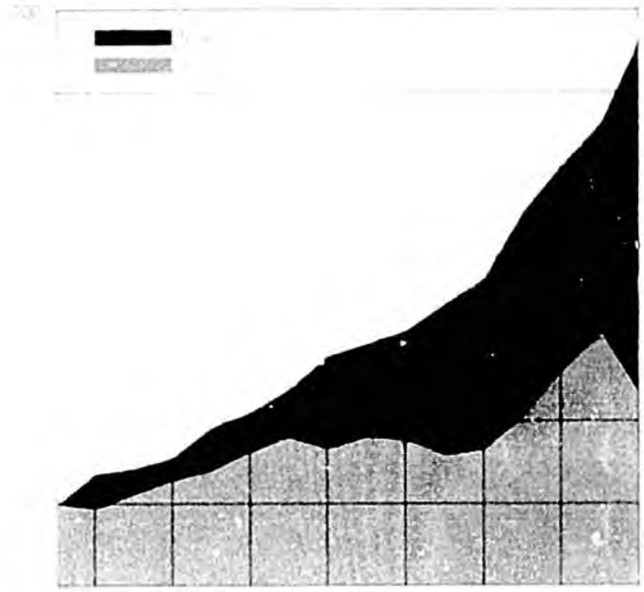
15 Year Index of Earnings Per Share



We are continuing development drilling from a platform on East Cameron Block 231, in which we have a 17% interest; production will begin in late 1976.

Our consolidated revenues from production activities were $31,350,000 in 1975, as compared with $33,025,000 in 1974.

The general economic slump in the U.S. last year resulted in depressed markets in the forest products business and affected the performance of Boise Southern Company, our 50%-owned forest products joint venture. This activity contributed 25 cents per share to our 1975 consolidated earnings, as compared with 33 cents per share in 1974, a year when our largest paper mill operated only nine months due to a strike. While 1975 was relatively disappointing, there were definite signs of improvement in the last half of the year in the markets for linerboard and wood products, and newsprint markets continued strong.

In May 1975, the Board of Directors of The Offshore Company elected George L. Richardson as President and Chief Operating Officer, succeeding W. Henson Moore, who was named Vice Chairman of the Board of Offshore. Robert W. Ryan was at the same time elected Executive Vice President of Offshore.

E. D. Leigh, Vice President – Exploration and Production of Southern Natural Gas Company, was elected President of SONAT Exploration Company.

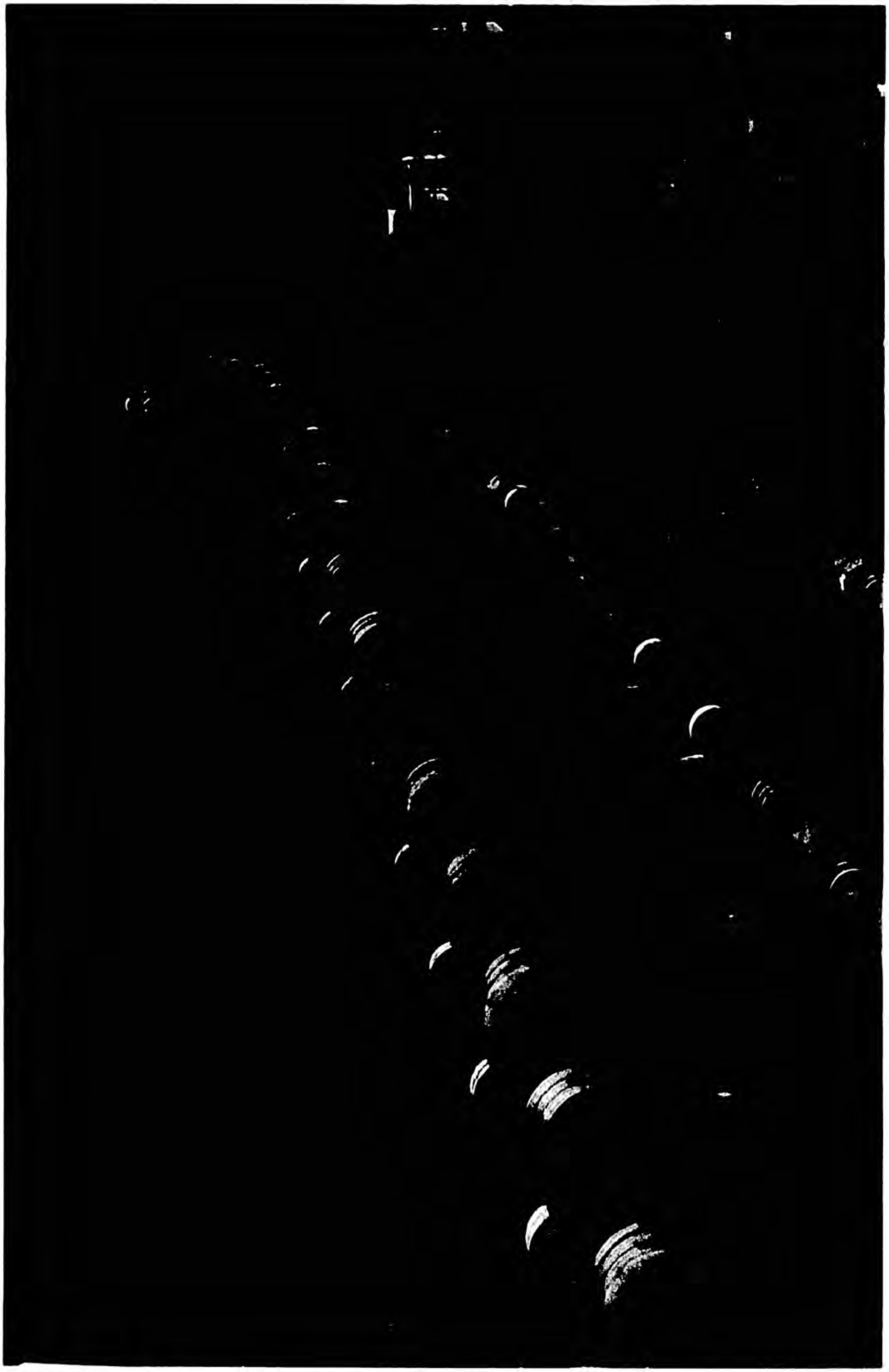
Mortimer H. Jordan retired as Vice President – Public Affairs in February 1976 after 22 years of service with Southern Natural Gas.

The long-term outlook for Southern Natural Resources continues bright and we believe that our diversified activities give your Company a solid base for continued future growth and success.

I would like to personally express my appreciation for the dedication and outstanding efforts of our employees, who made possible the record achievements your Company enjoyed in 1975. We will all work together to sustain in 1976 the consistent performance of the past.

March 1, 1976

AGO 668207



Southern Natural Gas Company and Subsidiaries

Southern Natural Gas Company, with its subsidiary, South Georgia Natural Gas Company, operates a [illegible],700-mile pipeline system extending from supply areas in the Gulf of Mexico, Texas, Louisiana, Mississippi and Alabama to numerous markets in Louisiana, Mississippi, Alabama, Georgia, South Carolina, Tennessee and Florida.

Southern Natural Gas, through Southern Deepwater Pipeline Company, is a 50% owner of Sea Robin Pipeline Company, which operates a $162,300,000 gas supply system with 335 miles of pipeline extending into the Gulf of Mexico. Southern Energy Company, a wholly owned subsidiary of Southern Natural Gas, is constructing and will operate a liquefied natural gas (LNG) terminal on an island near Savannah, Georgia.

Our pipeline operations contributed $37,152,000, or $3.70 per share, to consolidated earnings in 1975, of which $7,686,000, or 76 cents per share, was subject to refund pending the outcome of Southern Natural Gas' recent rate increases.

Rates. Southern Natural Gas' most recent annual rate increase of $66,000,000 went into effect on October 16, 1975, subject to refund of any portion not approved by the Federal Power Commission.

In this rate increase, Southern Natural Gas proposes an increase in the rate of return it is permitted to earn on its rate base from 8.75% to 10.7%, and an increase in depreciation rates from a composite rate of 3.7% to 6.1%. The rate increase also will recoup mounting operating and administrative expenses and taxes, as well as the additional costs incurred in recent gas acquisition activities.

South Georgia Natural Gas Company has filed a $1,600,000 annual rate increase which will become effective, subject to refund, in April 1976.

Sea Robin Pipeline Company filed a general rate increase of $13,000,000 annually with the FPC in November 1975. Sea Robin is contesting a December 1975 FPC order requiring a reduction of approximately $10,000,000 in this increase. The increased rates will become effective, subject to refund, in May 1976.

Gas Supply. We were able to meet all of the higher priority requirements of our customers during 1975, although deliveries of gas on our pipeline system were about 3% below last year's levels.

The purchase of new gas supplies continues to be a top priority of Southern Natural Gas. In 1975 we continued our aggressive gas acquisition efforts and increased our advance payment commitments for new gas. At the end of 1975, net outstanding advance payments amounted to $126,350,000. The advance payments, which are included in our rate base, give us first call on gas delivered from a total of 308,000 acres. We look to gas supplies which will be developed from these properties to help us in meeting the high priority requirements of our customers in the future.

The Federal Power Commission has discontinued the advance payment program for gas as of December 31, 1975, except for previously existing commitments. We believe that the discontinuance of the advance payment program is favorable, as it will relieve us of the financial drain of financing producer exploration and development programs.

Moreover, we believe our large offshore gas supply systems, which extend into three areas offshore Louisiana in the Gulf of Mexico, put us in a good competitive position to purchase new reserves developed in this historically prolific gas supply area. During 1975 we received 53% of our gas supply from the Gulf of Mexico, as compared with only 16% in 1967 when we began our major supply line construction into the Gulf. We have invested approximately $241,000,000 in this offshore gas supply pipeline

Offshore Pipeline System Sea Robin Pipeline Company operates a $162,300,000 gas supply system with 335 miles of pipeline in the Gulf of Mexico.

[illegible] environmental and safety programs.

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program and related gas facilities since the late 1960s.

Additional gas supplies will come from our project to import LNG in the amount of 320,000 Mcf per day. This is the equivalent of about 15% of our peak day delivery obligations. Sonatrach, the Algerian supplier of the LNG, has experienced delays in the construction of its facilities. Sonatrach recently hired a new contractor to complete its facilities and we now expect the LNG to come on stream in 1977 or 1978. Southern Energy Company's LNG receiving terminal near Savannah, Georgia is approximately 60% completed. This facility, which can be readily expanded, and connecting pipelines are expected to cost $152,000,000.

We will expand our Muldon Storage field in 1976. This $17,500,000 expansion, when completed, will increase working storage capacity by approximately 30 billion cubic feet. During the 1976-1977 winter we will be able to supply as much as 760,850 Mcf per day, or about 34% of our present total peak day requirements, from Muldon.

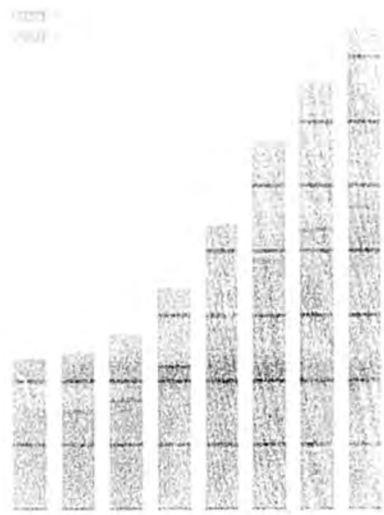
Southern Natural Gas has been operating under a curtailment plan since January 1972 in order to conserve available gas supplies. The plan in effect until November 1975 curtailed available gas on the basis of end use, giving recognition to customers' contractual entitlements. In November 1975 Southern Natural Gas placed in operation a new plan based solely on end-use considerations, pursuant to a Federal Power Commission order. The Commission's order also required Southern Natural Gas to make refunds in an indeterminate amount for past periods extending back to July 1972. We are contesting the refund provisions of this order.

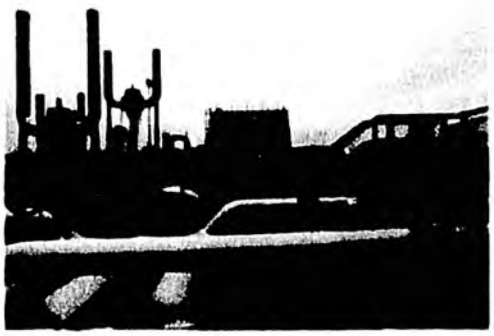
We are continuing our efforts to supplement gas supply from traditional sources with LNG and synthetic natural gas. However, regulatory delays and legislative obstacles have hindered these efforts. In October 1975 our supplier cancelled a contract for 100,000 Mcf per day of additional LNG after the FPC failed to act on our application in time to take advantage of the low price which the supplier had been holding for more than two years. Also, because of adverse FPC rulings, we did not exercise our option to purchase a large coal reserve in the Illinois Basin acquired in 1974; we had planned to obtain this coal as feedstock for a future coal gasification project. However, we continue to explore all possibilities to import additional LNG and to make synthetic gas from coal and liquid hydrocarbons.

While the present legislative and regulatory mood is discouraging full development of our nation's natural resources and the implementation of supplemental LNG importation and synthetic gas projects, we believe that the current national shortage of natural gas, and the anticipated deepening of this shortage, will prompt our legislative leaders to take appropriate remedial action to create the proper incentives and atmosphere for the full development of all sources of gas supply.

Looking to the Future

Purchase of new gas supplies continues to be a top priority of Southern Natural Gas.





Pipeline Statistics

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Total Pipeline System Gas Sales (Billion Cu. Ft.)	637.8	[illegible]	660.1	640.0	676.2	[illegible]	624.2	579.9	503.0	476.6
Field and Off-system Sales	23.8	[illegible]	23.5	19.2	14.0	[illegible]	7.0	8.4	6.7	6.1
Total Natural Gas Sales (Billion Cu. Ft.)	661.6	683.3	683.6	659.2	690.2	668.7	631.2	588.3	509.7	[illegible]
Daily Pipeline Delivery Capacity (Million Cu. Ft.)	2,230	2,230	2,230	2,230	2,230	2,152	2,085	1,908	1,883	[illegible]

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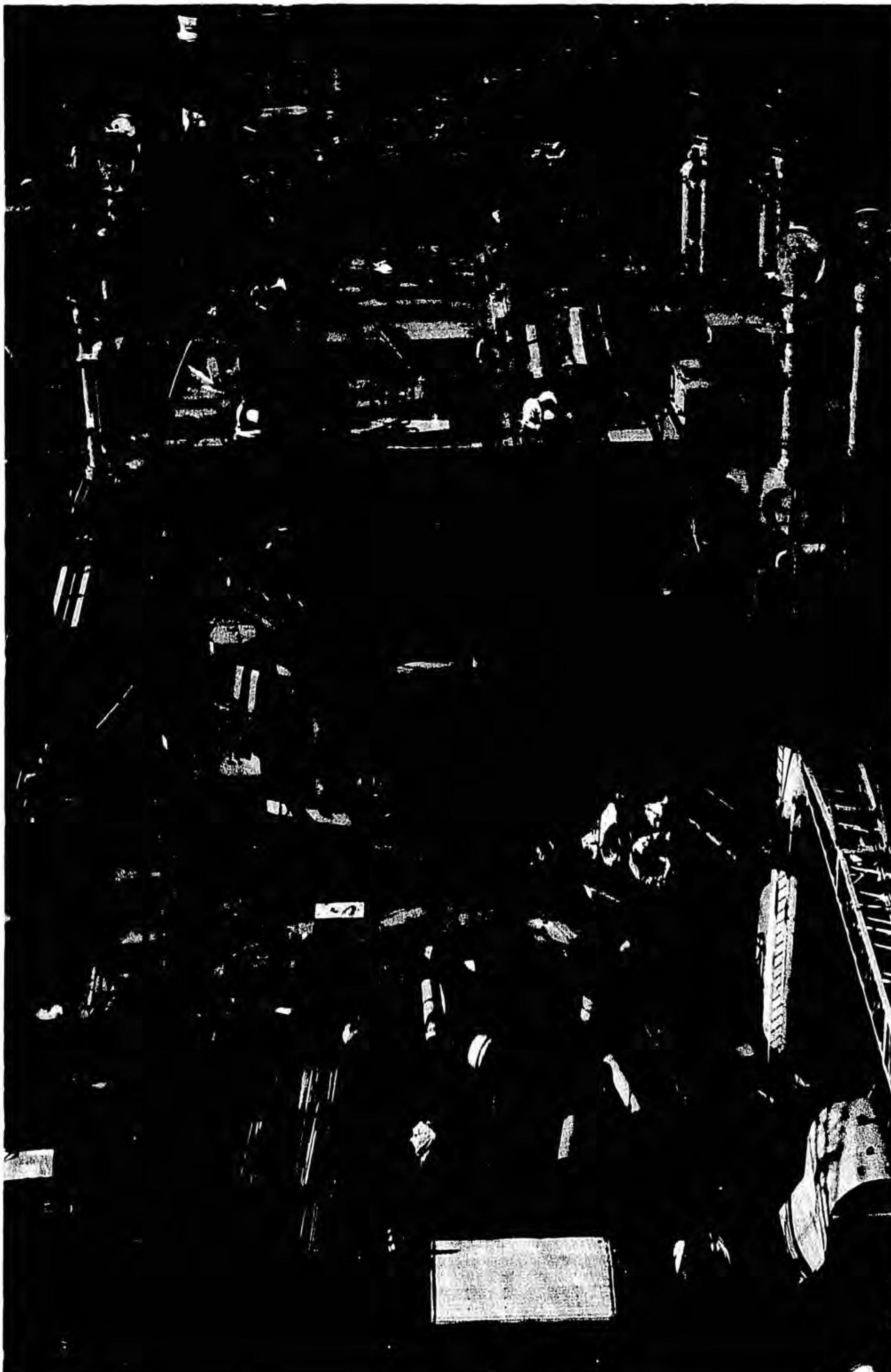
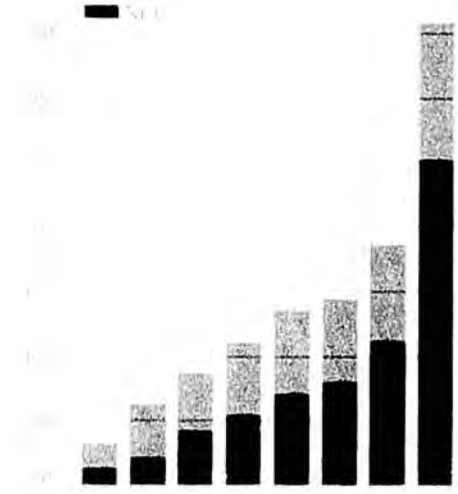


The Offshore Company

The Offshore Company, our 91%-owned subsidiary, is one of the world's largest contract drillers. It is principally engaged in drilling for oil and gas in offshore and onshore areas around the world under contracts with major producers. It also manufactures products and provides engineering, design and construction services relating to drilling and production equipment and rigs, and engages in exploration and production ventures for its own account.

Investment in Contract Drilling Property and Equipment –



Offshore-Around the World

The Offshore Company completed three major units which are now drilling in the North Sea, the Persian Gulf, and off Burma.

Left and following pages: During its conversion from a cargo ship, the DISCOVERER 511 was [illegible] over 40 feet in length when it was cut in half and an anchoring [illegible] substructure for a drilling derrick inserted. Right: The $18,000,000 DISCOVERER 534 was delivered in mid-1975 and began drilling offshore Burma. Far right: Jess Price, a welder at the Avondale shipyard near New Orleans, takes a break from her work on the DISCOVERER 511.

Results of Operations. The Offshore Company's earnings increased 36% in 1975. Offshore contributed a record $25,973,000, or $2.58 per share, to our consolidated earnings, as compared with $18,362,000, or $1.83 per share, in 1974.

Although 1975 saw a slackening of petroleum activities throughout the world and the beginning of an oversupply of marine drilling equipment in certain areas, Offshore realized increased earnings principally from a high level of rig utilization from a larger fleet, improved day rates for its rigs, and improved margins and volumes in other operations.

Contract Drilling. Offshore owns and operates 29 marine units and 11 land units. During 1975 Offshore operated in or off the shores of 22 countries. Its principal areas of operation were the Arabian Gulf, Africa, Indonesia, the Gulf of Suez, the North Sea and South America.

Construction Program. At the beginning of 1975 Offshore had under way a construction program with a total estimated cost of $356,000,000, including $107,000,000 to be invested by joint venture partners. Three drilling units in this program were delivered during 1975.

In March 1975 we commissioned the *Chris Chenery*, a huge semi-submersible unit, which is now drilling in the Norwegian sector of the North Sea for a major oil company under a five-year contract.

We took delivery of the $18,000,000 *Discoverer 534* in mid-1975 and that unit began drilling offshore Burma under a five-year contract.

We received the $18,000,000 jack-up *Offshore Bahrain* from the shipyard in November 1975. *Offshore Bahrain* is now drilling under a five-year contract in the Persian Gulf.

Five additional drilling units are still under construction. The *Discoverer 511*, jointly owned with a major oil company, will commence work in mid-1976 under a five-year contract. A second *Discoverer 534*-class drillship, the *Discoverer Seven Seas*, being built in Japan, will be delivered in late 1976. This $61,000,000 unit will begin operations under a five-year contract.

Three other units, jointly owned with a major oil company, are expected to be delivered during 1976. The units, a *Discoverer III*-class drillship and two *Orion*-class jack-ups, are being built in Japan, at a total cost of approximately $100,000,000. Offshore will operate these units.

A joint venture, in which Norwegian interests own 75% and a subsidiary of Offshore owns 25%, has cancelled the construction contract for the *Skan-Shore I*, a semi-submersible unit under construction in Vigo, Spain, because of serious delays and other deficiencies at the shipyard. The joint venture has instituted legal proceedings to recover its investment to date and damages.

Manufacturing. Houston Systems Manufacturing Co., which primarily manufactures offshore drilling and production equipment, had record revenues of $29,059,000 in 1975, as compared with $15,354,000 in 1974, and contributed 12% of Offshore's 1975 net earnings.

In late 1975 Offshore increased its ownership of Houston Systems from 85% to 100%.

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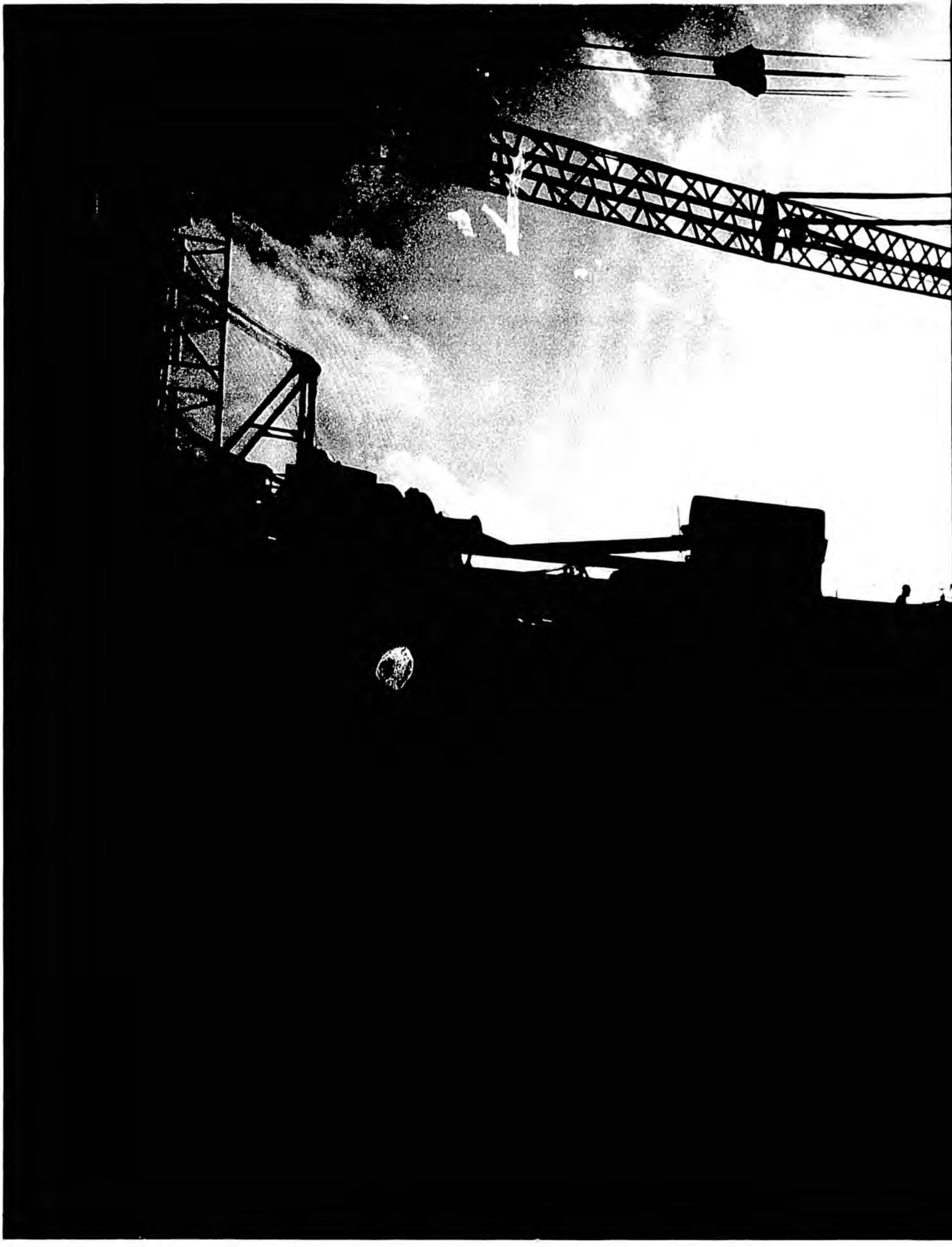
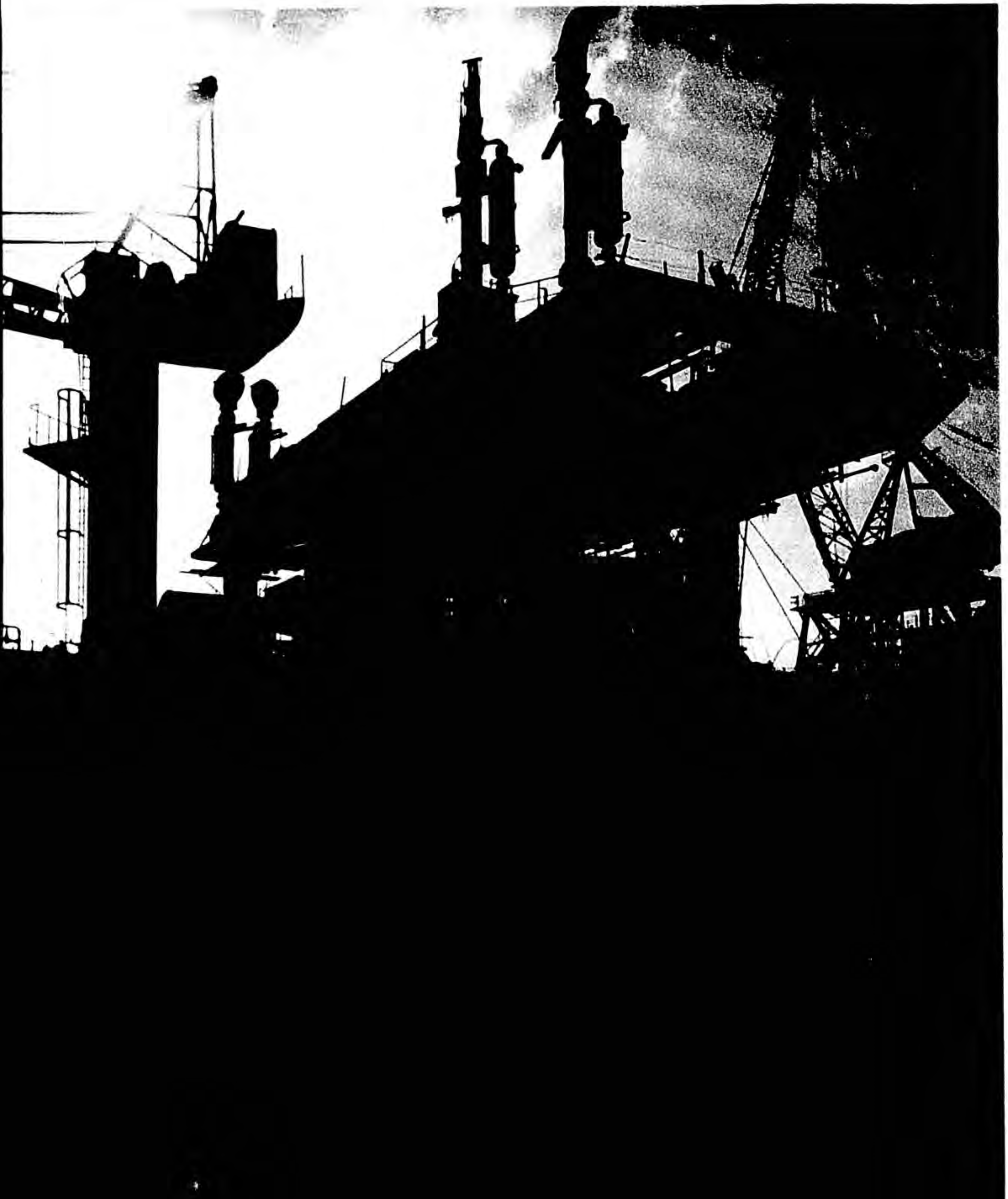




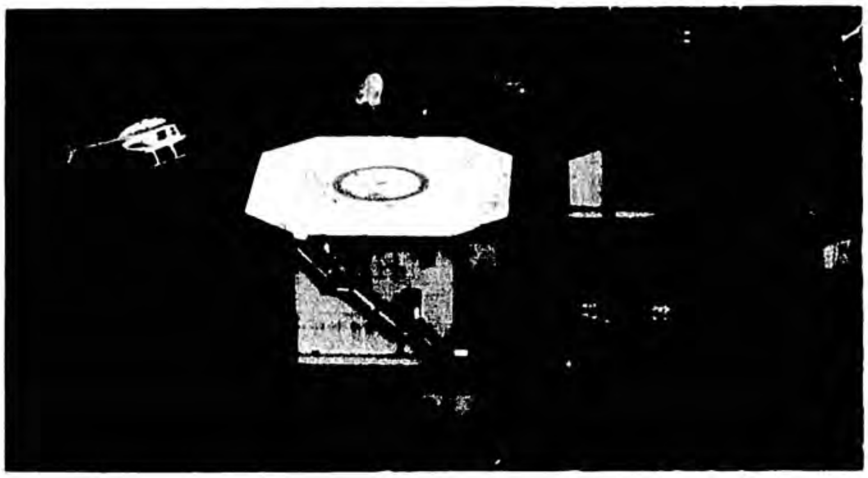
SONAT Exploration Company

We conduct our oil and gas exploration and production activities primarily through SONAT Exploration Company. The Offshore Company participates with SONAT in exploration and production activities.

Consolidated revenues of our exploration and production activities in 1975 were $34,370,000, as compared with $33,025,000 in 1974. Consolidated production of gas and liquid hydrocarbons during 1975 amounted to about 51,800,000 Mcf and 2,035,000 barrels, respectively.

We supplied about 6.3% of Southern Natural Gas Company's 1975 pipeline requirements from our own production.

During 1975 we continued to expand our exploration and production activities. In February 1975 SONAT and Offshore participated in a group which acquired four leases in the Gulf of Mexico, offshore Texas. We acquired our consolidated interest, which varied from 25% to 30% in the four leases, for a total investment of $2,156,000. In May 1975 SONAT and Offshore, bidding with a group led by a major oil company, acquired a 25% interest in six leases in the Louisiana-Texas offshore Gulf of Mexico lease sale. In that same lease sale, SONAT and Offshore, participating with another group, acquired a 12½% interest in a seventh tract.



Our total consolidated investment in these seven leases is $5,103,000.

SONAT and Offshore also participated in the July 1975 offshore Louisiana-Texas lease sale in the Gulf of Mexico, acquiring about a 25% interest in five leases at a total cost of $1,546,000.

SONAT and Offshore acquired interests in 12 tracts in the Gulf of Mexico in 1974 and 16 in 1975. Our consolidated subsidiaries now have an interest in a total of 43 Gulf of Mexico blocks. All of the blocks acquired in 1974 and 1975 should be tested by the end of 1977.

Last year test wells were drilled on six blocks in which SONAT and Offshore have an interest ranging from 12% to 25%.

A group led by Shell Oil Company, in which we have a 12½% interest, announced the discovery of commercial quantities of hydrocarbons in the Mobile South No. 2 area. The group plans to build and install the world's tallest offshore oil and gas platform in approximately 1,000 feet of water to develop the three deep water Blocks purchased in the March 1974 lease sale. The platform is expected to cost in excess of $100,000,000. Additional testing on these blocks is continuing. The platform installation should be completed in 1978, and development drilling—which is expected to take an additional two years—will begin at that time. Production from this lease is not expected to begin before 1980.

A drilling and production platform has been ordered to develop South Marsh Island Block 149 and the adjoining Block 150. We have a 12½% interest in these blocks.

We have abandoned our 33% interest in South Marsh Island Blocks 251-255, acquired in the December 1972 lease sale for about $8,000,000, after drilling three unsuccessful test wells.

Development drilling is continuing from the platform installed at East Cameron Block 251, in which SONAT and Offshore have a combined 45% interest. It is expected that natural gas will begin coming on stream late in 1976.

Exploration and Production SONAT began exploratory drilling on six of the twenty-eight leases acquired in the Gulf of Mexico since 1973.

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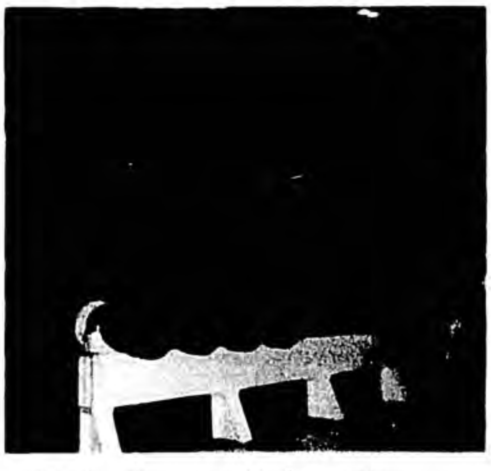
Southern Forest Products, Inc.

Our wholly owned Southern Forest Products, Inc. is a 50% participant in Boise Southern Company, a forest products joint venture. Boise Southern owns and operates a $105,000,000 mill in DeRidder, Louisiana, which produces newsprint, linerboard, fiber can stock and bag paper, and also owns a pulp mill, a kraft paper mill and a wood products complex. Boise Southern also owns 50% of Vancouver Plywood Co., Inc., a plywood and wood products producer located in Louisiana.

Boise Southern is supported by about 750,000 acres of timberland owned or under lease in close proximity to its operations.

Production of newsprint at the DeRidder mill continued strong throughout the year, but Boise Southern's other operations were significantly curtailed in 1975 because of depressed markets resulting from the overall economic recession. In 1975 our forest products activities contributed $2,338,000, or 25 cents per share, to our consolidated net income, as compared with 33 cents per share in 1974.



Markets Appear Favorable

Improved markets in the second half of 1975 enabled us to increase production of linerboard and wood products. Demand for newsprint continues strong.

During the second half of 1975, stronger markets enabled us to increase linerboard and wood products production at Boise Southern. The present outlook for continued strengthening of these markets appears favorable. During 1975 Boise Southern increased its linerboard production capacity by about [illegible].

We are studying additional proposals to expand the operations of Boise Southern.

Left and following page: In 1975 Boise Southern spent over $5,400,000 in its woodlands management program, planting [illegible] seedlings and continuing the development of a [illegible]. Right: A roll of linerboard is moved from the dry end of the paper machine to the finishing department [illegible] shipment. Far right: [illegible] the debarker and [illegible] at the DeRidder [illegible].

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Financial Information

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Annual Report on Form 10-K

Each year Southern Natural Resources, Inc. is required to file an Annual Report on Form 10-K with the Securities and Exchange Commission. A copy may be obtained by stockholders without charge by writing to Ronald L. Kuehn, Jr., Secretary, Southern Natural Resources, Inc., Post Office Box 2563, Birmingham, Alabama 35202.

Stock Transfer and Dividend Paying Agents

Common Stock:
Manufacturers Hanover Trust Company
Four New York Plaza
New York, New York 10015

Series 1 and Series 2 Preference Stock:
Trust Company Bank, Post Office Drawer 4625
Atlanta, Georgia 30302

Stock Registrars

Common Stock:
The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, New York 10015

Series 1 and Series 2 Preference Stock:
Trust Company Bank, Post Office Drawer 4625
Atlanta, Georgia 30302

Earnings **—Consolidated earnings were equivalent to primary earnings of $6.82 per share for 1975, compared with primary earnings of $5.82 for 1974.** Earnings for 1975 include 76 cents per share collected subject to refund principally as a result of a rate increase which became effective October 16, 1975, as compared with 1974 earnings which included 14 cents per share collected subject to refund.

Revenues for the fourth quarters of 1975 and 1974 were $180,284,000 and $141,960,000, respectively, while net earnings amounted to $20,575,000, equivalent to primary earnings of $2.05 per share, and $15,478,000, or $1.54 per share, respectively. These quarter of 1975, provisions principally for gas storage expenses pursuant to an FPC order, project termination costs, bad debts and inventory adjustments, less related income tax effects, reduced earnings by approximately $4,586,000, or 46 cents per share. There were no similar material items in the fourth quarter of 1974.

Lines of Business—Lines of business accounting for 10% or more of operating revenues and related earnings before and after income taxes applicable to common shares for the five years ended December 31, 1975 are as follows:

Lines of Business

	Year Ended December 31,				
	1975	1974	1973	1972	1971
	(In Thousands of Dollars)				
Revenues:					
Pipeline*	**$442,625**	$377,989	$324,541	$296,256	$272,011
Contract Drilling	**141,743**	109,300	83,493	72,070	66,521
Exploration and Production	**34,370**	33,025	23,887	18,599	19,571
Forest Products*	**3,133**	5,081	6,935	2,917	465
Other	**30,043**	20,819	22,068	16,427	14,922
Intercompany sales of produced gas	**(11,843)**	(7,642)	(7,973)	(9,629)	(9,225)
Total	**$640,071**	$538,572	$452,951	$396,640	$364,265
Earnings Before Income Taxes Applicable to Common Shares:					
Pipeline*	**$ 75,400**	$ 66,967	$ 61,388	$ 61,570	$ 40,910
Contract Drilling	**29,225**	22,751	16,789	14,259	14,059
Exploration and Production	**2,463**	1,283	5,315	2,519	6,291
Forest Products*	**2,357**	4,488	6,543	2,527	133
Other	**5,330**	421	(362)	(617)	627
Total	**$114,775**	$ 95,910	$ 89,673	$ 80,258	$ 62,020
Earnings Applicable to Common Shares:					
Pipeline*	**$ 37,152**	$ 35,064	$ 32,175	$ 31,086	$ 22,707
Contract Drilling	**24,435**	18,706	13,508	11,724	10,526
Exploration and Production	**2,136**	1,217	3,283	2,236	4,030
Forest Products*	**2,338**	3,310	4,316	2,467	982
Other	**2,523**	196	(178)	(239)	471
Total	**$ 68,584**	$ 58,493	$ 53,104	$ 47,274	$ 38,716

*Revenue includes the equity in earnings of joint ventures accounted for by the equity method, and the corresponding categories of Earnings Before Income Taxes Applicable to Common Shares and Earnings Applicable to Common Shares include the related income. For revenues of joint ventures, see Notes 5 and 6 of the Notes to Financial Statements.

Dividends—Dividends totaled $1.65 per share for 1975 compared with $1.575 per share for 1974. This was the 39th consecutive year of dividend payments by the Company. Dividends paid per common share for the last two years were as follows:

Quarter	1975	1974
First	**$.4125**	$.375
Second	**.4125**	.375
Third	**.4125**	.4125
Fourth	**.4125**	.4125

Dividends paid per share on Series 2 Cumulative Convertible Preference Stock, which is also voting stock, were $.90 per quarter in 1975 and 1974. An active market does not exist for this stock.

Capital Stock—Per share prices of the Company's Common Stock traded on the New York Stock Exchange are summarized below:

	1975	1974
Quarter	**High — Low**	High — Low
First	**$50⅝ — $41**	$55½ — $46
Second	**59½ — 44**	52¾ — 39
Third	**56½ — 49**	42⅞ — 27⅛
Fourth	**49⅝ — 42⅝**	43¼ — 32⅞

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established lines of credit, available through Sept. 30, 1976, with several banks to provide for borrowings of up to $85,000,000 in the form of unsecured notes bearing interest at the banks' prevailing prime commercial rates. Southern Natural Gas also issues commercial paper from time to time. At December 31, 1975, $17,500,000 of commercial paper was outstanding, which is expected to be repaid from cash generated from operations of Southern Natural Gas.

The Offshore Company, in 1975, entered into a $25,000,000 loan agreement with two banks. The terms of this agreement provide for 16 equal quarterly repayments of principal, commencing March 31, 1977, with interest rates based on 110% of prime rate plus .35 of 1%.

During 1975, Offshore established lines of credit with several banks, under which the entire $15,000,000 available had been borrowed by year-end. These notes are in the form of renewable 90-day notes but are to be repaid within one year and bear interest at one of the bank's prevailing prime commercial rates.

In September 1975, Amoshore Drilling Company, of which Offshore is a 50% participant, completed a $33,260,000 credit agreement with two banks. Borrowings under this agreement will bear interest at a rate tied to the prime rate and will be available until completion of the related rig or September 1977, whichever is earlier, and are to be repaid in ten equal semiannual installments beginning six months after delivery of the rig. At the end of the year Amoshore had borrowed $29,200,000 under this agreement.

Offshore's joint venture with a group of Norwegian shipping companies, for the construction and operation of four workboats, obtained loans, outstanding in the amount of $11,425,000 at the end of the year, from the Norwegian shipyard in 1975. These loans are repayable in 16 equal semiannual installments beginning six months after delivery of each workboat and bear interest at a rate of 7.7%.

Negotiations are presently in progress to obtain financing required by Offshore and/or its joint ventures for the balance of its construction program expected to be completed early in 1977.

In September 1975 SONAT Exploration Company, a wholly owned subsidiary, completed a $30,000,000 loan with three banks. The loan is partially secured by certain producing properties of SONAT, with the balance guaranteed by Southern Natural Resources. The principal is repayable in 20 equal quarterly installments from December 1977 through September 1982. The interest rate on this loan is based on 125% of the prime rate of one of the lending banks.

Two of the Company's joint ventures, Boise Southern and Sea Robin, did not enter into any new long-term financing in 1975 and reduced outstanding long-term debt by $6,787,000 and $6,891,000, respectively.

Vancouver Plywood Co., Inc., a 50%-owned joint venture of Boise Southern, entered into a credit agreement under which it borrowed $15,000,000 to be re- [...] rates tied to the prime rate.

Compensating Balances—Southern Natural Gas and Offshore have informal arrangements with certain banks relating to lines of credit and loan agreements, which require the maintenance of compensating balances with the banks based on a percentage of the loans outstanding or of the lines of credit. The companies have been in compliance with these arrangements which did not change significantly during the year. There is no contractual agreement prohibiting withdrawal of these compensating balances.

Debt Retirement—With respect to consolidated long-term debt outstanding at the end of 1975, before deducting amounts in treasury, the annual maturities are as follows (in thousands):

Year	Southern Natural Gas Company	South Georgia Natural Gas Company	The Offshore Company and Subsidiaries (2)	SONAT Exploration Company	Total Consolidated
1976	$ 71,564 (1)	$ 274	$ 14,654	$ —	$ 86,492
1977	17,558	274	23,247	1,500	42,579
1978	21,814	274	44,439 (3)	6,000	72,527
1979	82,914 (1)	228	15,334	6,000	104,476
1980	26,400	192	7,750	6,000	40,342
1981-19[illegible]	131,200	1,292	29,000	10,500	171,992
	351,450	2,534	134,424	30,000	518,408
Less Amounts in Treasury	8,233	—	—	—	8,233
Total Long-Term Debt	$ 343,217	$2,534	$134,424	$30,000	$510,175

(1) Southern Natural Gas has $60,000,000 of debentures due June 1976 and $60,000,000 of debentures due April 1979, which do not have sinking fund requirements and which Southern Natural Gas expects to refinance.

(2) Offshore's indenture covering its convertible debentures due December 1, 1992 provides for a sinking fund which may be satisfied by credit for conversions or retirements or by additional optional sinking fund payments; $718,000 has been retired and will be used to satisfy sinking fund requirements. The debentures are convertible into common stock at $37.50 per share at any time up to and including December 1, 1992.

(3) Includes $21,300,000 final lump sum payments under sale-leaseback agreements.

Cash and Temporary Cash Investments—At December 31, 1974, Offshore had temporarily invested in certificates of deposit a portion of its proceeds from a long-term financing arrangement which together with other funds amounted to $32,057,000.

Management's Discussion and Analysis of Significant Changes in Operating Results During the Last Two Fiscal Years (See the Summary of Operations appearing on Page 38)

Revenues

Increases in consolidated revenues during the past two years were generated principally from gas operations and contract drilling.

Increased gas sales prices accounted for most of the increase in gas operations for both years. Approximately one-fourth of that amount in 1975 was attributable to the general rate increase that went into effect in October 1975. Other price increases in 1975 and 1974 were attributable to the inclusion in gas sales rates of higher prices paid to suppliers for new gas purchased and the impact on gas sales prices of advance payments for gas to producers.

Contract drilling revenues increased during both 1975 and 1974 primarily because of new rigs put into service coupled with better utilization of the existing rig fleet and increased day rates negotiated during a time of higher worldwide demand for marine drilling equipment.

Costs and Operating Expenses

The pipeline system's average unit cost of purchased gas increased approximately 23% and 25% during 1975 and 1974, respectively, both increases reflecting the higher cost of recently acquired sources. The cost of natural gas purchased for resale as a percent of natural gas sales revenues has increased from 51.6% in 1973 to 55.8% in 1975.

Operating expenses, because of inflation and expansion, have risen proportionately with operating revenues.

The primary factor contributing to increases in depreciation expense over the past two years has been Offshore's new rig construction program, which has placed several new units in operation during those periods. Additionally, in October 1975 Southern Natural Gas adjusted its depreciation rates as part of its current rate increase application (see Note 1 of the Notes to Financial Statements) which accounted for most of the remaining 1975 increase.

Interest Expense

The additional interest on debt generated by new long-term financing the past two years and, in 1975, the additional estimated interest on federal income tax liabilities was offset somewhat during 1975 by the decline in interest rates paid for short-term borrowings. The higher average construction work in progress balances effected primarily by the liquefied natural gas project and Offshore's construction program accounted for the increase in the amount of interest capitalized during 1974 and 1975.

Income Taxes

The effective tax rate increased to 40.0% in 1975 as compared with 38.7% in 1974 primarily because of the increased tax liability relating to capitalized production intangible drilling costs which began in 1975 under a new accounting standard and because of differences resulting from changes in pipeline depreciation rates without corresponding changes in related tax depreciation rates. These additional amounts were partially offset by the increase in the earnings of certain foreign subsidiaries permanently reinvested in foreign operations on which there is no provision for federal income taxes. A higher portion of foreign earnings was the primary factor in the decrease of the 1974 effective tax rate from that of the previous year.

Net Income

Higher revenues from gas and contract drilling operations due to increased rates, a larger drilling fleet and expanded manufacturing operations accounted for our increases in net income. Our forest products contribution to net income declined in 1974 and again in 1975 due to a three month strike in 1974 and to national economic conditions, but showed a marked improvement in the last half of 1975.

Consolidated Statements of Income Years Ended December 31, 1975 and 1974

	1975	1974
	(In Thousands of Dollars)	
Revenues:		
Operating revenues (Notes 8 and 9)	**$626,393**	$523,358
Equity in earnings of joint ventures and other income	**13,678**	15,214
	640,071	538,572
Costs and Expenses:		
Natural gas purchased for resale	**244,647**	205,070
Operating, maintenance and general	**186,972**	154,436
Depreciation and depletion (Note 8)	**52,727**	45,305
Taxes, other than income	**9,594**	8,813
Interest (less allowance for funds capitalized of $9,635,000 in 1975 and $6,515,000 in 1974)	**30,638**	28,320
	524,578	441,944
Income Before Income Taxes	**115,493**	96,628
Income Taxes (Note 2)	**46,191**	37,417
Net Income (Notes 8, 9 and 11)	**69,302**	59,211
Dividends on Serial Preference Stock (Note 4)	**718**	718
Earnings Applicable to Common Shares (Notes 1, 8 and 9)	**$ 68,584**	$ 58,493
Earnings per Common Share (Notes 1 and 8):		
Primary	**$6.82**	$5.82
Fully diluted	**$6.53**	$5.65

See accompanying notes.

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Consolidated Balance Sheets December 31, 1975 and 1974

Assets	**1975**	**1974**
	(In Thousands of Dollars)	
Current Assets:		
Cash and temporary cash investments	**$ 23,553**	$ 49,522
Accounts and notes receivable, including $18,076,000 in 1975 and $15,064,000 in 1974 from affiliates not consolidated	**104,456**	82,621
Inventories	**57,561**	46,197
Prepayments and other	**37,922**	27,494
	223,492	205,834
Investments and Advances:		
Advance payments for gas	**87,220**	93,588
Joint ventures:		
Forest products (Note 5)	**43,866**	40,226
Gas operations (Note 6)	**34,138**	34,747
Other	**7,505**	4,901
Other investments	**5,329**	4,956
	178,058	178,418
Plant, Property and Equipment (Note 1):		
Natural gas pipeline	**810,936**	752,508
Oil and gas production	**129,840**	125,478
Drilling	**321,126**	233,776
Manufacturing	**4,504**	3,061
	1,266,406	1,114,823
Less accumulated depreciation, depletion and amortization	**489,128**	442,346
	777,278	672,477
Deferred Charges	**10,791**	9,547
	$1,189,619	$1,066,276

See accompanying notes.

Consolidated Balance Sheets December 31, 1975 and 1974

Liabilities and Stockholders' Equity	1975	1974
	(In Thousands of Dollars)	
Current Liabilities:		
Long-term debt due within one year (Note 3)	**$ 79,552**	$ 20,740
Unsecured notes (Note 3)	**32,500**	25,500
Accounts payable, including $15,393,000 in 1975 and $10,751,000 in 1974 to affiliates not consolidated	**60,568**	49,840
Accrued income taxes	**51,661**	46,262
Other	**22,068**	16,082
	246,349	158,424
Long-Term Debt (Note 3)	**428,131**	460,116
Deferred Credits:		
Deferred investment tax credits	**26,856**	24,001
Deferred income taxes	**46,726**	38,496
Other	**10,317**	6,356
	83,899	68,853
Minority Interest in Subsidiaries	**11,515**	11,189
Commitments and Contingencies (Notes 5, 7 and 8)		
Stockholders' Equity (Notes 4 and 11):		
Capital stock	**38,433**	38,430
Premium on capital stock and other capital surplus	**42,467**	42,428
Retained earnings (Note 3)	**338,825**	286,836
	419,725	367,694
	$1,189,619	$1,066,276

See accompanying notes.

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Consolidated Statements of Changes in Financial Position Years Ended December 31, 1975 and 1974

	1975	1974
	(In Thousands of Dollars)	
Working Capital Provided:		
Current operations:		
Net income	**$ 69,302**	$ 59,211
Depreciation, depletion, amortization, abandoned leases, etc.	**61,572**	57,677
Deferred federal and foreign income taxes and investment tax credits	**9,423**	(2,652)
Equity in earnings of joint ventures less distributions	**(1,967)**	(10,602)
Allowance for funds capitalized	**(9,635)**	(6,515)
Other	**8,189**	4,798
Working capital provided from operations	**136,884**	101,917
Net proceeds from issuance of long-term debt	**54,947**	134,254
Net salvage from retirement of plant, property and equipment	**555**	15,005
Advance payments for gas—noncurrent	**6,368**	(35,508)
Other	**2,608**	2,534
Total Working Capital Provided	**201,362**	218,202
Working Capital Applied:		
Plant and property additions	**157,182**	146,977
Dividends paid	**17,313**	16,557
Reductions of long-term debt	**86,810**	20,834
Other	**10,324**	9,929
Total Working Capital Applied	**271,629**	194,297
Increase (Decrease) in Working Capital	**$ (70,267)**	$ 23,905

Increase (Decrease) in Working Capital Components:		
Current assets:		
Cash and temporary cash investments	**$ (25,969)**	$ 22,750
Accounts and notes receivable	**21,835**	6,584
Inventories	**11,364**	11,228
Prepayments, etc.	**10,428**	5,214
	17,658	45,776
Current liabilities:		
Long-term debt due within one year	**(58,812)**	(12,630)
Unsecured notes	**(7,000)**	(500)
Accounts payable	**(10,728)**	(10,250)
Accrued income taxes	**(5,399)**	1,598
Other	**(5,986)**	(89)
	(87,925)	(21,871)
	$ (70,267)	$ 23,905

See accompanying notes.

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Consolidated Statements of Retained Earnings Years Ended December 31, 1975 and 1974

	1975	1974
	(In Thousands of Dollars)	
Balance at Beginning of Year	**$286,836**	$244,182
Add:		
Net Income (Notes 8, 9 and 11)	**69,302**	59,211
Deduct Dividends:		
Common Stock, $1.65 per share in 1975 and $1.575 per share in 1974	**16,595**	15,839
Serial Preference Stock (Note 4)	**718**	718
	17,313	16,557
Balance at End of Year (Note 3)	**$338,825**	$286,836

See accompanying notes.

Notes to Financial Statements

1. Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of all significant subsidiaries of the Company. All significant intercompany transactions and accounts have been eliminated in consolidation. The equity method of accounting is used for investments in 50% or less owned joint ventures.

Certain amounts in the 1974 consolidated statements have been reclassified to conform with the 1975 presentation.

Foreign Currency Translation—Current assets and liabilities recorded in foreign currencies have been translated into U.S. dollars at the rates of exchange in effect at the year-end. Noncurrent assets and liabilities have been translated at historical rates of exchange. Income statement accounts have been translated at monthly exchange rates. Translation adjustments, which were not material, have been included in income.

Plant, Property and Equipment and Depreciation—Plant, property and equipment is carried at cost, and includes construction work in progress of $154,451,000 and $121,343,000 for 1975 and 1974, respectively, in pipeline, liquefied natural gas, production and contract drilling facilities.

Prior to October 16, 1975, Southern Natural Gas Company provided depreciation generally on the basis of a composite rate of 3.5% of gross depreciable gas plant in service, except that offshore pipeline facilities were depreciated on a straight-line rate of 5% per annum. Beginning October 16, 1975 and pending FPC approval of the current rate increase application (see Note 8), Southern Natural Gas provides depreciation on storage plant and main line transmission facilities at 5.25% per annum and supply line transmission facilities at 8.5% per annum. Certain production properties are depreciated on the unit-of-production method. Depletion is calculated on the unit-of-production method. The Offshore Company provides depreciation on its drilling units and equipment on the straight-line method, principally over 12 years for offshore units and equipment and over 6 years for inland drilling rigs and equipment.

Inventories—Inventories consist of materials and supplies and gas stored underground and are carried at the lower of average cost or market.

Investment Tax Credits—Southern Natural Gas Company, pursuant to authority received from the Federal Power Commission, amortizes its accumulated deferred investment tax credit over a 10-year period. Other subsidiaries of the Company generally amortize the investment tax credit over the approximate lives of related properties. The amortization of the credits is included in consolidated net income as a reduction of income taxes.

Retirement Income Plans—Substantially all domestic and certain foreign employees are covered by trusteed noncontributory retirement income plans. Retirement costs are funded as accrued and unfunded prior service costs are being systematically funded over 25-year periods.

Deferred Income Taxes—Deferred income taxes are provided for the income tax effect of timing differences between book and taxable income; however, no provision is made with respect to differences of a permanent nature or where prohibited by regulatory rules. The timing differences relate primarily to the use of accelerated depreciation methods for income tax purposes and to the provisions for nonproductive oil and gas leases which are not deductible for income tax purposes until the leases are abandoned.

As of January 1, 1975, in accordance with a newly issued accounting standard, the Company began interperiod income tax allocation for intangible drilling and development costs associated with the exploration for and development of gas reserves that enter into the determination of taxable income and pre-tax book income in different periods.

Subsequent to Southern Natural Gas' most recent rate filing, the Federal Power Commission made it optional for utilities to adopt comprehensive interperiod income tax allocation accounting for all items creating timing differences between the periods in which trans- [illegible] income, when such items receive normalized treatment for rate purposes. Southern Natural Gas does not anticipate that a change from its present flow through treatment of income taxes on certain items for rate-making purposes to a normalized treatment would have a material effect on net income.

A substantial portion of the unremitted earnings of foreign subsidiaries is considered to be permanently reinvested in foreign operations pursuant to Offshore's construction and exploration programs and accordingly no federal income taxes have been provided thereon.

Accounting for Exploration Costs—The costs of delay rentals and dry holes are charged to income as incurred. Substantially all geological and undeveloped lease costs are capitalized and the portion estimated to be applicable to nonproductive leases is amortized over the estimated life of the related lease. Intangible drilling costs applicable to productive oil and gas wells are capitalized and amortized on a unit-of-production method.

Allowance for Funds Capitalized—The Company's regulated subsidiaries capitalize the cost of funds used during construction in accordance with Federal Power Commission regulations. Offshore, a nonregulated subsidiary, capitalizes interest on construction funds to properly reflect the cost of the asset. The amount capitalized by Offshore is based on a monthly average interest rate applied to the average outstanding construction balance.

Earnings Per Share—The computation of primary earnings per share is based on the weighted average number of common shares outstanding during the period.

Fully diluted earnings per share were determined on the assumption that the Company's serial preference stock and the 5% convertible subordinated debentures of The Offshore Company were converted at the beginning of each period. For this calculation, income has been increased by the serial preference stock dividends and the interest on the debentures, net of related income taxes.

2. Income Taxes

An analysis of the Company's income tax expense, in thousands of dollars, is as follows:

	1975	1974
CURRENT:		
Federal	$33,134	$34,537
Foreign	6,078	5,046
State	3,472	2,565
	42,684	42,148
AMORTIZATION OF INVESTMENT TAX CREDITS AND GRANTS	(2,884)	(2,643)
DEFERRED:		
Federal	6,727	(1,637)
Foreign	(336)	(451)
	6,391	(2,088)
	$46,191	$37,417

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[illegible] income tax expense is less than the amount computed by multiplying income before income taxes by the statutory federal tax rate (48%) primarily because of the lower tax rate attributable to earnings of foreign operations and the amortization of investment tax credits and grants, offset somewhat by differences resulting from changes in pipeline book depreciation rates without corresponding changes in related tax depreciation rates.

At December 31, 1975 the cumulative amount of financial accounting/tax differences related to intangible drilling and development costs, with respect to which income taxes have not been allocated, were not material.

3. Unsecured Notes and Long-Term Debt

Long-term debt at December 31, 1975 and 1974 (after deducting $8,233,000 and $13,600,000, respectively, held in treasury) consisted of (in thousands of dollars):

	1975	1974
First Mortgage Pipe Line Sinking Fund Bonds due to 1987 with interest rates from 4¾% to 5⅝%	$ 44,206	$ 48,837
7.70% Sinking Fund Debentures due April 1, 1991	46,461	46,473
9⅛% Debentures due June 1, 1976	60,000	60,000
6⅞% Debentures due April 1, 1979	60,000	60,000
7⅞% Promissory Notes due from July 15, 1976 through July 15, 1989	60,000	60,000
Bank Notes at 115% of prime rate due from June 30, 1977 through June 30, 1981	70,000	70,000
5% Convertible Subordinated Debentures of The Offshore Company due from December 31, 1977 through December 1, 1992	34,282	34,684
Bank Notes at one-half percent above prime rate but not to exceed 7¾%, due quarterly through December 31, 1979	29,200	36,500
Bank Notes at 125% of prime rate, due quarterly from December 31, 1977 through September 30, 1982	30,000	—
Bank Notes at 110% of prime rate plus .35 of 1% due quarterly from March 31, 1977 through December 31, 1980	25,000	—
Sale-Leaseback Agreements at rates based on an international bank-offered rate (approximately 3.5% at December 31, 1975) due to November 30 and December 31, 1978	39,653	45,254
Other Bonds, Debentures and Notes	11,373	19,108
Total Outstanding	510,175	480,856
Less Irrevocable Deposit to Retire 4½% Sinking Fund Debentures	2,492	—
Less Debt Due Within One Year	79,552	20,740
Total Consolidated Long-Term Debt	$428,131	$460,116

Debt due within one year includes a $60,000,000 issue of debentures maturing in 1976, which is intended to be refinanced on or before the maturity date.

See page 27 with respect to issuance and retirement of debt, credit agreements, compensating balance agreements and indenture provisions of the Company's [illegible] joint venture.

At December 31, 1975, $240,197,000 of retained earnings were restricted under the terms of debenture indentures and credit agreements.

4. Capital Accounts

The shares of the Company's capital stock outstanding at December 31, 1975 and 1974 are summarized below:

	1975	1974
Common Stock, $3.75 Par; authorized 40,000,000 shares	10,057,932	10,057,037
Serial Preference Stock, $1.00 Par; authorized 10,000,000 shares:		
Series 1	688,798	688,798
Series 2	27,251	27,251
	716,049	716,049

The changes in Capital Stock, Premium on Capital Stock and Other Capital Surplus during 1975 and 1974, which were not material, were the result of conversions and transactions under stock option and compensation plans.

The conversion rates for Series 1 Preference Stock, which carries cumulative dividends at the rate of $.90 per year, are 1 to .24 share of common stock through April 30, 1979, with reductions thereafter. The conversion rates for Series 2 Preference Stock, which carries cumulative dividends at the rate of $3.60 per year, are four times those for Series 1. Four shares of Series 1 Stock are convertible at any time into one share of Series 2 Stock.

Upon involuntary liquidation, Series 1 Preference Stock is entitled to a preference of $15.00 per share. The Series 1 Stock is redeemable commencing May 1, 1979 at a redemption price of $16.00 per share, reduced by $.25 in each 12-month period beginning May 1, 1980 until May 1, 1983, after which the redemption price is $15.00 per share. The preference on liquidation and the redemption price per share for Series 2 Stock are four times the amounts per share for Series 1 Stock for the applicable period. The aggregate involuntary liquidation preference on serial preference stock amounted to $11,967,000 at December 31, 1975.

At December 31, 1975, 669,495 shares of unissued common stock were reserved for stock option and compensation plans and for conversion of serial preference stock.

5. Forest Products Joint Venture

Boise Southern Company, the forest products joint venture owned equally with Boise Cascade Corporation, had operating revenue of $118,980,000 and $100,282,000 for 1975 and 1974, respectively, and its contribution to consolidated net income was $2,338,000 and $3,310,000, respectively.

Shown on the next page, in thousands of dollars, in condensed form is the financial position of Boise Southern at December 31, 1975 and 1974.

	1975	1974
ASSETS		
Current and Other	$ 45,546	$ 44,113
Net Timber, Timberlands and Minerals	78,752	82,564
Net Property and Equipment	105,607	112,128
	$229,905	$238,805
LIABILITIES AND EQUITY		
Current (including $12,000 and $21,280 of bank notes in 1975 and 1974, respectively)	$ 29,738	$ 38,070
Long-Term Debt	106,251	113,063
Participants' Equity	93,916	87,672
	$229,905	$238,805

Beauregard Parish, Louisiana, leases the pulp and paper mill to Boise Southern at rentals sufficient to pay by 1993 all amounts becoming due with respect to the Industrial Revenue Bonds of the Parish outstanding in the amount of $92,035,000 at the end of 1975. The leaseback of the mill from the Parish has been accounted for by Boise Southern for both book and tax purposes as a purchase. The Company and Southern Natural Gas Company have jointly and severally guaranteed, to the extent of 50%, the payment of such rentals and performance by Boise Southern under this lease. Southern Natural Gas has also agreed to indemnify Boise Cascade for 50% of its obligations under certain timberland leases, the rentals for which approximate $2,468,000 annually through 1990.

6. Gas Pipeline Joint Venture

Sea Robin Pipeline Company, the gas pipeline joint venture owned equally with United Gas Pipe Line Company, had operating revenue of $186,035,000 and $118,018,000 for 1975 and 1974, respectively, and its contribution to consolidated net income was $2,488,000 and $2,292,000 in those years.

Since April 1973 Sea Robin has collected revenues of $32,279,000, subject to refund, related to additional depreciation. Settlement of this issue is not expected to have a material effect on consolidated results of operations. See also page 7 with respect to a future rate increase.

Shown below, in thousands of dollars, in condensed form is the financial position of Sea Robin at December 31, 1975 and 1974:

	1975	1974
ASSETS		
Current and Other	$ 38,078	$ 38,583
Net Plant and Property	119,564	130,878
	$157,642	$169,461
LIABILITIES AND EQUITY		
Current and Other	$ 31,570	$ 35,160
Long-Term Debt	64,359	71,781
Participants' Equity (after distribution of $15,000 paid in 1975)	61,713	62,520
	$157,642	$169,461

[illegible] obligated to purchase one-half of any gas available under Sea Robin's present and future gas purchase contracts. Sea Robin purchases a portion of its gas supplies from production properties of the Company's subsidiaries. These purchases accounted for 5.8% of Sea Robin's total purchases in 1975.

7. Commitments

At December 31, 1975, applications pending before the Federal Power Commission, construction and other commitments, including additional amounts due on advance payment contracts, relating to pipeline operations amounted to approximately $68,000,000.

Offshore had commitments for the construction and acquisition of drilling equipment, including its portion of joint venture commitments, and other assets of approximately $70,000,000.

In addition, Southern Energy Company, a wholly owned subsidiary of Southern Natural Gas, is participating in a project for the importation of liquefied natural gas and has yet to spend approximately $43,000,000 to complete construction.

8. Contingencies

Rates, Regulatory and Related Matters

On March 31, 1975 Southern Natural Gas filed a general rate increase with the Federal Power Commission applicable to sales of gas for resale. On May 15, 1975 the FPC issued an order accepting for filing approximately $66,000,000 of the requested annual increase. The increase went into effect on October 16, 1975, subject to refund pending a decision by the FPC. Additional amounts have been collected since July 1, 1974, subject to refund, under other minor rate increases.

Consolidated net income includes $7,686,000, or 76 cents per share, for 1975 and $1,354,000, or 14 cents per share, for 1974 applicable to natural gas sales revenues of $22,053,000 and $2,709,000, respectively, collected subject to refund. Included in the 1975 revenues subject to refund is $6,657,000 related to increased depreciation rates which, after applicable income taxes, has no effect on net income.

An action for damages in amounts not now determinable, in connection with operation of its gas delivery curtailment plan instituted in 1972 in response to an FPC order, was filed in January 1972 against Southern Natural Gas by one of its customers and is pending in federal court. Southern Natural Gas is also contesting an FPC order requiring refunds in an indeterminable amount in connection with that company's gas curtailment plans. Also, two lawsuits, one a purported class action, claiming additional royalty payments with respect to one field in southern Louisiana have been filed against Southern Natural Gas. The Company is unable to predict the outcome of these matters.

Other Legal Matters

Offshore is involved in disputes involving additional costs claimed by a shipyard which constructed one of cancellation of a contract for another unit. Offshore and a subsidiary are also defendants in a lawsuit relating to the acquisition by the subsidiary of certain rights and property relating to an automatic drilling machine. Vancouver Plywood Co., Inc. is a defendant in antitrust actions. The Company is unable to predict the outcome of these proceedings, but does not anticipate that they will materially affect the consolidated financial position at December 31, 1975.

9. Foreign Operations

Offshore, approximately 91%-owned, is engaged mostly in foreign operations from which it derived the major portion of its contribution to consolidated net income for 1975 and 1974 of $25,973,000 and $18,362,000, respectively. The contribution by foreign operations to consolidated revenue was $139,200,000 in 1975 and $107,100,000 in 1974. At December 31, 1975 and 1974 net assets located outside the United States amounted to $258,000,000 and $168,900,000, respectively. Unremitted earnings of foreign subsidiaries of Offshore, before provision for foreign income taxes, aggregated $175,800,000 at December 31, 1975 and foreign and federal income taxes aggregating $38,500,000 have been paid or accrued on such earnings.

10. Stock Options and Retirement Income Plans

The Company has in effect a Qualified Stock Option Plan and an Incentive Compensation Plan. An aggregate of 500,000 shares was authorized to be issued pursuant to awards made under these plans. No options have been awarded under the Qualified Stock Option Plan.

In 1971, 1973 and 1974 awards under the Incentive Compensation Plan equivalent to a net of 96,487 shares of common stock were made to employees. Distributions of 60% of the awards and the appreciation on the remaining 40% may be paid in cash or stock in seven annual installments. Installments equivalent to 21,978 shares of common stock have been paid in cash or stock since 1972.

The effect on net income of the Incentive Compensation Plan and an earlier plan amounted to $379,000 and $193,000 in 1975 and 1974, respectively.

The cost of retirement income plans (see Note 1) totaled $6,098,000 and $5,119,000 for 1975 and 1974, respectively. During 1974 plan benefits and actuarial assumptions used to determine annual costs were modified with no significant effect on net income for the year.

11. Future Compliance with New Accounting Standard

As of January 1, 1976, in accordance with Statement of Financial Accounting Standards No. 5 issued by the Financial Accounting Standards Board, Offshore's previously accepted accounting policy of providing loss reserves in its insurance subsidiaries, equal to the losses, will be changed to a policy of recognizing losses at the time they occur. As a result of an amendment to this new standard prior periods will be restated as of January 1, 1976, to eliminate loss reserves accumulated through December 31, 1975. This will result in an increase, after applicable income taxes, in the Company's stockholders' equity herein of $5,722,000, of which $1,281,000 and $1,113,000 were applicable to net income for 1975 and 1974, respectively.

Report of Certified Public Accountants

The Stockholders of
Southern Natural Resources, Inc.

We have examined the accompanying consolidated balance sheets of Southern Natural Resources, Inc. and subsidiaries at December 31, 1975 and 1974 and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in the first three paragraphs of Note 8, the Company has significant rate, regulatory and related matters pending, the final resolution of which cannot be determined at this time.

In our opinion, subject, in 1975, to the effects of such adjustment, if any, as may result from the outcome of the matters described in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of Southern Natural Resources, Inc. and subsidiaries at December 31, 1975 and 1974, and the consolidated results of operations and changes in financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis during the period. Further, in our opinion, subject to the outcome of the matters discussed above, the information for the years 1975 and 1974 pertaining to revenues and earnings relating to lines of business appearing on page 26 is fairly stated in all respects material to the consolidated results of operations of the Company.

ARTHUR YOUNG & COMPANY

New York, New York
January 29, 1976

Summary of Operations and Fifteen Year Statistical Review (Dollar amounts in millions—except per share amounts)

	1975	1974	1973	1972	1971
Revenues Including Other Income	$640.1	$538.6	$452.9	$396.6	$364.2
Costs and Operating Expenses	494.0	413.7	339.5	295.2	280.8
Interest Expense	30.6	28.3	23.0	20.4	20.7
Income Before Income Taxes	115.5	96.6	90.4	81.0	62.7
Income Taxes Including Foreign	46.2	37.4	36.6	33.0	23.3
Net Income	69.3	59.2	53.8	48.0	39.4
Dividends on Preference Stock	.7	.7	.7	.7	.7
Earnings Applicable to Common Shares	$ 68.[illegible]	$ 58.5	$ 53.1	$ 47.3	$ 38.7
Weighted Average Common Shares Outstanding During the Year (thousands) (1)	10,057	10,057	10,053	10,051	10,048
Earnings per Common Share					
—Total Consolidated (1)	$6.82	$5.82	$5.28	$4.70	$3.85
—Offshore's Contribution (1)	$2.58	$1.83	$1.39	$1.18	$1.07
—Forest Products' Contribution (1)	$ .23	$ .33	$ .43	$ .24	$ .10
Dividends per Common Share (1)	$1.65	$1.575	$1.50	$1.45	$1.40
Stockholders' Equity	$419.7	$367.7	$325.1	$287.4	$254.4
Minority Interest (2)	11.5	11.2	11.2	8.6	6.3
Total Debt, Including Amounts Due Within One Year	540.2	506.4	380.6	347.8	302.9
Total Capitalization	$971.4	$885.3	$716.9	$643.8	$563.6
Gross Plant	$1,266.4	$1,114.8	$988.2	$928.1	$862.1
Accumulated Depreciation, Depletion and Amortization	$ 489.1	$ 442.3	$394.7	$361.2	$333.4

(Management's Discussion and Analysis of the Summary of Operations for the last two fiscal years is presented on page 28.)

NOTES:

(1) Earnings per common share are based on the weighted average number of common shares outstanding during the periods since 1967. Prior to 1967 the Company computed earnings per share based on common shares outstanding at year end; accordingly, shares presented for those years represent the outstanding amount at year end. Such shares have been adjusted for the 2-for-1 split of the Company's common stock which became effective May 6, 1965.

1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
$330.5	$290.0	$277.6	$234.1	$221.3	$198.4	$189.8	$175.2	$158.7	$153.2
259.8	231.4	220.5	181.8	174.0	157.1	151.5	140.1	126.4	122.3
15.3	9.4	9.5	7.5	6.7	5.7	5.6	6.5	6.4	7.0
55.4	49.2	47.6	44.8	40.6	35.6	32.7	28.6	25.9	23.9
19.3	16.7	16.8	15.4	16.2	14.1	12.7	12.5	11.1	10.2
36.1	32.5	30.8	29.4	24.4	21.5	20.0	16.1	14.8	13.7
.7	.7	.7	—	—	—	—	—	—	—
$ 35.4	$ 31.8	$ 30.1	$ 29.4	$ 24.4	$ 21.5	$ 20.0	$ 16.1	$ 14.8	$ 13.7
10,043	10,017	9,989	9,979	9,978	9,975	9,970	9,965	9,953	9,946
$3.52	$3.17	$3.01	$2.95	$2.45	$2.16	$2.01	$1.62	$1.49	$1.38
$ .90	$1.16	$1.06	$ .99	$ .64	$ .44	$ .31	$ .14	$ .06	$ .13
$ .03	—	—	—	—	—	—	—	—	—
$1.40	$1.40	$1.40	$1.30	$1.30	$1.175	$1.10	$1.05	$1.00	$1.00
$229.7	$204.5	$191.8	$169.4	$145.2	$133.7	$123.8	$114.7	$108.8	$103.9
4.5	2.9	4.8	3.6	3.4	2.5	1.8	1.5	1.2	1.0
285.7	255.6	214.6	192.9	160.1	148.7	130.9	141.6	138.5	148.3
$519.9	$463.0	$411.2	$365.9	$308.7	$284.9	$256.5	$257.8	$248.5	$253.2
$804.7	$721.9	$637.8	$590.7	$515.5	$482.9	$438.9	$410.1	$375.1	$363.6
$305.5	$281.1	$263.7	$232.9	$215.4	$196.7	$180.3	$161.8	$133.3	$118.8

(2) The Company owned approximately 81% of The Offshore Company until December 31, 1964, 87% until December 19, 1967, 83% until December 29, 1969 and 87% until January 23, 1970 when the ownership decreased 1% upon acquisition of H. B. Fowler & Company, Inc. on a pooling of interest basis. Purchases of Offshore's stock during 1974 increased the Company's ownership to 89% at December 31, 1974. In early 1975 additional purchases increased the Company's ownership to 90.7%.

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Southern Natural Gas Company

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and President

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Assistant Secretary

WILLIAM A. SMITH
Assistant Secretary

BRYCE N. SCUDDER
Assistant Treasurer

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Exhibit 10

STATEMENT

of

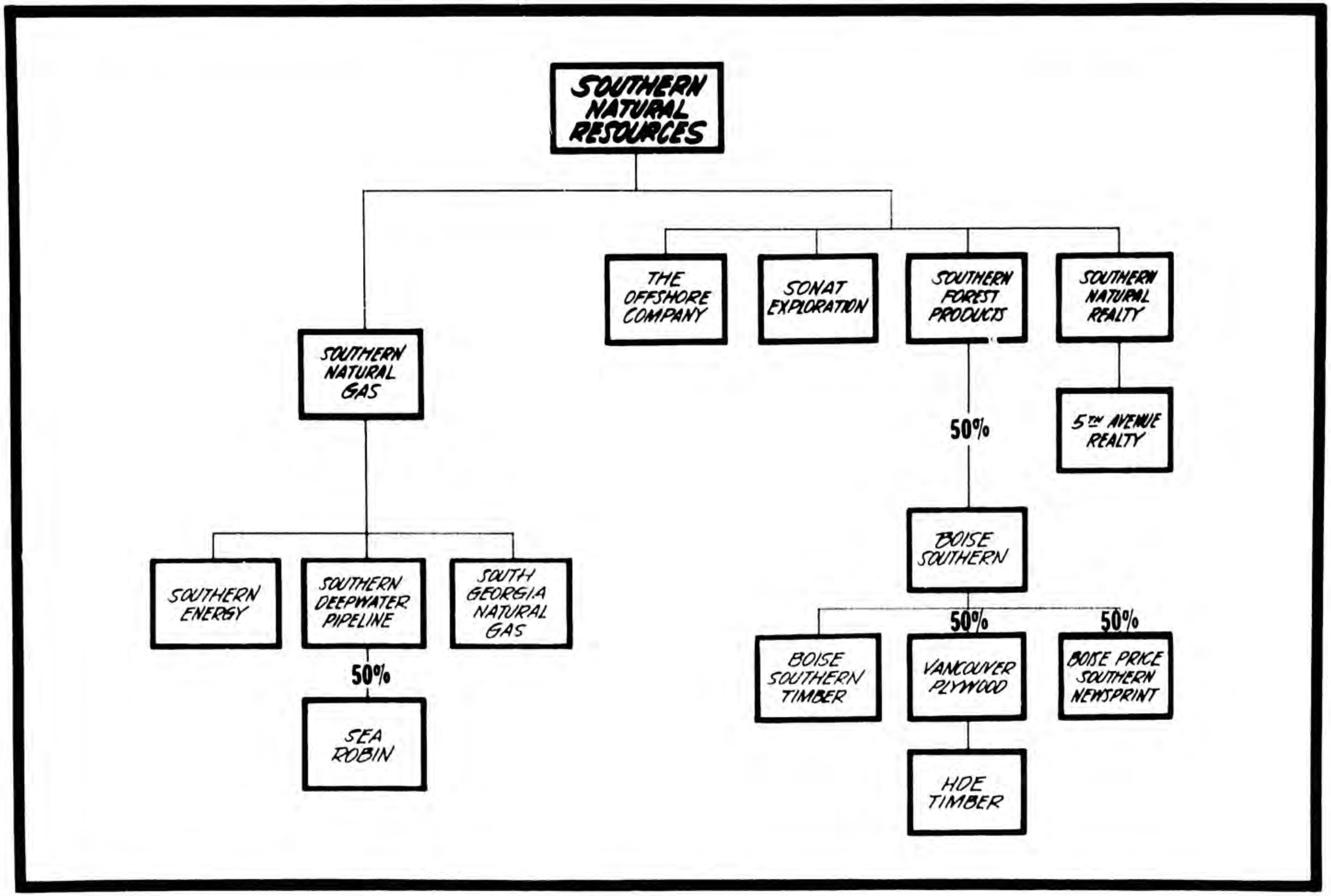
SOUTHERN NATURAL GAS COMPANY

before

SPECIAL COMMITTEE OF ALASKA LEGISLATURE

HEARINGS HELD ON
JANUARY 31 – FEBRUARY 2
1977

AGO 668245


SOUTHERN NATURAL RESOURCES
SOUTHERN NATURAL GAS
THE OFFSHORE COMPANY
SONAT EXPLORATION
SOUTHERN FOREST PRODUCTS
SOUTHERN NATURAL REALTY
50%
5TH AVENUE REALTY
BOISE SOUTHERN
SOUTHERN ENERGY
SOUTHERN DEEPWATER PIPELINE
SOUTH GEORGIA NATURAL GAS
50%
SEA ROBIN
50%
50%
BOISE SOUTHERN TIMBER
VANCOUVER PLYWOOD
BOISE PRICE SOUTHERN NEWSPRINT
HOE TIMBER

UTILITIES — NATURAL GAS
MANAGEMENT PERFORMANCE
(AS REPORTED BY FORBES, JANUARY 1, 1977)

COMPANY	RETURN ON EQUITY 5-YEAR RANK	DEBT/EQUITY RATIO	RETURN ON TOTAL CAPITAL 5-YEAR RANK	GROWTH EARNINGS/SHARE 5-YEAR RANK
SOUTHERN NATURAL RESOURCES	1	1.1	1	1
PANHANDLE EASTERN	2	1.3	4	4
TENNECO	3	0.9	3	3
ENSERCH	4	1.1	2	2
TEXAS EASTERN	5	1.0	5	5
EL PASO COMPANY	6	1.6	7	7
COASTAL STATES GAS	7	0.9	6	6

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COMPARATIVE DEBT RATINGS

(MOODY'S 1976)

	BONDS	DEBENTURES	C/PAPER
CONSOLIDATED		Aa	P-1
SOUTHERN NATURAL	Aa	A	P-1
PACIFIC GAS & ELECTRIC	Aa		P-1
COLUMBIA		A	P-1
NORTHERN NATURAL		A	P-1
PACIFIC LIGHTING		A	P-1
PANHANDLE EASTERN		A	P-2
COLORADO INTERSTATE	A	Baa	
NATURAL GAS P/L	A	Baa	P-1
MICHIGAN CONSOLIDATED	A		P-2
MICHIGAN WISCONSIN	A		P-2
MISSISSIPPI RIVER		Baa	P-2
NORTHWEST PIPELINE		Baa	
TEXAS GAS		Baa	P-2
PACIFIC GAS TRANSMISSION	Baa		
TEXAS EASTERN	Baa	Ba	P-2

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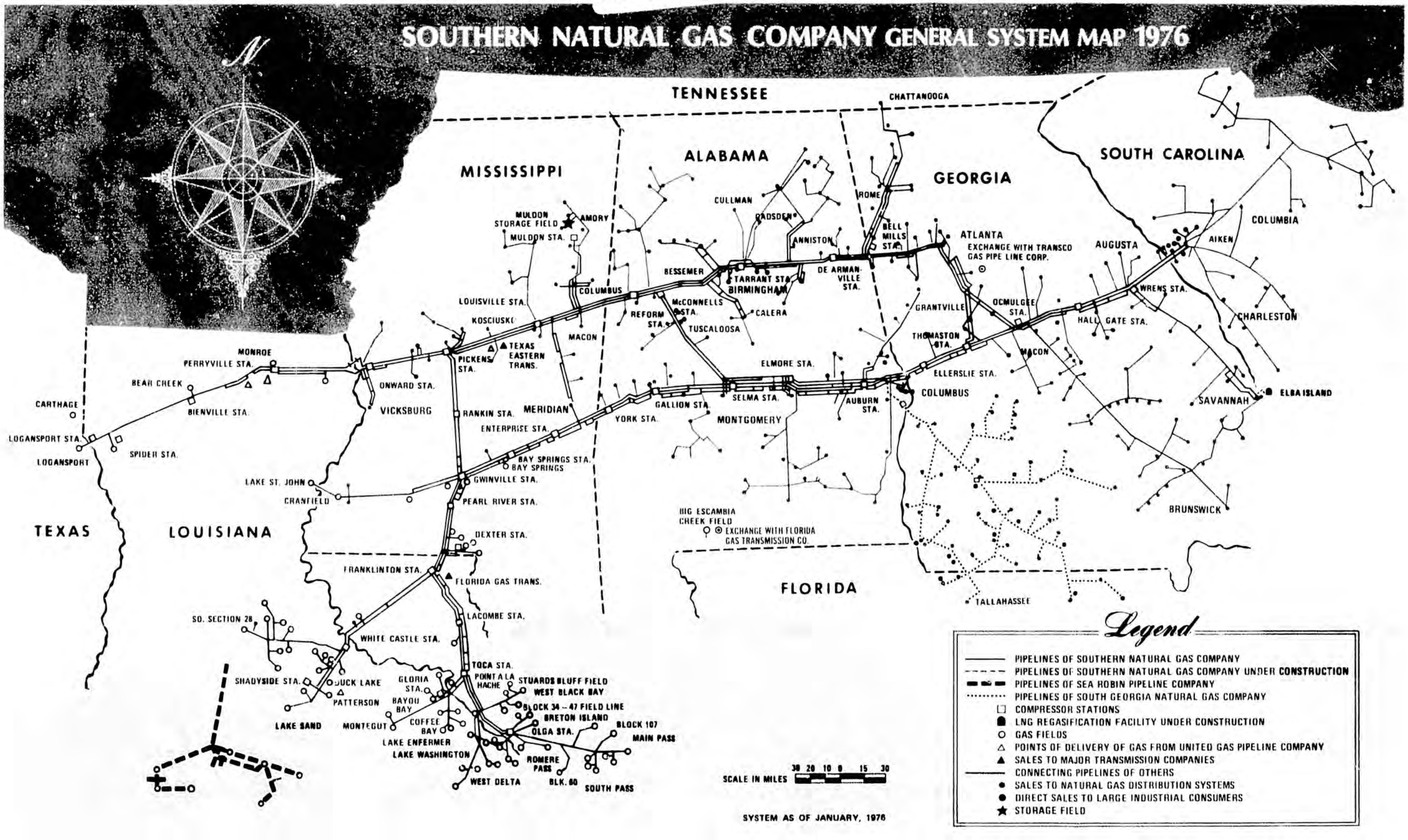
SOUTHERN NATURAL GAS COMPANY GENERAL SYSTEM MAP 1976
N
TENNESSEE
MISSISSIPPI
ALABAMA
GEORGIA
SOUTH CAROLINA
TEXAS
LOUISIANA
FLORIDA
CHATTANOOGA
CULLMAN
GADSDEN
ANNISTON
ROME
BELL MILLS STA.
ATLANTA
EXCHANGE WITH TRANSCO GAS PIPE LINE CORP.
AUGUSTA
AIKEN
COLUMBIA
MULDON STORAGE FIELD
AMORY
MULDON STA.
COLUMBUS
BESSEMER
TARRANT STA.
BIRMINGHAM
DE ARMANVILLE STA.
GRANTVILLE
OCMULGEE STA.
WRENS STA.
HALL GATE STA.
CHARLESTON
LOUISVILLE STA.
KOSCIUSKO
REFORM STA.
McCONNELLS STA.
CALERA
TUSCALOOSA
MACON
THOMASTON STA.
MONROE
PERRYVILLE STA.
PICKENS STA.
TEXAS EASTERN TRANS.
ELMORE STA.
ELLERSLIE STA.
BEAR CREEK
ONWARD STA.
SELMA STA.
AUBURN STA.
SAVANNAH
ELBA ISLAND
CARTHAGE
BIENVILLE STA.
VICKSBURG
RANKIN STA.
MERIDIAN
GALLION STA.
MONTGOMERY
YORK STA.
ENTERPRISE STA.
LOGANSPORT STA.
LOGANSPORT
SPIDER STA.
BAY SPRINGS STA.
BAY SPRINGS
GWINVILLE STA.
LAKE ST. JOHN
CRANFIELD
PEARL RIVER STA.
BRUNSWICK
BIG ESCAMBIA CREEK FIELD
EXCHANGE WITH FLORIDA GAS TRANSMISSION CO.
DEXTER STA.
FRANKLINTON STA.
FLORIDA GAS TRANS.
TALLAHASSEE
LACOMBE STA.
SO. SECTION 28
WHITE CASTLE STA.
TOCA STA.
POINT A LA HACHE
STUARDS BLUFF FIELD
WEST BLACK BAY
SHADYSIDE STA.
DUCK LAKE
PATTERSON
GLORIA STA.
BAYOU BAY
BLOCK 34 – 47 FIELD LINE
BRETON ISLAND
LAKE SAND
MONTEGUT
COFFEE BAY
OLGA STA.
BLOCK 107
MAIN PASS
LAKE ENFERMER
LAKE WASHINGTON
ROMERE PASS
WEST DELTA
BLK. 60
SOUTH PASS
SCALE IN MILES 30 20 10 0 15 30
SYSTEM AS OF JANUARY, 1976
Legend
PIPELINES OF SOUTHERN NATURAL GAS COMPANY
PIPELINES OF SOUTHERN NATURAL GAS COMPANY UNDER CONSTRUCTION
PIPELINES OF SEA ROBIN PIPELINE COMPANY
PIPELINES OF SOUTH GEORGIA NATURAL GAS COMPANY
COMPRESSOR STATIONS
LNG REGASIFICATION FACILITY UNDER CONSTRUCTION
GAS FIELDS
POINTS OF DELIVERY OF GAS FROM UNITED GAS PIPELINE COMPANY
SALES TO MAJOR TRANSMISSION COMPANIES
CONNECTING PIPELINES OF OTHERS
SALES TO NATURAL GAS DISTRIBUTION SYSTEMS
DIRECT SALES TO LARGE INDUSTRIAL CONSUMERS
STORAGE FIELD

AGO 668254

SOUTHERN NATURAL GAS COMPANY
MAJOR RESALE CUSTOMERS

MISSISSIPPI

Mississippi Valley Gas Company – serves 92 Cities and Municipalities.

ALABAMA

Alabama Gas Corporation – serves 148 Cities and Municipalities.
Marshall County Gas District – serves 3 Cities
Southeast Alabama Gas District – serves 26 Cities and Municipalities.

GEORGIA

Atlanta Gas Light Company – serves 195 Cities and Municipalities.
Gas Light Company of Columbus – serves 1 City
Austell, City of – serves 5 Cities.
Dalton, City of – serves 2 Cities.

SOUTH CAROLINA

Carolina Pipeline Company – serves 47 Cities and Municipalities.
South Carolina Electric and Gas Company – serves 53 Cities and Municipalities.

TENNESSEE

Chattanooga Gas Company – serves 20 Cities and Municipalities.

Note: In addition to these major resale customers, Southern Natural Gas Company sells gas for resale to an additional 98 municipalities and gas distributors and to three connecting interstate pipeline companies:

Florida Gas Transmission Company
South Georgia Natural Gas Company
Texas Eastern Transmission Corporation

SOUTHERN NATURAL GAS COMPANY
DIRECT SALES CUSTOMERS

ALABAMA

Air Reduction Sales Company, Inc.
Alabama Power Company
Alabaster Lime Co.
Allison Lumber Co.
American Can Company
Bickerstaff Clay Products Co., Inc.
Birmingham Hide and Tallow Co.
Vulcan Materials
Borden Chemical Company
Brown Wood Preserving Co.
Cement Asbestos Products Co.
Cheney Lime Company
Continental Can Company
Cordova Brick Company
Dolcito Quarry Company
Eason Pottery Works
Goodyear Tire & Rubber Co.
Gulf States Paper Corp.
Hercules Inc.
Hunt Oil Company
Lone Star Industries, Inc.
Longview Lime Corp.
McMillan – Bloedel United, Inc.
Mt. Vernon Mills, Inc.
National Cement Company
Ragland Brick Company
Martin-Marietta Cement Co.
William L. McDavid
U. S. Steel Corp.
Universal Atlas Cement Co.
West Point – Pepperell, Inc.

GEORGIA

Certain-Teed Products Corp.
Continental Can Company
Johns-Manville Products Corp. of Georgia
Kaiser Agricultural – Chemical Division
Savannah Sugar Refining Corporation
Union Bag Camp Corporation
West Point – Pepperell, Inc.

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SOUTHERN NATURAL GAS COMPANY
DIRECT SALES CUSTOMERS
(Continued)

LOUISIANA

Amax Nickel Refining Co., Inc.
Mississippi River Grain Elevator, Inc.

MISSISSIPPI

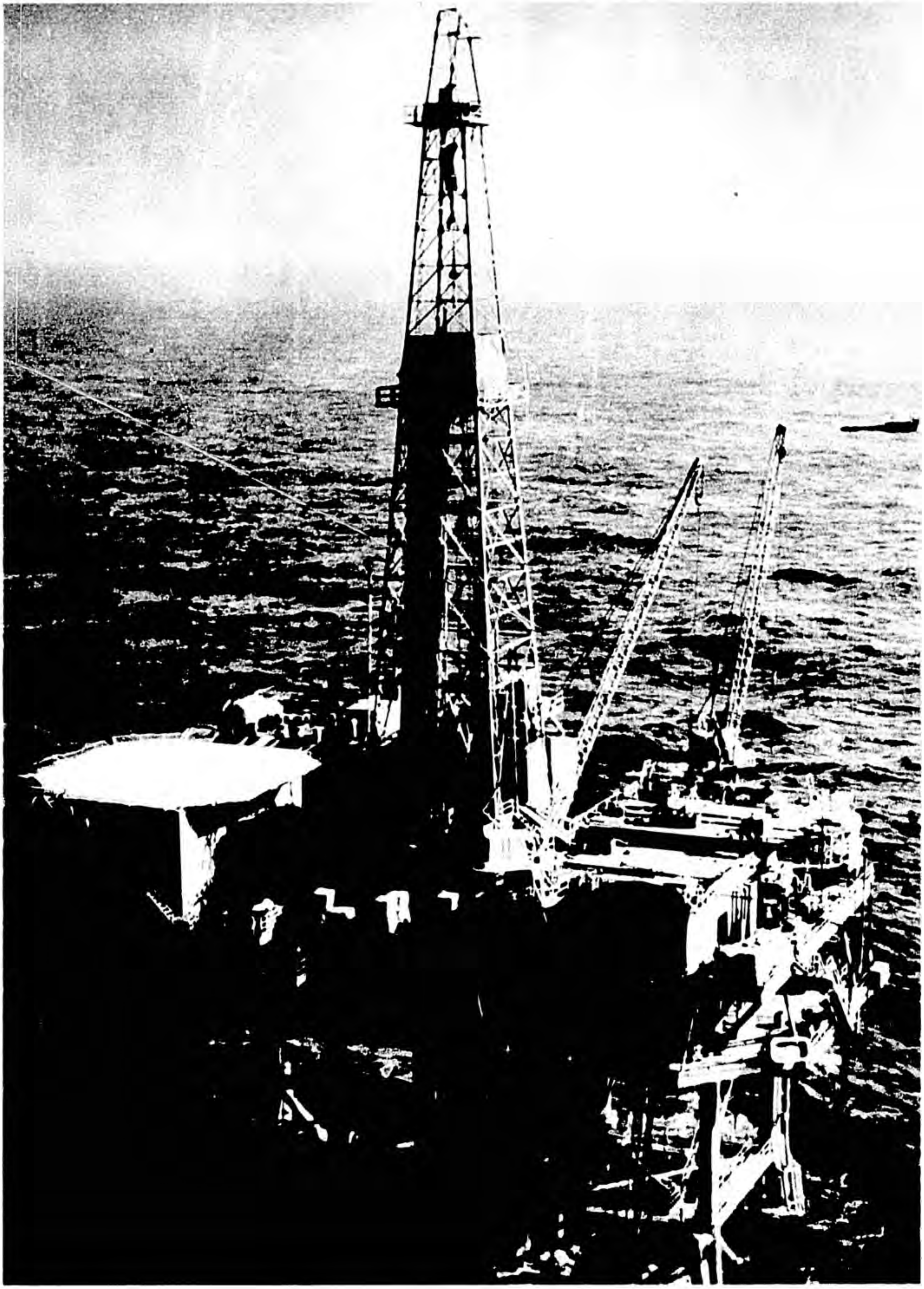
Atlas Tank Manufacturing Co., Inc.
Clinton Oil Company
Crystal Oil Company
Mississippi Chemical Corp.
Valley Cement Industries, Inc.
Oliver Electrical Mfg. Co.
Paymaster Oil Mill Co.
Southland Oil Company
Triad Oil and Gas Company
Hassie Hunt Trust
Issaquena Farms Corp.
Jones O'Brien, Inc.
King's Gin Company, Inc.
John W. McGowan
Pennzoil Producing Company
Sohio Petroleum Co.
Tinsley Well Service
Department of the Army

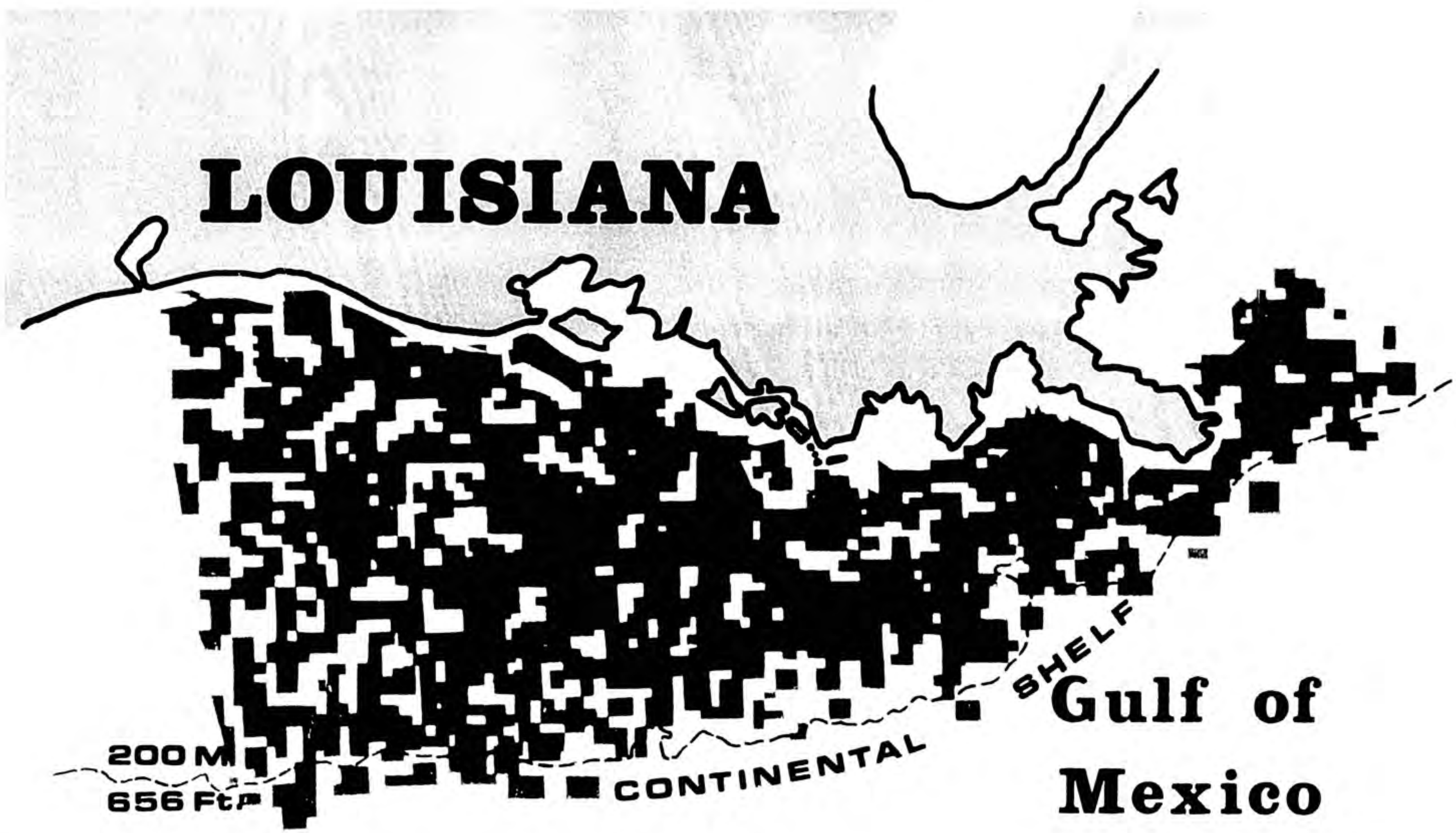
SOUTH CAROLINA

Dixie Clay Company
Graniteville Company
J. M. Huber Corporation
National Kaolin Products Company
Southeastern Clay Company
United Sierra Division, Cyprus Mines
United Merchants and Manufacturers, Inc.

AGO 668257

AGO 668258

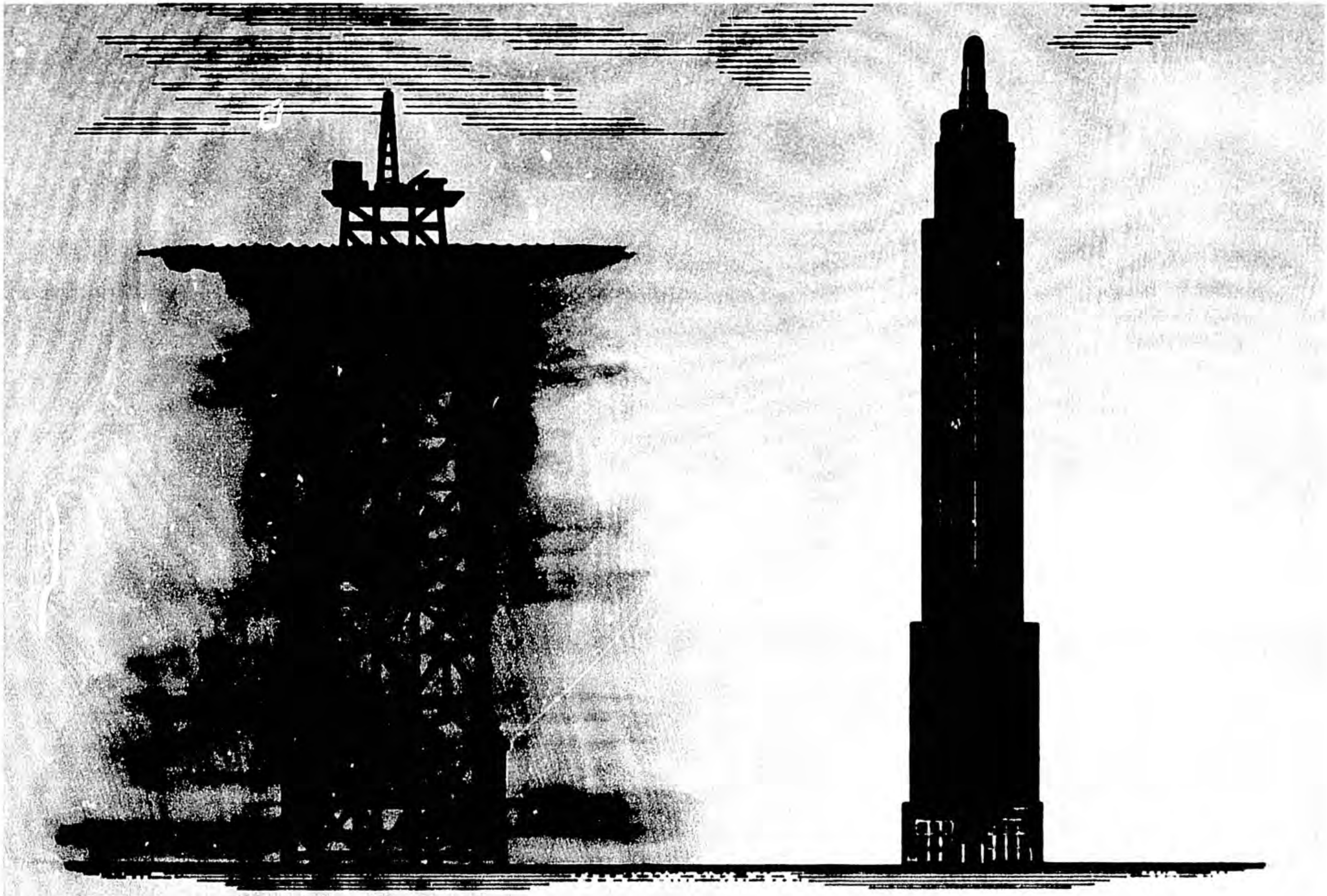




Total leased through Oct. 1976– 8,356,003 acres

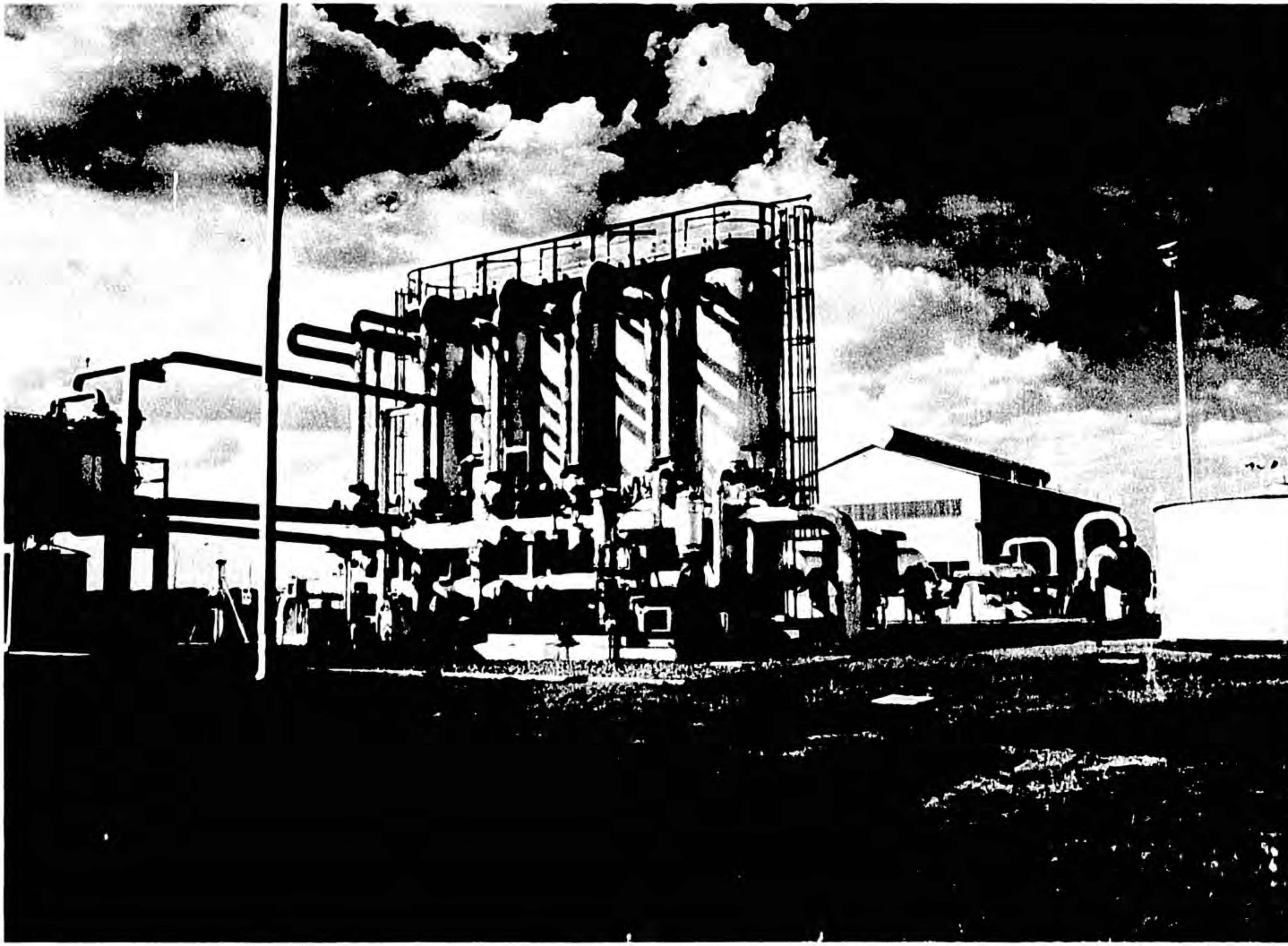
SOURCE : OIL and GAS JOURNAL

AGO 668262



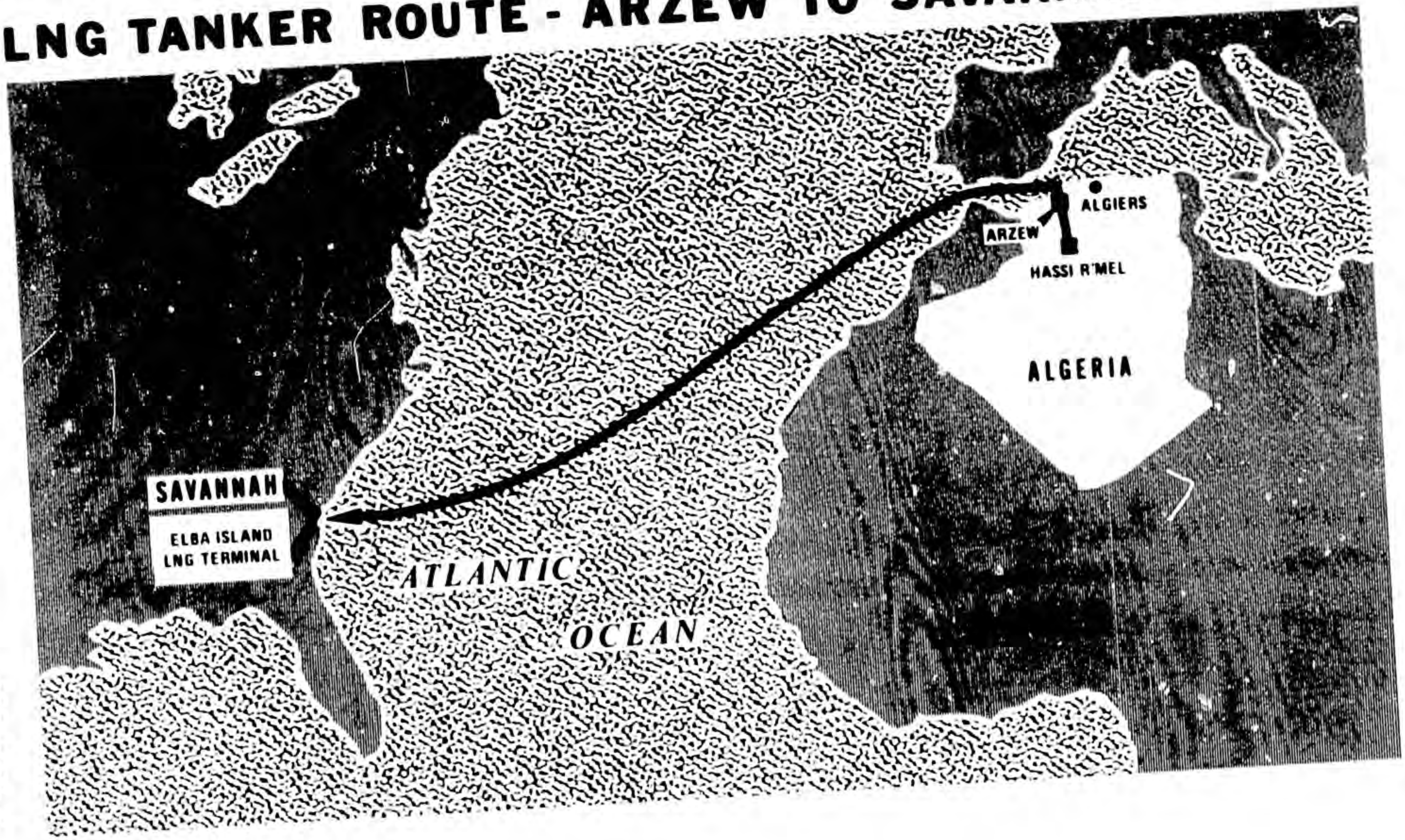
PLATFORM EMPIRE STATE BUILDING

AGO 668264

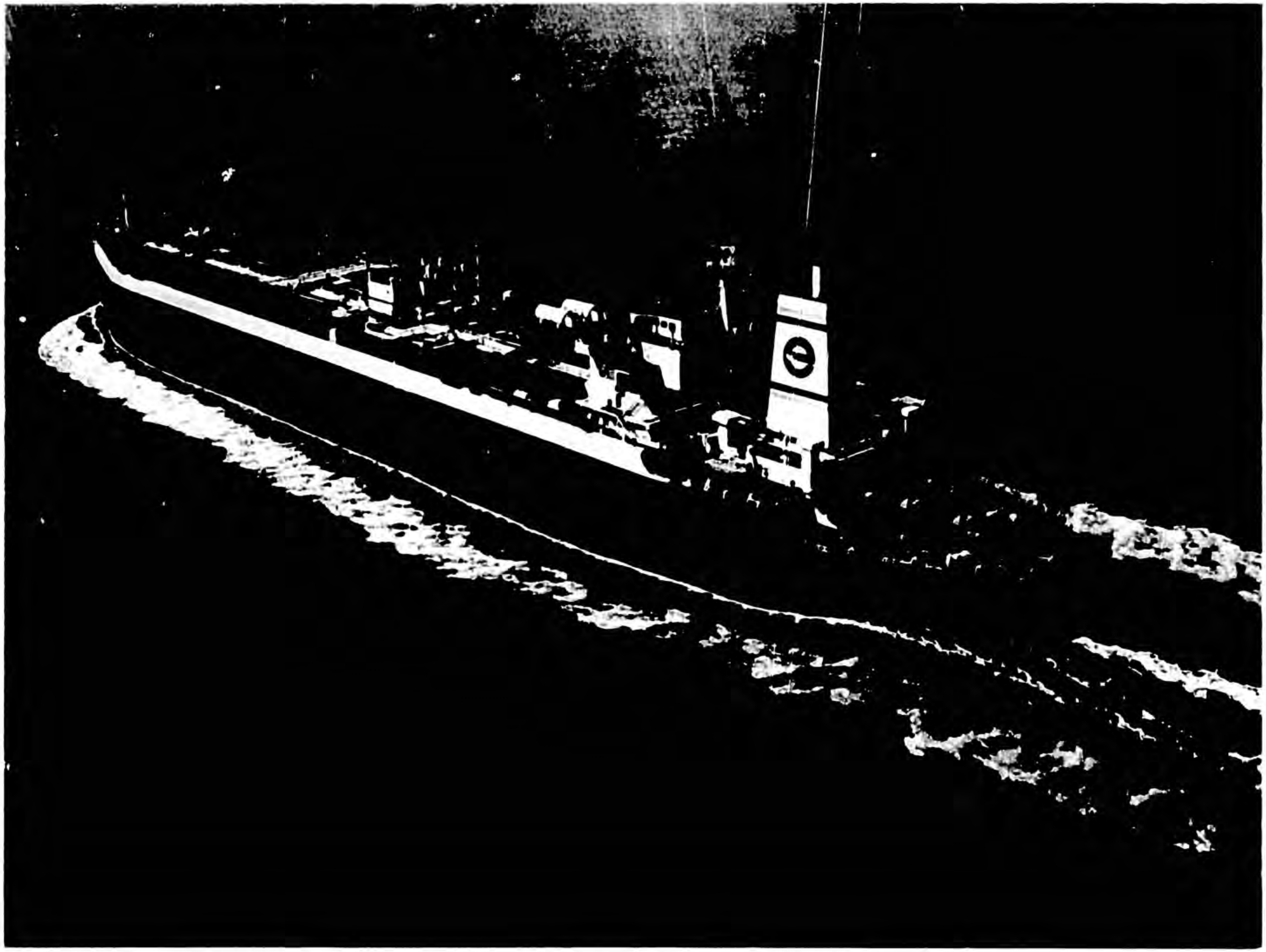


AGO 668265

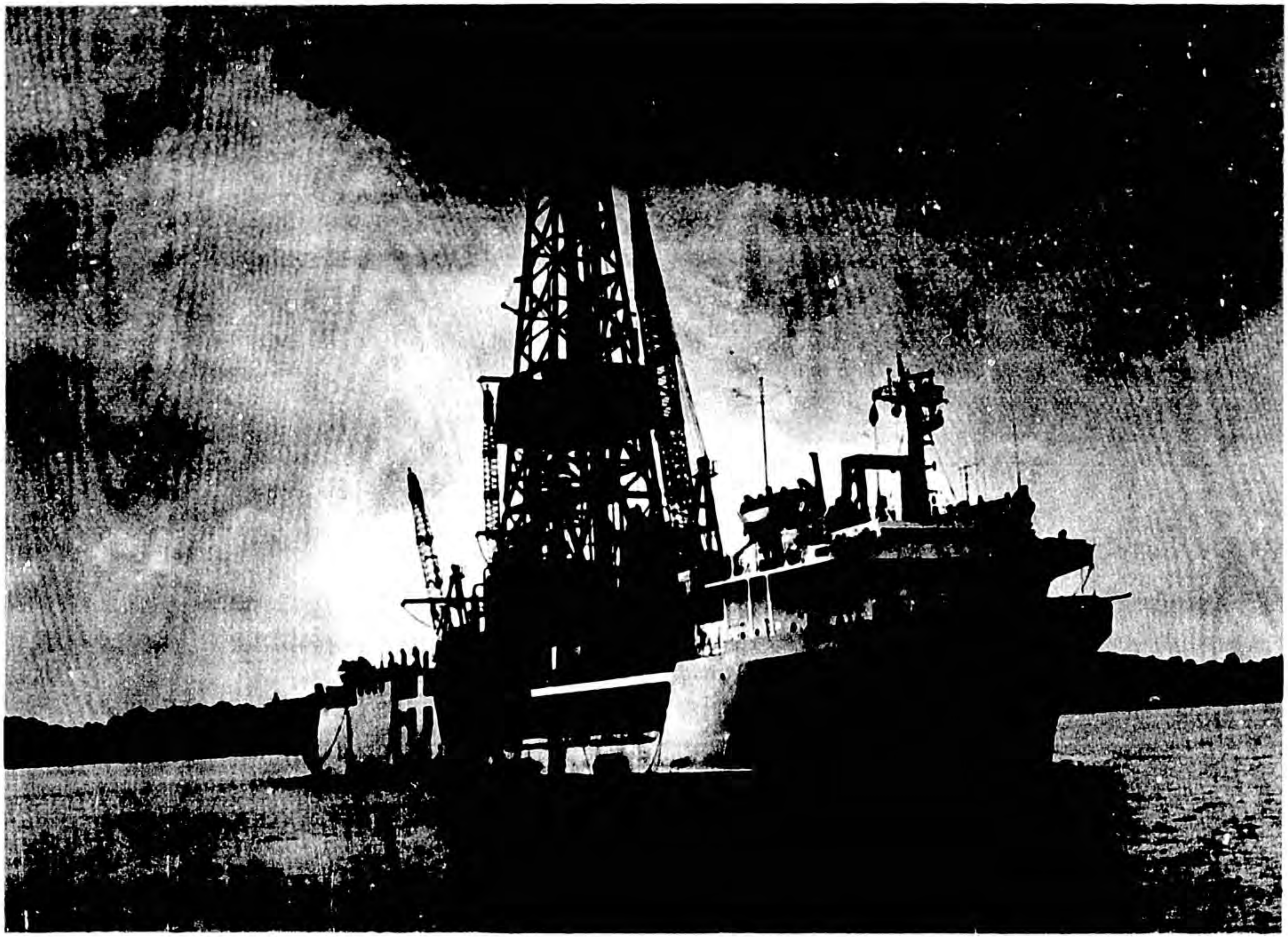
LNG TANKER ROUTE - ARZEW TO SAVANNAH



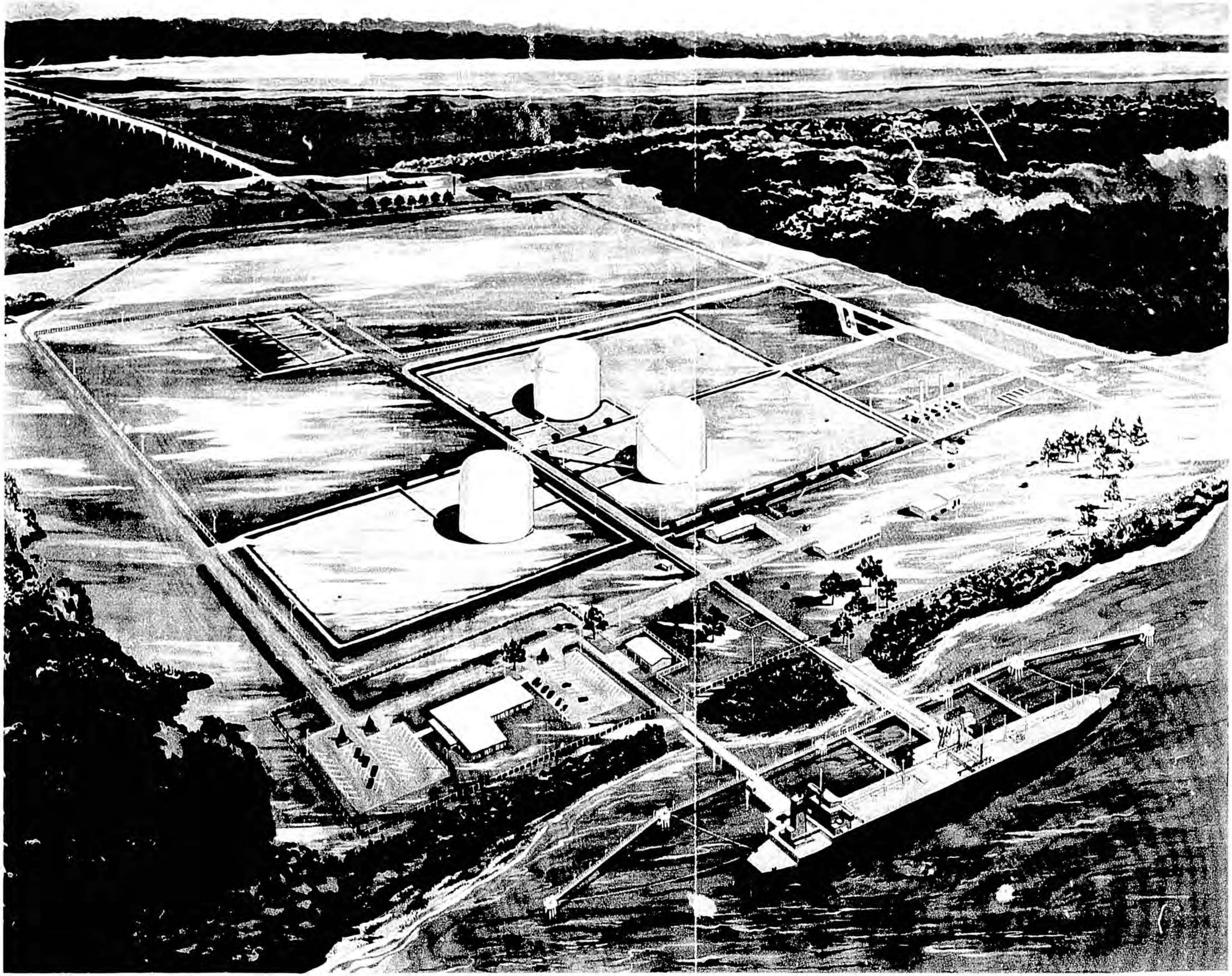
AGO 668269



AGO 668271

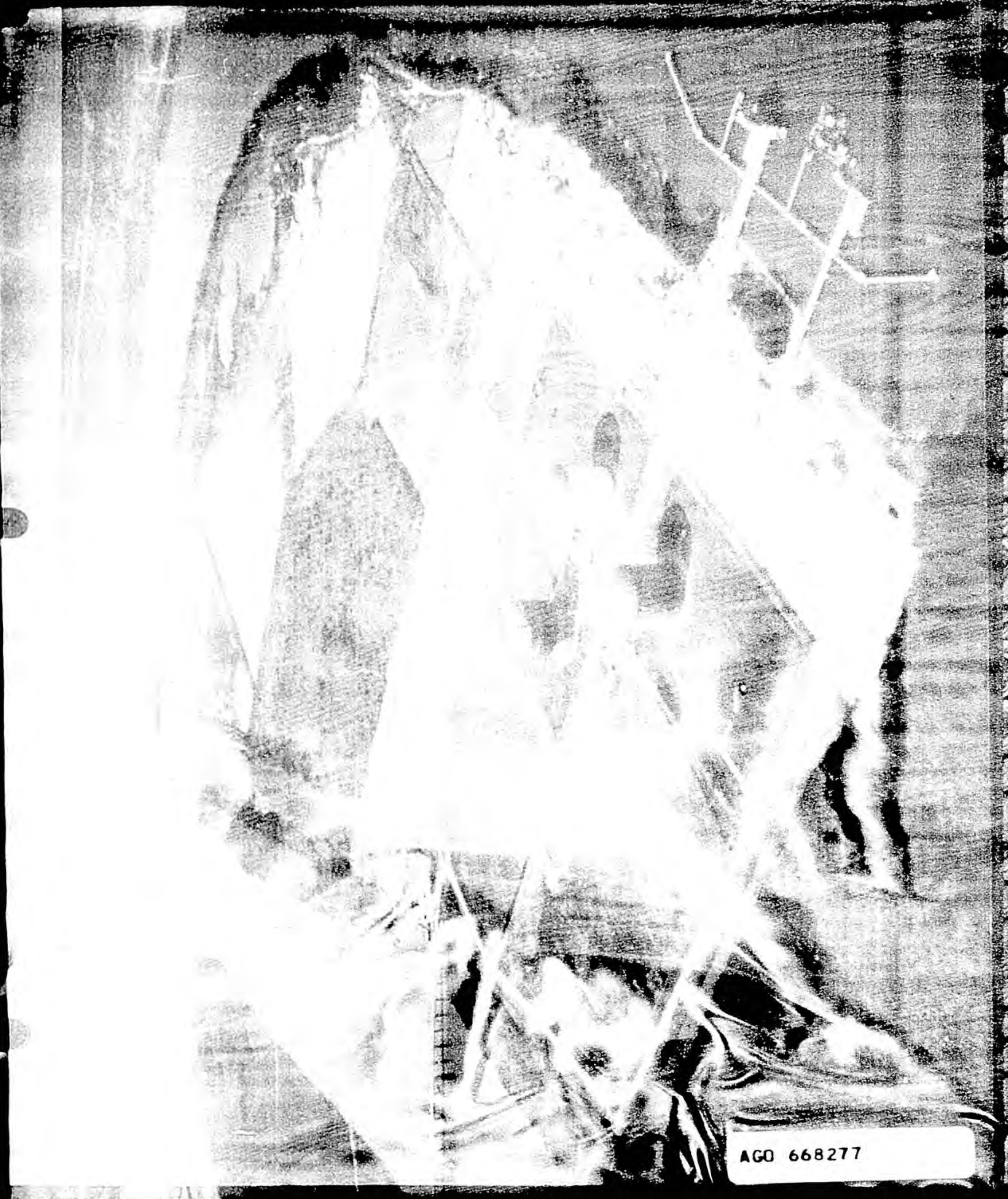


AGO 668273



SOUTHERN ENERGY COMPANY · ELBA ISLAND LNG FACILITY, SAVANNAH, GEORGIA

AGO 668275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AGO 668278


AGO 668279

SIGNIFICANT ADVANTAGES OF AN ALL-AMERICAN ALASKA NATURAL GAS TRANSPORTATION SYSTEM

PROJECT COMPLETION

INITIAL DELIVERIES WITHIN 5 YEARS. FULL DELIVERIES IN LESS THAN 6 YEARS.

ENVIRONMENTAL

LIMITED ENVIRONMENTAL IMPACT ON STATE'S ENVIRONMENT. PRESERVES ARCTIC NATIONAL WILDLIFE RANGE.

EMPLOYMENT

ESTIMATED 749,000 MAN YEARS OF DIRECT AND INDUCED U.S. EMPLOYMENT.

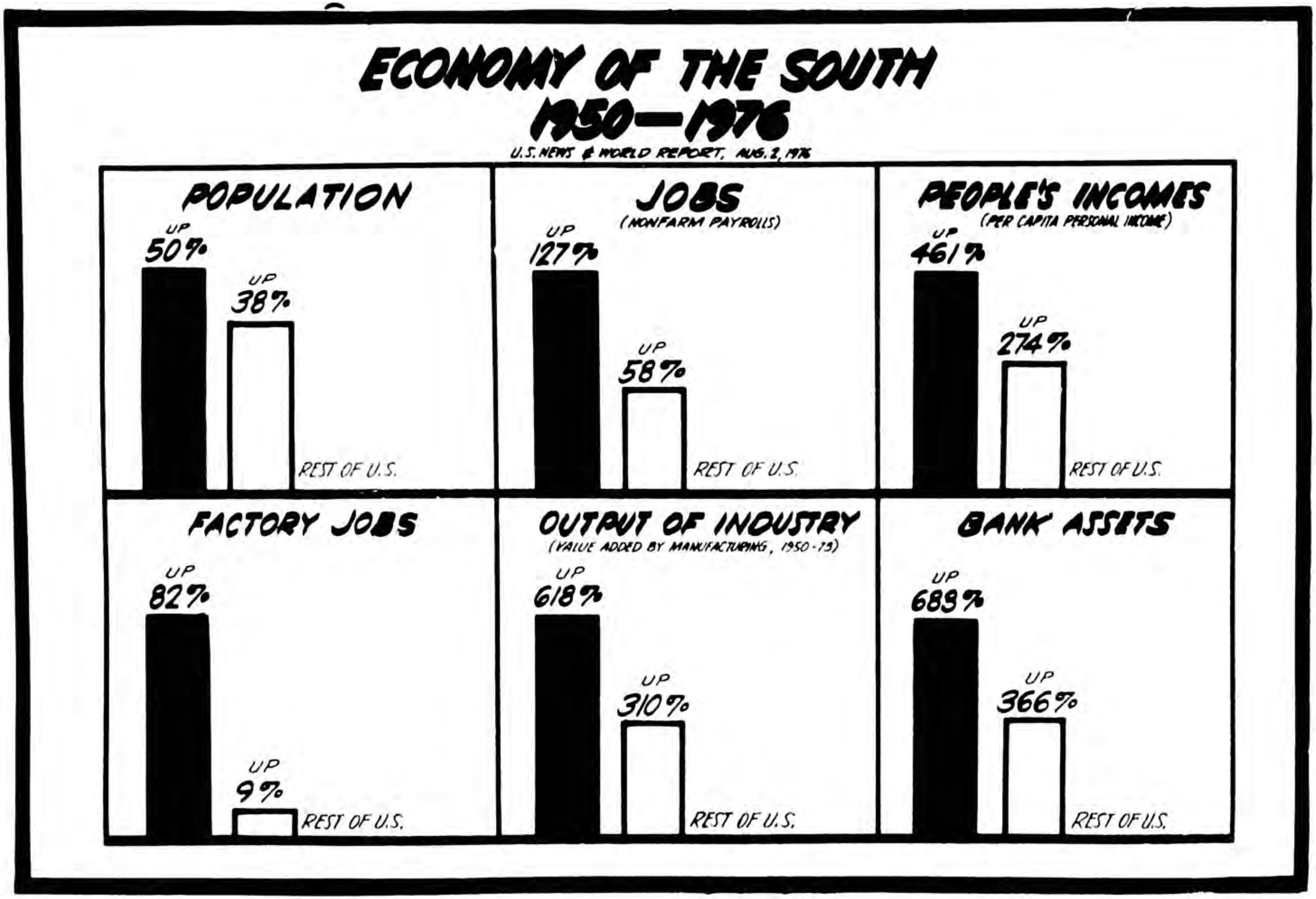
ROYALTY SALES CONTRACT

RESERVES ROYALTY GAS TO INTRASTATE USE. MOST FAVORED NATIONS PRICING CLAUSE.

REVENUE AND EXPENDITURES

U.S., INCOME TAXES, ALASKA AD VALOREM TAXES AND OTHER TAXES ____ $19.2 BIL.
GOODS, SERVICES AND FACILITIES IN ALASKA ____ $4.6 BIL.
CONSTRUCTION PAYROLL IN ALASKA ____ $840 MIL.

AGO 668282


ECONOMY OF THE SOUTH
1950—1976
U.S. NEWS & WORLD REPORT, AUG. 2, 1976
POPULATION
UP 50%
UP 38%
REST OF U.S.
JOBS
(NONFARM PAYROLLS)
UP 127%
UP 58%
REST OF U.S.
PEOPLE'S INCOMES
(PER CAPITA PERSONAL INCOME)
UP 461%
UP 274%
REST OF U.S.
FACTORY JOBS
UP 82%
UP 9%
REST OF U.S.
OUTPUT OF INDUSTRY
(VALUE ADDED BY MANUFACTURING, 1950-73)
UP 618%
UP 310%
REST OF U.S.
BANK ASSETS
UP 689%
UP 366%
REST OF U.S.