



SUI NORTHERN GAS PIPELINES LIMITED

GAS HOUSE, 21 KASHMIR ROAD, P.O. BOX 56, LAHORE (PAKISTAN)

CA/PSX/2651

Thru: PUCARS / Courier

July 23, 2020

The General Manager,
Pakistan Stock Exchange Limited (PSX),
Stock Exchange Building,
Stock Exchange Road,
KARACHI.

The Director/HOD,
Surveillance, Supervision & Enforcement Department,
Securities and Exchange Commission of Pakistan
NIC Building, 63 Jinnah Avenue, Blue Area
ISLAMABAD.

MATERIAL INFORMATION

Dear Sir,

This is in continuation of our earlier letter No. CA/PSX/2607 dated July 21, 2020 regarding financial results of the Company for the financial year ended June 30, 2019.

In accordance with Section 96 of the Securities Act, 2015 and Clause 5.6.1(a) of PSX Regulations, it is informed that the Auditors of the Company through their communication dated July 23, 2020 have issued revised draft audit report containing qualification on the Financial Statements of the Company for the year ended June 30, 2019. The basis of the qualification along with the Management's response thereon are attached as **Annex-I** and **II** respectively.

You may please inform the TRE Certificate Holders of the Exchange accordingly.

Thanks and regards.

Yours sincerely,

SUI NORTHERN GAS PIPELINES LIMITED

(IMTIAZ MEHMOOD) -

Company Secretary

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Annex-I

Basis for Qualified Opinion

As explained in Note 11.1.2 to the financial statements, the Company has adopted and applied International Financial Reporting Standards (IFRS) 15 "Revenue from Contracts with Customers" in its financial statements with effect from July 01, 2018 to the contracts for which the revenue has not been previously recognized. The Company did not comply with the requirements of the transitional provisions of the IFRS 15 read with IFRIC 18, "transfer of assets from customers" that, in our view, require a retrospective adjustment to the opening statement of financial position as of July 01, 2018 to defer the previously recognized revenues with respect to contributions towards the cost of supplying and laying transmission, service and main lines on contracts that have continuing performance obligations at the date of transition. Accordingly, we consider that treatment adopted by the Company is a departure from the requirements of the IFRS as applicable in Pakistan.

Had the Company applied new accounting policy with respect to the contracts with customers retrospectively, the contract liabilities, differential margin recoverable and income tax recoverable as at June 30, 2019 would have increased by Rs. 6,835 million (July 01, 2018: Rs. 7,419 million), Rs. 1,225 million (July 01, 2018: Rs. 1,808 million) and Rs. 1,627 million (July 01, 2018: Rs. 1,627 million) respectively, whereas, the un appropriated profits and the deferred tax liability would have decreased by Rs. 2,001 million (July 01, 2018: Rs. 1,832 million) and Rs. 1,982 million (July 01, 2018: Rs. 2,152 million) respectively. Further, the profit for the year would have decreased by Rs. 169 million. The financial impacts have been estimated assuming that a differential margin would be allowed under the regulatory tariff regime applicable to the Company.

COMPANY SECRETARY
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Annex-II

Management reply

1. The auditors of the Company M/s EY Ford Rohdes, Chartered Accountants (the "Auditors") issued the draft initialed audit report dated July 17, 2020 on the financial statements of the Company for the year ended 30 June 2019 ("initialed financial statements"). There was no qualification in the said audit report with regard to adoption of IFRS -15.
2. The Auditors' letter to the Board of Directors dated July 17, 2020 (the 'BL') received by the Company along with aforesaid initialed audit report also did not mention about any qualification / modification / reservation on the financial statements regarding IFRS 15;
3. The BL mentioned that the Company has obtained opinion / interpretation from Accounting Standard Board (ASB) of the Institute of Chartered Accountants of Pakistan with regard to application of transition provisions of IFRS-15 and requested the Board of Directors to ratify the assertions in respect of adoption of IFRS-15 by the Company.
4. The Board Audit Committee (BAC) met on 21 July, 2020 to consider the initialed financial statements of the Company. The Auditors present in the meeting contrary to their earlier requirement of ratification of assertions by the Board of Directors regarding adoption of IFRS-15 by the Company as mentioned in their BL, now required an endorsement of the opinion / interpretation of ASB from the Securities and Exchange Commission of Pakistan (the "SECP");
5. BAC agreeing to the opinion / interpretation of ASB, the final authority on this matter, and noting that the Auditors' additional requirement is without any valid basis, advised the management to obtain the requisite endorsement from the SECP. BAC recommended the approval of initialed financial statements along with clean initialed draft audit report.
6. Board of Directors of the Company met on the same day and approved the initialed financial statements and accordingly, the announcement of the results was disseminated on the Pakistan Stock Exchange Limited.
7. As required by the Auditors on July 21, 2020, the matter was taken up by the Company with the SECP on July 22, 2020 and the SECP vide its letter dated July 23, 2020 responded that "the Commission, under the provisions of Section 225 of the Companies Act 2017, notifies financial reporting standards for different class or classes of Companies as contained in the third schedule of the Companies Act 2017 on recommendations of ASB, ICAP. The Company may resolve the matter with the Auditors and ASB, ICAP accordingly." This response of the SECP was duly communicated to the Auditors.
8. However, the Auditors vide their letter dated July 23, 2020 expressed a disagreement on the application by the Company of transition provisions of IFRS 15 governing retrospective application

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with respect to closed contracts under IFRIC 18 and despite the endorsement of the Board of Directors of the Company and the SECP's response on this matter have issued the auditor's report with a qualified opinion.

9. The emergent meetings of the BAC as well as Board of Directors were convened on July 23, 2020 wherein the revised audit report with the qualification mentioned hereinabove was deliberated at length in light of the opinion / interpretation of ASB, SECP's response, the Auditors initialed report dated July 17, 2020 and revised audit report dated July 23, 2020. BAC and the Board did not agree with the interpretation of the Auditors with regard to the transitional provisions of IFRS 15 as not being in line with the opinion/interpretation of ASB of ICAP.

10. It was noted by the Board that IFRS-15 was adopted by the Company from July 01, 2018, prospectively and the Company has duly recognized the required impact in its previous financial statements. With regard to the treatment of application of transition provisions of IFRS 15, the matter was referred to the ASB of the Institute of Chartered Accountants of Pakistan (ICAP) with the consent of the Auditors. It may be mentioned that ASB is the only apex body in Pakistan for setting standards and interpreting implementation of IFRS, which is duly acknowledged and endorsed by SECP in its letter dated July 23, 2020. ASB of ICAP issued its interpretation / opinion on this matter on July 08, 2020 which was duly communicated to the Auditors on July 09, 2020. ASB concluded that the arrangements with the customers involving construction of connection with network infrastructure and for which the revenue has already been completely recognized in prior years under IFRIC 18 meet the definition of "completed contracts" under IFRS 15. The Company can accordingly, consider the transitional requirements of IFRS 15 for the completed contracts. The treatment in financial statements with regard to this matter is strictly in accordance with the opinion/interpretation of ASB and therefore, the disagreement by the Auditors in their revised report is misconceived. Had the impact of qualification incorporated in these financial statements, it would have resulted in reduction of Earning Per Share (EPS) by Re 0.27 per share for the year ended June 30, 2019.