SUI SOUTHERN GAS COMPANY LIMITED
SCHEDULE-III
STATEMENT OF CORPORATE INTENT
(SEE SECTION 8(4))

1. Name of State-Owned Enterprise: **SUI SOUTHERN GAS COMPANY LIMITED**

2. Incorporated/established on: **17 August 1955**

3. Subsidiaries included in this statement of corporate intent:
    a. **SSGC LPG (Private) Limited**
    b. **SSGC Alternate Energy (Private) Limited**

4. Description of the main business of the state-owned enterprise:

Sui Southern Gas Company Limited ("the Company") is a Public Limited Company, incorporated in Pakistan and is listed on Pakistan Stock Exchange. The main activity of the Company is transmission and distribution of natural gas in Sindh and Balochistan. The Company is also engaged in certain activities related to gas business including the manufacturing and sale of gas meters and construction contracts for laying of pipelines.

The registered office of the Company is situated at SSGC House, Sir Shah Muhammad Suleman Road, Block 14 Gulshan-e-Iqbal, Karachi, whereas, meter manufacturing plant is situated at it's registered office.

5. Summary of the business goals of the state-owned enterprise: [**as per the approved business - plan**]
   (Ref: Business Plan- Strategic Objectives Page 3)
    - **SSGC plans to continue to make investments towards improving the effectiveness and efficiency of its gas infrastructure.**
    - **Making systematic and sustainable reduction and maintenance of UFG within the OGRA allowed benchmarks.**
    - **Enabling loss-free operations of the company's core business of transmission, distribution and sale of natural gas while opportunities in LPG and Alternate Energy spheres would be pursued to fortify the aggregate bottom-line.**

- **To continue its focus towards improving supplies to bulk consumers.**
- **To undertake record rehabilitation of the distribution network which will not only mitigate the operational limitations but would also be helpful in sustainable reduction of 'Unaccounted-for-gas' (UFG)**
- **To actively monitor the emerging market scenarios in the mid-to-longer term so as to appropriately position itself while diligently safeguarding the interests of existing business**

6. Summary of the performance measures and benchmarks against the state-owned enterprises business goals and its primary objective: [**targets of the state-owned enterprise**]

Transmission

- **Re-routing of 24" and 12" QPL pipelines from Bibi Nani Bridge**
- **Installation and Commissioning of 01 new compressor unit at HQ-Sibi**

Distribution – Rehabilitation

- **Massive rehabilitation campaign spanning over next three years (FY 2024-25 to FY 2026-27) targeting the installation and commissioning of over 7,500 Km distribution network (15% of company's overall network).**

Unaccounted-for Gas

- **Rigorous implementation of UFG reduction plan by the dedicated UFG division formed (FY 2021) by virtue of Board Directives, coupled with zealous pursuit for resolution of both the internal and external issues; has been yielding consecutive UFG reduction since FY 2018-19.**
- **Remarkable UFG savings have been achieved particularly in FY 2020-21 and FY 2022-23. Company-wide UFG figures have been progressively reduced from ~72.7 BCF (FY 2018-19) to ~32 BCF (FY 2023-24) i.e. 40 BCF net reduction in UFG volume. ~6 BCF of Energy Imbalance claim is under MFR Petition for FY 2021-22, (if materialized) company-wide UFG projection for FY 2023-24 would be ~25 BCF.**

Three Years UFG Reduction Plan

FY. 2022-23 to 2024-25

Sr. No.	Component	Expected Contribution in UFG Reduction					
		FY. 2022-23		FY. 2023-24		FY. 2024-25	
		%age	MMCF	%age	MMCF	%age	MMCF
1	Reduction of UFG against Physical Activities	2.4%	7,765	2.2%	7,035	2.4%	6,748
2	Claims from Unaurthorized Users (Domestic)	0.4%	1,440	0.6%	2,000	0.7%	2,000
3	Saving by Resolution of Balochistan Matter	1.2%	4,000	1.9%	6,000	0.7%	2,000
Total		**3.3%**	**13,205**	**4.5%**	**15,035**	**2.7%**	**10,748**

Note:

1. These working are without any adjustment by OGRA.
2. Impact of RLNG volumes are not incorporated, which usually affect UFG percentages in Karachi.

TBS Automation & Control

- **Automatic Pressure Management System (APMS) - Nos. 100 TBSs**

Mobile Gas Leak Detection – Ethane Detection Based Quad Bikes

- **SSGC plans to procure 06 ethane-based Leak Detection systems for quad bikes, with a budget of PKR 600 million for FY 2024-25.**

Path Markers (EMS) – PE Pipe Network Detection

- **SSGC plan to execute pilot projects and procure EMS tapes worth PKR 100 million in FY 2024-25. The installation of EMS tapes would be incorporated in the 2,500 km rehabilitation schemes planned for FY 2024-25.**

Ergonomically Designed Plunger Rods for Gas Leak Detection

- **20 plunger rods against a budget of PKR 13 million will be procured as pilot project in FY 2024-25 to evaluate their effectiveness in our specific environment.**

Automatic Fire Extinguishing Ball – Fire Safety Balls

- **SSGC plans to procure and install 400 Fire Extinguishing Balls of approximate budget PKR 10 million across its critical facilities in FY 2024-25. This pilot project will enable a comprehensive evaluation of the solution's efficacy within our specific operational environment.**

Geographical Information System (GIS)

- **Enriched GIS system by adding 149 villages around 5 km radius of Badin/Golarchi, Ghotki and Sinjhoro gas fields.**
- **Migration of Oracle 11g (Release 11.0.2.4) to Oracle 19c (Release 19.0.0.0).**
- **Tagging of 3.1 million Customers throughout franchise area.**
- **Implementation of Tracking/Task Management Application for as-built drawings.**
- **Planning of 120+ rehabilitation projects using GIS.**
- **Land records management of transmission pipeline network, for integration with GIS.**

Billing

- **Automatic Meter Reading (AMR) devises will be installed in least 20% G-4 gas meters installed in Karachi to evaluate meter reading accuracies, consumption patterns, meter sizing, and if possible, real time pressures & temperatures of supplied gas.**
- **Foolproof mechanizing will be devised for verifying the authenticity of NIL/ MIN consumers in domestic billing across franchise area.**
- **All building with 6 residential units and above will be surveyed for pressure consumption and gas bills to these consumers will be adjusted accordingly.**
- **Bulk meters will be installed at the inlet of apartment buildings to reconcile volume of gas supplied and billed.**

7. Summary of the strategies of the state-owned enterprise for achieving its business goals and primary objective: [**commercially sensitive strategies are not required to be included here, summary of key risks identified in the achievement of the business goals to also be included here**]

a. Transmission

(Ref: Business Plan- Operational Outlook (Transmission) Page 4)

b. Distribution

(Ref: Business Plan- Operational Outlook (Distribution) Page 4)

c. Rehabilitation

(Ref: Business Plan- Operational Outlook (Rehabilitation) Page 4 & 5)

d. Unaccounted- for Gas

(Ref: Business Plan- Operational Outlook (UFG) Page 5)

e. Technology adoption & continuous improvement

(Ref: Business Plan- Technology Adoption & Continuous Improvement Page 6)

f. GIS – Capitalizing on Digital Tools

(Ref: Business Plan- Operations Outlook Page 6)

g. Billing

(Ref: Business Plan- Operations Outlook Page 7)

h. Meter Manufacturing Plant

(Ref: Business Plan- Operations Outlook Page 7 & 8)

i. HR Initiatives
(Ref: Business Plan- Page 27)

Key Risks

S. No	Key Risks
1	Gas Losses (UFG) & Financial Risk
2	Circular Debt & Liquidity Risk
3	Legal & Contractual Obligations Risk
4	Regularization of 3rd Party employees Risk
5	Contingencies & Claims Risks
6	Non-Recovery of Domestic Debtors Risk
7	FBR Notices for Tax Collection Risk
8	Manpower gaps and Succession Planning in Key senior positions
9	Entity Credit Rating Downgrade Risk

8. The current or anticipated borrowing of the state-owned enterprise, including borrowing by a subsidiary: [current borrowing has to be specific- anticipated borrowing to be included on the basis of projected revenue requirements of the state-owned enterprise and will not be binding on the state-owned enterprise]

Sr. No.	Description	Current Borrowing (FY 2023-2024)
	Long Term loans -Faysal Bank Limited- Led Consortium – Under Sovereign Guarantee -United Bank Limited – Led Consortium - The Bank of Punjab	11,646 14,971 15,000
	Sub Total	**41,617**
	SHORT TERM LOAN / RUNNING FINANCE FACILITY (available Limit) Outstanding as at 30-June -2024	50,000 37,775

9. The accounting policies that the state-owned enterprise will apply for financial records and reporting:
   Refer [Annexure – I]
10. Summary indicative balance sheet and profit and loss statement for the state-owned enterprise:
    Refer attached Unconsolidated Accounts extracts of FY 2021-22. [Annexure – II]

11. Consolidated summary indicative balance sheet and profit and loss statement for the state-owned enterprise and its subsidiaries as a group: [need not be filled if the state-owned enterprise does not have any subsidiary].

    Refer attached Consolidated Accounts extracts of FY 2021-22. [Annexure – III]

12. The proposed dividend declaration and distribution policy of the state-owned enterprise:
    Since the Company have accumulated losses of Rs. 60.4 Billion and Rs. 72.4 Billion at the close of financial year 2020-21 and 2021-22 respectively, therefore, no Dividend was paid for FY 2020-21 and 2021-22.

Furthermore considering the above accumulated losses no Dividend is expected for FY 2022-23, FY 2023-24 and FY 2024-25.

13. Description of any Public Service Obligations and their impact on the forecasted financial outcomes of the state-owned enterprise: [**as agreed with the Federal Government**]

    (Ref: Business Plan- Public Service Obligation Page 18)

Proposal to Classify Gas Supply to Balochistan as Public Sector Obligations

Background:

Gas Supply to Baluchistan:

- Significant Unaccounted for Gas (UFG) losses are incurred in Balochistan due to the socio-economic structure of the region.
- Despite the financial losses, gas supply is continued to support the socio-economic fabric of the area as per government directives.

Proposal:

1. **Classification as Public Sector Obligations:**
    - **Balochistan:**
        - Rationale: Gas supply to Balochistan is essential for socio-economic reasons but incurs high UFG losses.
        - Action: Classify the gas supply to Balochistan as a PSO to enable compensation for financial losses.

2. **Implementation Process:**
    - **Documentation:**
        - Prepare detailed documentation outlining the financial impact and the socio-economic rationale for classifying these supplies as PSOs.
        - Include all necessary data on UFG losses, non-payment of dues by PSM, and directives from the Federal Government.
    - **Submission to Relevant Authorities:**
        - Submit the documentation to the Federal Government and the Central Monitoring Unit (CMU) as per the guidelines in the SOE Act and Policy.
        - Follow up with the Federal Government for approval and notification of these PSOs.
3. **Benefits:**
    - **Financial Compensation:**
        - Ensure that our company is compensated for the financial losses incurred due to these obligations.
    - **Risk Management:**
        - Effectively manage fiscal risks associated with the continuous supply of gas under government directives.

- **Transparency and Accountability:**
  - Maintain transparency in our operations and ensure accountability for government-directed obligations.

Conclusion:
Classifying the gas supplies to Balochistan as Public Sector Obligations will align our operations with the State-Owned Enterprises (Governance and Operations) Act, 2023, and the Ownership and Management Policy, 2023. This will ensure that our company is adequately compensated for the financial impact of these supplies and will improve our overall fiscal management.
Next Steps:

1. **Approval:**
   - Seek approval from the Board of Directors to proceed with the classification process.
2. **Documentation:**
   - Prepare and submit the necessary documentation to the Federal Government and CMU.
3. **Follow-Up:**
   - Engage with relevant government authorities to expedite the approval and notification process.

14. Any other matter directed to be included in this statement by the Federal Government.

****

Annexure - I

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these unconsolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Revenue recognition

The Company recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1. Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the performance obligations for every contract that must be met.

Step 2. Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognize revenue when (or as) the Company satisfies a performance obligation.

Revenue comprises the fair value of the consideration received or receivable from contracts with customer in the ordinary course of the Company's activities. The Company recognizes revenue when the amount can be reliably measured and it is highly probable that a significant reversal in the amount of income recognised will not occur and specific criteria has been met for each of the Company's activities as described below:

- Revenue from gas sales is recognized on the basis of gas supplied to customers at the rates notified by the Oil and Gas Regulatory Authority (OGRA). The revenue for the Company is recognized on point in time basis as the management has determined that there is a single performance obligation i.e. supply of gas.

- Meter rentals are recognized on a monthly basis, at specified rates by the OGRA for various categories of customers. All the revenue for the Company in this category, is recognized on over the time basis as the Company has determined that there is a single performance obligation i.e. availability of meters to the customers.

- Revenue from sale of meters, liquid petroleum gas and gas condensate is recognised on delivery to the customers.

- Deferred credit from Government is amortized and related income is recognised in the unconsolidated statement of profit or loss over the useful lives on commissioning of the related assets.

- The Company has recognised contract liabilities which represents contribution received from the customers towards the cost of supplying and laying transmission, service and main lines as per requirements of IFRS 15, these contributions are being amortized over the useful lives of the related assets as laying of the pipelines is not a distinct performance obligation, instead is considered a part of the Company's only performance obligation to deliver gas to the customers.

- Income from new service connections is amortized in unconsolidated statement of profit or loss over the useful lives of related assets.

- Dividend income on equity investments is recognised when right to receive the payment is established.

- Late payment surcharge on gas sales arrears is calculated from the date the billed amount is overdue and recognized when it is probable that economic benefits will flow to the entity. All the revenue for the Company in this category, is recognized on over the time basis, unless otherwise

Income on gas transportation in respect of firm transportation agreement is recognized when the committed contracted capacity is made available for the shipper. Income on the gas transportation in respect of interruptible transportation agreements is recognized when the gas is transported from the network at the rates notified by the Oil and Gas Regulatory Authority (OGRA). Revenue is recognized on point in time basis.

Tariff adjustment - indigenous gas

Under the provisions of license for transmission and distribution of natural gas granted to the Company by OGRA, the Company is required to earn an annual return of not less than the rate of return calculated using Weighted Average Cost of Capital (WACC) (fixed rate of 17.43% per annum) on the value of its average fixed assets in operation (net of deferred credit), before corporate income taxes, interest and other charges on debt and after excluding interest, dividends and other non operating income and before incorporating the effect of efficiency benchmarks prescribed by OGRA. Any deficit or surplus on account of this is recoverable from or payable to the Government of Pakistan as Tariff adjustments.

Tariff adjustment - RLNG

As per the policy guideline issued by the Economic Coordination Committee of the Cabinet (ECC) on pricing of RLNG, the Company is allowed to earn an annual return as a percentage of the value of its average fixed assets in RLNG operation, to be determined by OGRA. Any deficit or surplus on account of this is recoverable from or payable to the RLNG customers through adjustment in future RLNG prices. The surplus or the shortfall, if any, are included in "trade and other payables" or "other receivables" respectively with the corresponding charge or credit respectively, recognised in the unconsolidated statement of profit or loss.

IFRS 9 'Financial Instruments'

A financial instruments is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

(a) Classification and measurement of financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL). Despite that, the Company may make the following irrevocable election / designation at initial recognition of a financial asset;

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

- the Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment.

Financial liabilities

IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Recognition and measurement

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

Derecognition

The financial assets are de-recognised when the Company loses control of the contractual rights that comprise the financial assets. The financial liabilities are de-recognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired.

Derivative financial instruments

Derivative financial instruments if any are recognised initially at cost. Subsequent to initial recognition, the derivative financial instruments are stated at fair value. Changes in fair value of derivative financial instruments are recognised in the unconsolidated statement of profit or loss, along with any changes in the carrying value of the hedged liability. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Off-setting

Financial assets and liabilities are offset and the net amount is reported in the unconsolidated statement of financial positions only when there is a legally enforceable right to set-off the recognised amount and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

Impairment of financial assets

The Company recognises a loss allowance for Expected Credit Losses (ECL) on trade debts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial assets.

The Company recognises lifetime ECL for trade debts. The ECL on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. For all other financial assets, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default

The Company employs statistical models to analyse the data collected and generate estimates of probability of default ("PD") of exposure with the passage of time. This analysis includes the identification for any changes in default rates and changes in key macro-economic factors across various geographies of the Company.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation, or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Investment in subsidiary

Investment in subsidiary is stated at cost less impairment loss, if any. A reversal of an impairment loss on subsidiary is recognised as it arises, provided the increased carrying amount does not exceed cost.

Gain or loss on sale of investment in subsidiary is recognised in these unconsolidated statement of profit or loss for the year.

Property, plant and equipment

Initial recognition

The cost of an item of property plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of such item can be measured reliably.

Measurement

The cost of the property, plant and equipment includes:

(a) its purchase price including import duties, non refundable purchase taxes after deducting trade discounts and rebates; and

(b) any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Recognition of the cost in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Subsequent measurement

Property, plant and equipment except freehold land, leasehold land and capital work in progress are stated at cost less accumulated depreciation and impairment, if any.

Freehold land and leasehold land are stated at revalued amount and surplus arising on revaluation of freehold land and leasehold land is disclosed as surplus on revaluation of property plant and equipment.

Subsequent expenditure (including normal repairs and maintenance)

Expenditure incurred to replace a component of an item of operating assets is capitalised and the asset so replaced is retired. Other subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the items can be measured reliably. All other expenditures (including normal repairs and maintenance) are recognised in unconsolidated statement of profit or loss as an expense when it is incurred.

Capital work in progress

Capital work in progress is stated at cost less accumulated impairment loss, if any. The cost consists of expenditure incurred and advances made in the course of their construction and installation. Transfers are made to the relevant asset category as and when assets are available for intended use.

Depreciation

Depreciable value of operating assets is depreciated over their estimated service life on straight line basis from the month the assets are available for use in service till the month they are disposed off or fully depreciated, except for assets sold to employees under the service rules, in which case, depreciation is charged up to the date of disposal.

Useful lives of the assets are mentioned in the note 21.1 to these unconsolidated financial statements.

Assets' residual values and their useful lives are reviewed and adjusted at each reporting date if significant and appropriate.

Intangible assets

An intangible asset is recognised as an asset, if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of such asset can be measured reliably.

Definite life

Intangible assets are measured initially at cost and subsequently stated at cost less accumulated amortization and impairment losses, if any.

Intangible asset with a finite useful life is amortized on a straight line basis over its useful life. Amortization begins when the asset is available for use and ceases when the asset is derecognised. Amortization charge is recognised in unconsolidated statement of profit or loss.

The amortization period for intangible assets with a finite useful life is reviewed at each year-end and is changed to reflect the useful life expected at respective year end.

Right-of-use assets and corresponding lease liability

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contains a wide range of different terms and conditions.

Lease liability is initially measured at the present value of the expected lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company. The lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an assets of similar value to the right of use asset in a similar economic environment with similar terms and conditions.

Lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of profit or loss if the carrying amount of right-of- use asset has been reduced to zero.

The right-of-use assets is initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use assets is adjusted for certain measurements of the lease liability.

Borrowing costs

Borrowing costs incurred on long term finances attributable for the construction of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use are capitalised up to the date the respective assets are available for the intended use.

Actual borrowing cost is capitalised on funds borrowed specifically for the purpose of construction of qualifying assets, less any investment income on the temporary investment of those borrowings. The Company determines a weighted average capitalisation rate in case of general borrowings attributable to qualifying assets.

All other borrowing costs are charged to unconsolidated statement of profit or loss as finance cost.

Gains and losses on disposal are taken to unconsolidated statement of profit or loss.

Net investment in finance lease

Contractual arrangements, the fulfilment of which is dependent upon the use of a specific asset and whereby the right to use the underlying asset is conveyed to the customer, are classified as finance lease. Net investment in finance lease is recognised at an amount equal to the present value of the lease payments receivable, including any guaranteed residual value determined at the inception of lease. Discount rate used in the calculation of the present value of minimum lease payments is the interest rate implicit in the lease. Any recoveries from customers in respect of the service cost and contingent rent are excluded from the minimum lease payments and are recorded as recoveries of transmission and distribution cost from the lessee and gas transportation income respectively. Interest income from net investment in finance lease is recognised on a pattern reflecting a constant periodic return on the Company's net investment in finance lease.

Stores, spares and loose tools

These are valued at lower of cost and net realisable value less impairment loss, if any. Cost is determined under the moving average basis. Goods-in-transit are valued at lower of cost incurred up to reporting date and net realisable value less impairment loss, if any.

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

Stock-in-trade

Gas in pipelines

Stock of gas in transmission pipelines is valued at the lower of cost, determined on weighted average basis, and net realisable value.

Meter manufacturing division

Components (materials) are valued at lower of moving average cost and net realisable value less impairment loss, if any. Work-in-process includes the cost of components only (determined on a moving average basis). Finished goods are stated at the lower of cost, determined on an average basis, and net realisable value and includes appropriate portion of labour and production overheads. Components in transit are stated at cost incurred up to the reporting date less impairment losses, if any. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred tax assets, are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised, as an expense in the unconsolidated statement of profit or loss, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Trade debts and other receivables

Trade debts and other receivables are recognised initially at fair value and subsequently measured at amortized cost less loss allowance, if any. The Company always measures the loss allowance for trade debts at an amount equal to lifetime expected credit losses (ECL), refer accounting policy for impairment of financial assets.

Trade and other payables

Trade and other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Mark-up bearing borrowings

Long term financing

Mark-up bearing borrowings are recognised initially at fair value which is usually the cost, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost, while the difference between the cost (reduced for periodic payments) and redemption value is recognised in these unconsolidated statement of profit or loss over the period of the borrowings. Transaction cost is amortized over the term of the loan.

Long term loans received from the Government of Sindh with interest rate lower than prevailing market interest rates for a similar instrument are initially measured at fair value. The fair value is estimated at the present value of all future cash payments discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. Difference between fair value and proceeds received is treated as government grant and is amortized over the useful life of related asset constructed.

Provisions

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

Taxation

Current

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

Deferred

Deferred tax is recognised using liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantively enacted at the reporting date.

The Company recognises a deferred tax asset to the extent that it is probable that the taxable profits for the foreseeable future will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Staff retirement benefits

The Company operates the following retirement schemes for its employees:

- Approved funded pension and gratuity schemes for all employees

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

Actuarial gains and losses arising from the actuarial valuation are recognised immediately and presented in unconsolidated statement of comprehensive income.

Past service cost is recognised in unconsolidated statement of profit or loss at the earlier of when the amendment or curtailment occurs.

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

  Liability under these schemes is recognised in the period in which the benefit is earned based on the actuarial valuations that is carried out annually under the projected unit credit method. The free gas supply facility has been discontinued for employees retiring after December 31, 2000.

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

  The Company operates a recognised provident fund for all its employees. Equal contributions are made, both by the Company and the employees, to the fund at the rate of 7.5% of basic salary in the case of executive employees and 8.33% of basic salary and adhoc relief cost of living allowance in the case of non executive employees and the same is charged to these unconsolidated statement of profit or loss.
- A non-contributory benevolent fund, under which only the employees contribute to the fund.

Compensated absences

The liability for accumulated compensated absences of employees is recognised based on actuarial valuation in the period in which employees render services that increase their entitlement to future compensated absences.

Foreign currency translation

Transactions in foreign currencies are translated into Pakistan rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani rupees at the rates of exchange ruling at the reporting date. Exchange gains and losses are taken to the unconsolidated statement of profit or loss.

Segment reporting

Segment reporting is based on the operating (business) segments of the Company. An operating segment is an identifiable component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, income tax assets, liabilities and related income and expenditure. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

The business segments are engaged in providing products or services which are subject to risks and rewards which differ from the risk and rewards of other segments. Segments reported are as follows:

- Gas transmission and distribution

  Gas transmission and distribution segment is engaged in transmission and distribution of natural gas and construction contracts for laying of pipelines in Sindh and Balochistan.

- Meter manufacturing

  Meter manufacturing segment is engaged in manufacture and sale of gas meters.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits in banks, short term running finance under mark-up arrangement availed by the Company and short term liquid investments that are readily convertible to known amounts of cash.

Earnings per share

Earnings per share is calculated by dividing the profit / (loss) after tax for the year by the weighted average number of shares outstanding during the year.

Dividend and reserves appropriation

Dividend is recognised as a liability in the unconsolidated statement of financial position in the period in which it is declared. Movement in reserves is recognised in the year in which it is approved.

Share Capital

Ordinary shares are classified as equity and recognised at their face value. Discount on issue of shares is separately reported in unconsolidated statement of changes in equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Annexure - II

SUI SOUTHERN GAS COMPANY LIMITED
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

	2022	2021
	(Rupees in '000)	
EQUITY AND LIABILITIES		
Share capital and reserves		
Authorised share capital:		
1,000,000,000 ordinary shares of Rs. 10 each	10,000,000	10,000,000
Issued, subscribed and paid-up capital	8,809,163	8,809,163
Reserves	4,907,401	4,907,401
Surplus on re-measurement of FVTOCI securities	115,836	172,772
Surplus on revaluation of property, plant and equipment	54,107,435	24,347,314
Accumulated profit / (loss)	(72,418,688)	(60,408,205)
	(4,478,853)	(22,171,555)
LIABILITIES		
Non-current liabilities		
Long term financing	17,015,705	21,259,499
Long term deposits	24,506,273	22,871,737
Employee benefits	7,724,066	5,603,105
Payable against transfer of pipeline	684,981	755,645
Deferred credit	4,304,590	4,592,823
Contract liabilities	9,517,256	7,786,074
Lease liability	19,029	42,894
Long term advances	3,971,110	3,155,496
Total non-current liabilities	67,743,010	66,067,273
Current liabilities		
Current portion of long term financing	6,664,669	8,080,662
Short term borrowings	23,878,298	23,750,594
Trade and other payables	682,927,371	540,524,094
Current portion of payable against transfer of pipeline	70,664	64,610
Current portion of deferred credit	443,575	442,114
Current portion of contract liabilities	262,881	232,352
Current portion lease liability	55,475	84,384
Unclaimed dividend	285,373	285,426
Interest accrued	17,957,484	17,142,960
Total current liabilities	732,545,790	590,607,196
Total liabilities	800,288,800	656,674,469
Total equity and liabilities	795,809,947	634,502,914

SUI SOUTHERN GAS COMPANY LIMITED
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

	2022	2021
	(Rupees in '000)	
ASSETS		
Non-current assets		
Property, plant and equipment	175,263,737	135,987,526
Intangible assets	226,209	110,920
Right of use assets	85,051	148,634
Deferred tax asset	2,823,415	2,592,082
Long term investments	1,401,745	1,458,681
Net investment in finance lease	-	73,321
Long term loans and advances	1,425,381	1,697,525
Long term deposits	18,632	18,733
Total non-current assets	181,244,170	142,087,422
Current assets		
Stores, spares and loose tools	3,645,946	3,454,702
Stock-in-trade	2,304,295	1,575,623
Current portion of net investment in finance lease	73,321	57,814
Customers' installation work-in-progress	244,305	249,578
Trade debts	109,085,866	92,133,807
Loans and advances	564,780	508,152
Advances, deposits, and short term prepayments	975,841	1,130,748
Interest accrued	16,692,130	15,153,952
Other receivables	461,821,871	359,967,952
Taxation - net	16,079,192	17,609,468
Cash and bank balances	3,078,230	573,696
Total current assets	614,565,777	492,415,492
Total assets	795,809,947	634,502,914

SUI SOUTHERN GAS COMPANY LIMITED
UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED JUNE 30, 2022

	2022	**2021**
	(Rupees in '000)	
Revenue from contracts with customers- Gas sales	299,628,511	271,486,670
Tariff adjustments	75,930,537	24,642,231
Net sales	375,559,048	296,128,901
Cost of sales	(367,840,505)	(301,878,844)
Gross profit / (loss)	7,718,543	(5,749,943)
Administrative and selling expenses	(5,084,613)	(4,446,333)
Other operating expenses	(20,337,874)	(463,520)
Impairment loss against financial assets	(2,121,563)	(2,229,028)
	(27,544,050)	(7,138,881)
	(19,825,507)	(12,888,824)
Other income	17,280,257	18,643,222
Profit before interest and taxation	(2,545,250)	5,754,398
Finance cost	(5,190,235)	(4,619,329)
Profit before taxation	(7,735,485)	1,135,069
Taxation	(3,708,630)	820,445
(Loss) / Profit for the year	(11,444,115)	1,955,514

Annexure - III

SUI SOUTHERN GAS COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

	2022	2021
	(Rupees in '000)	
EQUITY AND LIABILITIES		
Share capital and reserves		
Share Capital	8,809,163	8,809,163
Reserves	4,907,401	4,907,401
Surplus on re-measurement of FVTOCI securities	115,836	172,772
Surplus on revaluation of property, plant and equipment	55,014,936	25,254,815
Accumulated loss	(72,421,784)	(60,441,466)
	(3,574,448)	(21,297,315)
LIABILITIES		
Non-current liabilities		
Long term financing	17,015,705	21,235,549
Long term deposits	24,915,225	23,241,015
Employee benefits	7,724,066	5,603,105
Payable against transfer of pipeline	684,981	755,645
Deferred credit	4,304,590	4,592,822
Contract liabilities	9,517,256	7,786,074
Lease liability	39,568	63,845
Long term advances	3,971,110	3,155,496
Total non-current liabilities	68,172,501	66,433,551
Current liabilities		
Current portion of long term financing	6,664,669	8,080,662
Short term borrowings	23,878,298	23,750,594
Trade and other payables	683,461,751	540,806,723
Short term deposits	45,540	39,249
Current portion of payable against transfer of pipeline	70,664	64,610
Current portion of deferred credit	443,575	442,114
Current portion of contract liabilities	262,881	232,352
Current portion lease liability	55,887	84,493
Unclaimed dividend	285,373	285,426
Interest accrued	17,957,484	17,142,960
Total current liabilities	733,126,122	590,929,183
Total liabilities	801,298,623	657,362,734
Total equity and liabilities	797,724,175	636,065,419

SUI SOUTHERN GAS COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

	2022	2021
	(Rupees in '000)	
ASSETS		
Non-current assets		
Property, plant and equipment	178,290,263	139,097,127
Intangible assets	226,754	114,435
Right of use assets	100,320	165,466
Deferred tax asset	2,973,990	2,721,666
Long term investments	152,363	209,299
Net investment in finance lease	-	73,321
Long term loans and advances	143,382	175,339
Long term deposits	19,640	19,740
Total non-current assets	181,906,712	142,576,393
Current assets		
Stores, spares and loose tools	3,651,684	3,457,965
Stock-in-trade	2,575,577	1,602,452
Current portion of net investment in finance lease	73,321	57,814
Customers' installation work-in-progress	244,305	249,578
Trade debts	109,096,530	92,141,613
Loans and advances	324,593	394,002
Advances, deposits, and short term prepayments	1,160,835	1,231,858
Interest accrued	16,672,917	15,153,952
Other receivables	462,003,401	360,062,870
Taxation - net	16,600,280	17,890,333
Other financial assets	129,223	479,223
Cash and bank balances	3,284,797	767,366
Total current assets	615,817,463	493,489,026
Total assets	797,724,175	636,065,419

SUI SOUTHERN GAS COMPANY LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED JUNE 30, 2022

	2022	2021
	(Rupees in '000)	
Revenue from Contracts with Customers - Gas Sales	299,628,511	271,486,670
Tariff adjustments	75,930,537	24,642,231
	375,559,048	296,128,901
Cost of sales	(367,840,505)	(301,878,844)
Gross profit / (loss)	7,718,543	(5,749,943)
Administrative and selling expenses	(5,251,848)	(4,615,028)
Other operating expenses	(20,420,074)	(464,150)
Allowance for expected credit loss	(2,121,563)	(2,229,028)
	(27,793,485)	(7,308,206)
	(20,074,942)	(13,058,149)
Other income	17,629,800	19,259,385
(Loss) / profit before interest and taxation	(2,445,142)	6,201,236
Finance cost	(5,196,036)	(4,625,606)
(Loss) / profit before taxation	(7,641,178)	1,575,630
Taxation	(3,770,841)	687,661
(Loss) / profit for the year	(11,412,019)	2,263,291

****