

**AUDITORS' REPORT**

**SUKKUR ELECTRIC POWER  
COMPANY**

**FOR THE YEAR ENDED JUNE 30, 2020**

# SUKKUR ELECTRIC POWER COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property and equipment	3	30,178,231,336	27,873,010,951
Long term loans to employees	4	121,081	580,449
		<u>30,178,352,417</u>	<u>27,873,591,400</u>
<b>Current Assets</b>			
Stores and spares	5	1,528,407,084	1,684,877,173
Trade debts	6	33,404,894,996	33,548,335,086
Due from associated undertakings	7	38,829,900,321	24,603,469,692
Advances and other receivables	8	8,358,973,922	8,737,821,426
Taxation - net	9	554,943,383	434,006,171
Bank balances	10	1,726,294,455	2,023,334,358
		84,403,414,161	71,031,843,906
<b>Total Assets</b>		<u><u>114,581,766,578</u></u>	<u><u>98,905,435,306</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Share capital	11	10,000	10,000
Accumulated losses		(245,184,180,227)	(209,635,597,500)
		(245,184,170,227)	(209,635,587,500)
<b>Deposit for Issuance of Shares</b>	12	37,161,470,733	37,161,470,733
<b>Non-Current Liabilities</b>			
Deferred credit	13	5,435,918,229	5,047,192,559
Consumers' security deposits	14	1,174,242,219	1,080,144,048
Receipt against deposit works and connections	15	3,296,004,660	3,038,199,704
Employees' retirement benefits	16	37,772,120,292	39,039,803,770
		47,678,285,400	48,205,340,081
<b>Current Liabilities</b>			
Creditors, accrued and other liabilities	17	3,548,542,960	3,365,186,256
Due to associated undertakings	18	271,377,637,712	219,809,025,736
Provision for taxation - net	9	-	-
		274,926,180,672	223,174,211,992
<b>Contingencies and Commitments</b>	19	-	-
<b>Total Equity and Liabilities</b>		<u><u>114,581,766,578</u></u>	<u><u>98,905,435,306</u></u>

The annexed notes from 1 to 35 form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR

## SUKKUR ELECTRIC POWER COMPANY LIMITED

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
Revenue from contract with customer	20	36,441,703,627	34,035,777,550
Tariff subsidy from GoP	7.3	14,152,066,831	16,880,328,664
Tariff Subsidy (ISP) Package	7.4	219,321,957	1,238,799,024
AQTA Subsidy	7.5	4,292,799,648	-
		<u>55,105,892,063</u>	<u>52,154,905,238</u>
Cost of electricity	21	<u>(57,778,326,794)</u>	<u>(53,213,525,033)</u>
<b>Gross Loss</b>		<b>(2,672,434,731)</b>	<b>(1,058,619,795)</b>
Amortization of deferred credit		322,742,123	298,873,179
Other income	22	1,722,496,075	1,884,183,917
		<u>2,045,238,198</u>	<u>2,183,057,096</u>
<b>Operating loss</b>		<b>(627,196,533)</b>	<b>1,124,437,301</b>
Operating expenses	23	(10,867,591,703)	(7,932,898,098)
Depreciation	3	(1,365,682,760)	(1,231,805,234)
Finance cost	24	(8,707,140,601)	(6,274,291,912)
Provision for doubtful balances due from associated undertakings	7	(60,727,378)	(40,537,466)
Provision for doubtful sales tax due from WAPDA	8	(1,569,582,309)	(11,657,576)
Provision for obsolete stock		(48,964,878)	(15,226,891)
Balances written off		(220,893,651)	-
Provision for doubtful debts	6.1 & 18.2.7	(17,193,548,738)	(18,791,026,234)
		<u>(40,034,132,018)</u>	<u>(34,297,443,411)</u>
<b>Loss before Taxation</b>		<b>(40,661,328,551)</b>	<b>(33,173,006,110)</b>
Taxation	25	(103,254,176)	(175,230,000)
<b>Loss after Taxation</b>		<b>(40,764,582,727)</b>	<b>(33,348,236,110)</b>
<b>Other Comprehensive Income / (Loss)</b>			
<b>Items that may be Reclassified Subsequently to Profit or Loss</b>			
		-	-
<b>Items that will not be Reclassified Subsequently to Profit or Loss:</b>			
Remeasurement income / (loss) due to experience adjustments	16.4	5,216,000,000	(17,140,900,386)
<b>Total Comprehensive Loss for the Year</b>		<u><b>(35,548,582,727)</b></u>	<u><b>(50,489,136,496)</b></u>

The annexed notes from 1 to 35 form an integral part of these financial statements.

  
CHIEF EXECUTIVE OFFICER

  
DIRECTOR

## SUKKUR ELECTRIC POWER COMPANY LIMITED

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2020

	Issued, subscribed and paid-up capital Rupees	Accumulated losses Rupees	Total Rupees
<b>Balance at June 30, 2018</b>	10,000	(159,146,461,004)	(159,146,451,004)
<b>Comprehensive loss for the year ended June 30, 2019</b>			
Loss for the year ended June 30, 2019	-	(33,348,236,110)	(33,348,236,110)
Other comprehensive loss	-	(17,140,900,386)	(17,140,900,386)
Total comprehensive loss for the year	-	(50,489,136,496)	(50,489,136,496)
<b>Balance at June 30, 2019</b>	10,000	(209,635,597,500)	(209,635,587,500)
<b>Comprehensive loss for the year ended June 30, 2020</b>			
Loss for the year ended June 30, 2020	-	(40,764,582,727)	(40,764,582,727)
Other comprehensive income	-	5,216,000,000	5,216,000,000
Total comprehensive loss for the year	-	(35,548,582,727)	(35,548,582,727)
<b>Balance at June 30, 2020</b>	<u>10,000</u>	<u>(245,184,180,227)</u>	<u>(245,184,170,227)</u>

The annexed notes from 1 to 35 form an integral part of these financial statements.



**CHIEF EXECUTIVE OFFICER**



**DIRECTOR**

# SUKKUR ELECTRIC POWER COMPANY LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(40,661,328,551)	(33,173,006,110)
<b>Adjustments for:</b>			
Depreciation on property and equipment	3	1,365,682,760	1,231,805,234
Amortization of deferred credit	13	(322,742,123)	(298,873,179)
Provision for employees' retirement benefits		5,632,503,566	2,934,378,442
Finance cost	24	8,707,140,601	6,274,291,912
Provision for doubtful due from associated undertakings		60,727,378	40,537,466
Provision for doubtful sales tax due from WAPDA		1,569,582,309	11,657,576
Provision for obsolete stock		48,964,878	15,226,891
Balances written off		220,893,651	-
Provision for doubtful debts		17,193,548,738	18,791,026,234
Profit on bank deposits	22	(167,489,458)	(135,096,157)
Non-utility operations (labour and overhead recovery)	22.2	(64,823,813)	(69,839,969)
		34,243,988,487	28,795,114,450
Operating loss before working capital changes		(6,417,340,064)	(4,377,891,660)
<b>Working capital changes</b>			
<b>(Increase) / decrease in current assets</b>			
Stores and spares		(502,895,257)	253,911,653
Trade debts		(16,519,353,490)	(13,778,054,445)
Due from associated undertaking		(14,287,158,007)	2,030,885,380
Advances and other receivables		(1,659,738,951)	(2,449,168,449)
<b>(Decrease) / Increase in current liabilities</b>			
Creditors, accrued and other liabilities		(37,536,947)	228,464,828
Due to associated undertakings		51,568,611,976	29,138,245,004
		18,561,929,324	15,424,283,971
<b>Cash flows Generated from Operations after Working Capital Changes</b>		12,144,589,260	11,046,392,311
Employees' retirement benefits paid / adjusted		(1,684,187,044)	(1,496,232,909)
Receipt against deposit works and connections		1,034,096,562	1,067,875,679
Consumers' security deposits		94,098,171	119,844,122
Finance cost paid		(8,707,140,601)	(6,274,291,912)
Income tax paid		(224,191,388)	(130,794,627)
<b>Net Cash Generated from Operating Activities</b>		2,657,264,960	4,332,792,664
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Addition in property and equipment		(379,526,968)	(1,152,905,495)
Additions in capital work in progress		(2,680,975,709)	(3,244,857,512)
Profit on bank deposits		105,974,446	130,095,379
Long term loans to employees - net		223,368	223,368
<b>Net Cash Used in Investing Activities</b>		(2,954,304,863)	(4,267,444,260)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
		-	-
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>		(297,039,903)	65,348,404
Cash and cash equivalents at the beginning of the year		2,023,334,358	1,957,985,954
<b>Cash and Cash Equivalents at the End of the Year</b>	11	1,726,294,455	2,023,334,358

The annexed notes from 1 to 35 form an integral part of these financial statements.

  
CHIEF EXECUTIVE OFFICER

  
DIRECTOR

**SUKKUR ELECTRIC POWER COMPANY LIMITED**  
**NOTES TO AND FORMING PART THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Note 1

**The Company and its Operations****1.1 Legal status and activities**

Sukkur Electric Power Company Limited ("the Company") is a public limited company incorporated in Pakistan. The Company is domiciled in Pakistan and its registered office is situated at WAPDA House, Lahore, Punjab. The Company was established to takeover such assets and liabilities required to be segregated from Hyderabad Electric Supply Company Limited (HESCO), as agreed with Water and Power Development Authority (WAPDA) and HESCO, in accordance with the notification issued by Pakistan Electric Power Company Limited (PEPCO) dated July 26, 2010. The Company was incorporated on November 23, 2010 and obtained its Business Commencement Certificate on October 06, 2011. The Company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is to supply and distribute electricity to general public in the region of Sukkur and its adjoining districts.

**1.2 Business transfer and impending matters****a) Transfer of assets, liabilities, deposit for shares and business operations from HESCO**

The Company was set up as a result of the bifurcation of Hyderabad Electric Supply Company Limited (HESCO) into two companies i.e. Hyderabad Electric Supply Company Limited ('HESCO Modified') and Sukkur Electric Power Company Limited (the Company). The said bifurcation was made effective through a notification issued by Pakistan Electric Power Company Limited (PEPCO) on July 26, 2010 with an objective to improve the management of electricity utility, increase operational efficiency, reduce line losses and upgrade customer services through enhanced monitoring in both companies. WAPDA also directed HESCO to surrender respective assets and liabilities in favour of the Company on the basis of balances transferred to HESCO as at July 01, 1998 through its letter No. GMF(P)/MF(HO)/Accounts/495-99 dated January 27, 2011.

During the preceding years, the assets and liabilities of 03 circles namely Sukkur, Dadu and Larkana along with the business operations were transferred by HESCO to the Company with effect from January 01, 2012 on the basis of a mutually agreed cutoff date of December 31, 2011. Deposit for shares was apportioned on the basis of assets transferred by WAPDA as at July 01, 1998, in the light of WAPDA's instructions to HESCO. Following is the detail of assets and liabilities transferred from HESCO as at December 31, 2011:

<b>Assets Transferred from HESCO</b>	<b>December 31, 2011</b>
	(Rupees)
<b>Non-Current Assets</b>	
Operating fixed assets	12,462,782,055
Capital work-in-progress	1,367,620,911
Long term loans and advances	1,052,558
<b>A</b>	<b>13,831,455,524</b>
<b>Current Assets</b>	
Stores and spares	2,848,400,641
Trade debts	33,247,911,471
Advances and other receivables	14,041,653,171
Cash and bank balances	7,992,742
<b>B</b>	<b>50,145,958,025</b>
<b>Total Assets Transferred</b>	<b>C = A+B</b> <b>63,977,413,549</b>
<b>LESS: EQUITY AND LIABILITIES TRANSFERRED FROM HESCO</b>	<b>December 31, 2011</b>
	Rupees
<b>Deposit for shares (equity component)</b>	<b>D</b> 5,169,464,011
<b>Non-current Liabilities</b>	
Consumers' security deposits	432,609,849
Deferred credit	6,001,175,005
Receipt against deposit works and connections	1,863,800,892
Employees' retirement benefits	6,847,959,000
<b>E</b>	<b>15,145,544,746</b>
<b>Current Liabilities</b>	
Trade and other payables	43,044,083,864
<b>F</b>	<b>43,044,083,864</b>
<b>Total Liabilities Transferred</b>	<b>G = D+E+F</b> <b>63,359,092,621</b>
<b>Payable to HESCO</b>	<b>H = C-G</b> <b>618,320,928</b>

*Note 1, The Company and its Operations, Cont ...*

*Note 1.2, Business transfer and impending matters, Cont ...*

Accordingly, in pursuance of this arrangement, the Company has signed an agreement dated December 26, 2012 with HESCO regarding the transfer of assets, deposit for shares, liabilities and business of 03 circles. As per agreement, the balances of assets and liabilities thus transferred were subject to verification by SEPCO until June 30, 2014 with a possibility of further adjustments arising during such period. However, no verification was made by SEPCO until June 30, 2020.

**b) Significant matters which remained pending with respect to transfer of business from HESCO**

The Company has not yet reached to an agreement with WAPDA in respect of transfer of assets, liabilities, deposit for shares and business operations that was to be made effective from January 01, 2012. The management is in the process of taking up this matter with WAPDA and PEPCO to complete all the formalities and the titles of freehold land and vehicles received from HESCO could not be transferred in the name of the Company. As on the reporting date, such land was also not transferred in the name of HESCO due to certain impediments.

Owing to these pending matters, the Company has not issued Ordinary Shares in favour of WAPDA against Deposit for Shares transferred from HESCO. For issuing of shares to WAPDA, the Company needs to appropriately increase its authorized share capital and the same is intended to be done once other formalities are met.

**1.3 Going concern difficulties caused by Transmission and distribution (T&D) losses and the remedial planning in**

As per tariff 2019 -2020, T&D losses of 25.06 percent have been allowed to the Company against its request for permitting 34.77 percent T&D losses. During the year, the Company sustained 36.97 percent T&D losses i.e. 2.20 percent losses exceeding the approved limit. The unbilled units on account of T&D losses, coupled with the difficulties with recoverability against invoiced sales, are the prime reason of losses sustained. The Company incurred a net loss of Rs. 40,764,583 million during the year ended June 30, 2020 and of that date, its equity remained negative by Rs. 245,184.170 million and its current liabilities exceed its current assets by Rs. 190,522,767 million. The aforesaid conditions indicate the financial difficulties and indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

The management believes that the most important factor contributing to the perpetual losses and financial difficulties of the Company is the subsisting occurrence of T&D losses. T&D losses comprise transmission losses shared by the Company, losses due to technical faults, damages to distribution network, overloaded transformers and distribution system, aluminum conductor and metering equipment inefficiencies. The theft of electricity owing to lack of social awareness and poor law and order situation in areas under the Company's jurisdiction is also one major factor resulting in T&D losses, which cannot be identified and billed. Even where the theft is identified, the Company, as per rules, can raise detection billing only for last six months by spreading the total detection units evenly over six months period, due to which the billing falls in lower tariff slabs causing no considerable contribution to the throughout. NEPRA has directed the Company to conduct a comprehensive study of its T&D losses through a third party on a reasonable sample size basis including the study of low tension lines below 11 KV. Accordingly, the consultants appointed by the Company and submitted their report and as per report

The Government of Pakistan (GoP) continues to provide necessary support through various packages as explained in the ensuing paragraphs. Brief summary of support that the Company has been receiving from GOP is as under:

The President of Pakistan, being the 100% shareholder of the Company, through Ministry of Energy (Power Division), and Govt of Pakistan has injected equity of Rs. 31,992.007 million in the Company as Deposit for issue of Shares extends support to maintain the Company's going concern status.

The current mechanism of determining tariff is on the basis of minimum cost of generation. As the Government determined tariff is lower than the tariff determined by the National Electric Power Regulatory Authority (NEPRA), the difference between the actual cost of energy and the domestic charge ends up as a direct subsidy to the consumers by the Government. The continuous support through tariff differential subsidy to the consumers provides comfort to the Company in reducing doubtful recoveries and to recover the cost of transmission and distribution. However, if the government determined tariff is higher than the tariff determined by the NEPRA, the difference will be called 'Inter-Disco Tariff Rationalization' that will be payable to Government by the Company.

The management is in the process of envisioning an effective remedial action plan going forward, focusing on controlling the T&D losses through appropriate planning, customer awareness programs creating sense of social responsibility, improved surveillance and monitoring, appropriate legal actions against theft cases and replacing the worn out distribution conductors and meters in different phases, as may be concluded. For the next year, the anticipated rehabilitation plan includes the following:

*Note 1, The Company and its Operations, Cont ...*

*Note 1.2, Going concern difficulties ..... remedial planning in process, Cont ...*

- Replacement of LT bare conductor with Aerial Bundle Cable;
- Proposal for regularization of illegal kundas;
- Connections through recovery of capital cost in easy installment is under progress
- Improvement in system loading conditions rehabilitation and bifurcation of lengthy 11 KV lines;
- Replacement of sluggish conventional meters with TOU meters;

Further:

- the Company is the only public utility entity in its jurisdiction wholly owned by the Government of Pakistan (GoP),
- liabilities to be paid are not towards any banking companies rather majority of the liabilities are towards Government entities,
- the Government is committed to disburse subsidy to all DISCOs on account of tariff differential, and
- there exists a sovereign guarantee towards payment of CPPA dues.

The management of the Company is confident to overcome existing temporary factors that are negatively affecting its bottom line results. In view of the foregoing facts and the future financial projections, the management strongly believes that the Company will be able to generate better results in foreseeable future, and therefore, the use of going concern assumption is appropriate.

#### **1.4 Basis of preparation**

##### **a) Statement of compliance**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS, the provisions of and directives issued under the Companies Act, 2017 have been followed.

##### **b) Basis of measurement**

These financial statements have been prepared under the historical cost convention except to the extent of following:

Employees retirement benefits	Note 16	(Stated at present value)
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##### **c) Accounting convention**

Accrual basis has been used in preparation of these financial statements except for the cash flow statement.

##### **d) Critical accounting estimates and adjustments**

The preparation of financial statements in conformity with the approved accounting standards requires management to exercise its judgment, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment are as follows:

The basis and associated assumptions underlying the accounting estimates used in the preparation of annual financial statement of the Company for the year ended June 30, 2019 have been consistent with previous year unless otherwise stated. Key estimates used in the preparation of the financials comprise:



Note 1, The Company and its Operations, Cont ...

Note 1.4, Basis of preparation , Cont ...

**(i) Property and equipment - Note 2.1 and 3**

The Company reviews appropriateness of the rates of depreciation, useful lives and residual values used in calculation of depreciation on an annual basis. The residual values are assessed to be insignificant and have not been taken into account for charging depreciation. Useful life is determined by considering expected usage, physical wear and tear and technical obsolescence.

**(ii) Employees' retirement benefits - Note 2.9 and 16**

The present value of these obligations depends on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in note 16.

Provisions are made in the financial statements to cover obligations under the scheme. The provisions require assumptions to be made of future outcome which mainly include increase in remuneration, expected return on plan assets and the discount rate used to convert future cash flows to current values. Actuarial gains and losses arising from the actuarial valuation are recognized immediately and presented in statement of comprehensive income.

**(iii) Provision for stores and spares losses - Note 2.4 and 5**

The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and / or physical form of related stores, spares and loose tools. Slow moving items are assessed for possible impairment.

**(iv) Provision for impairment of trade debts and other receivables - Note 2.17 and 6**

The Company assesses the recoverability of its trade debts and other receivables if there is an objective evidence that the Company will not be able to collect all the amount due according to the original terms. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade debt is impaired.

**(v) Income taxes - Note 2.10 and 9**

In making the estimates for income tax payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past. Further, the Company uses financial projections which are prepared using assumptions for key economic and business drivers, to assess realisability of deferred tax assets.

**e) Functional and presentation currency**

These financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency. All the figures have been rounded off to the nearest Rupee, unless otherwise stated.

**1.5 Changes in accounting standards, interpretations and pronouncements**

**1.5.1 Standards, interpretations and amendments to approved accounting standards which became effective during the year**

The following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after July 1, 2019 and are considered to be relevant to the Company's financial statements:

IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019). IFRS 16 set out the principles for recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all the leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make the lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease , SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Note 1, The Company and Its Operations, Cont ...

Note 1.5, Changes in accounting standards, interpretations and pronouncements, Cont ...

### 1.5.2 Standards, interpretation and amendments to approved accounting standards that are not yet effective

The following standards, amendments and interpretations with respect to the approved accounting and reporting standards as applicable in Pakistan and relevant to the Company, would be effective from the dates mentioned below against the respective standard or interpretation:

<b>Standards / Amendments / Interpretations</b>	<b>Effective for periods</b> (Period beginning on or after)
Conceptual Framework in IFRS Standards [Amendments]	January 1, 2020
IFRS 3 Business Combinations [Amendments]	January 1, 2020
IFRS 7 Financial Instruments: Disclosures [Amendments]	January 1, 2020
IFRS 9 Financial Instruments [Amendments]	January 1, 2020
IAS 16 Property, Plant and Equipment [Amendments]	January 1, 2022
IAS 37 Provisions, Contingent Liabilities and Contingent Assets [Amendments]	January 1, 2022
IFRS 16 Leases [Amendments]	July 1, 2020
IFRS 17 Insurance Contracts	January 1, 2021
IAS 1 Presentation of Financial Statements [Amendments]	January 1, 2020
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors [Amendments]	January 1, 2020
Annual improvements to IFRS Standards 2018-2020	January 1, 2022

Company will assess the impacts of these changes in the period of initial application once such changes become effective for the company.

Note 2

### Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. All the policies have been consistently applied, unless otherwise stated.

#### 2.1 Property and equipment

##### 2.1.1 Initial recognition

Property and equipment is recognized as an asset if it is probable that future economic benefits associated with the item will flow to the company and the cost of such item can be measured reliably. Recognition of the cost in the carrying amount of an item of property 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, except for replacement of distribution equipment that are charged to repairs and maintenance as and when incurred.

##### 2.1.2 Measurement

All items of property and equipment (note 3) are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Whereas leasehold land is stated at cost.

Cost in relation to items of property and equipment stated represents historical costs. Cost comprises acquisitions and other directly attributable costs. Stores and spares, which form part of the contract under which the project was undertaken, are also capitalized with plant and machinery.

Expenditure incurred to replace a component of an item of property and equipment and the cost of day to day servicing are charged to the profit or loss.

##### 2.1.3 Derecognition

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the profit or loss in the year the asset is derecognized.

#### **2.1.4 Capital work in progress**

Capital work-in-progress is stated at cost less accumulated impairment, if any, and consists of expenditure incurred and advances made in respect of property and equipment in the course of their acquisition, erection, construction and installation, including salaries and wages directly attributable to capital work-in-progress, determined by the management. The assets are transferred to relevant category of property and equipment when they are available for use.

#### **2.1.5 Depreciation**

Depreciation is charged to profit or loss, applying the straight line method whereby costs of assets, less their residual values, is written off over their estimated useful lives at rates disclosed in note 4.

Depreciation on additions is charged from the month in which the asset is available for use up to the month preceding the disposal. In case of extension and addition in existing units, depreciation is provided from the date of actual commissioning and in respect of material replacements and modernization, from the date of capitalization. Costs of subsequent acquisition of stores and spares under specific agreement for specific project are depreciated over the remaining economic useful life of such asset.

Useful lives are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.

Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

#### **2.2 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

#### **2.3 Loans and advances**

These are initially recognized at cost, which is the fair value of the consideration given. Subsequent to initial recognition assessment is made at each reporting date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such an indication exists, the estimated recoverable amount of that asset or group of assets is determined and any impairment loss is recognized for the difference between the recoverable amount and the carrying value.

#### **2.4 Stores and spares**

These are stated at fortnightly weighted average cost less impairment loss, if any, except items in transit, which are stated at cost. For items which are slow moving and/or obsolete, adequate provision is made against those items. These are valued at lower of cost or net realizable value.

Provision is made for obsolete and slow moving items where necessary and is recognized in the profit and loss account.

#### **2.5 Non-financial assets**

The carrying amounts of non-financial assets other than inventories and deferred tax asset, 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 recognized, as an expense in the 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 cost 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 risk 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 is 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 recognized.

*Note 2, Summary of Significant Accounting Policies, Cont ...*

**2.6 Cash and cash equivalent**

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

**2.7 Interest / mark-up bearing loan and borrowings**

All loan and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

Loan and borrowings are subsequently stated at amortized cost with any difference between the proceeds (net of transaction cost) and the redemption value recognized in the profit or loss over the period of the borrowings using the effective interest rate method.

**2.8 Deferred credit**

**2.8.1 Consumer contribution towards cost of supplying and laying service connection**

Deferred credit represents amounts received from consumers as contribution towards the cost of supplying and laying service connections, extension of mains and street lights along with the transfer from Specific Grants. Amortization of deferred revenue commences upon completion of related work, over the useful lives of the related assets except for separately identifiable services in which case the revenue is recognized upfront upon establishing a connection network.

**2.8.2 Government grants**

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

**2.9 Employees retirement and other service benefits**

**2.9.1 Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods, that benefit is discounted to determine its present value. The calculation is performed at least once annually, by a qualified actuary using the projected unit credit method. The Company operates a Defined Benefit Plan, for its regular permanent employees who have completed qualifying period of service.

Provisions are made to cover the obligations under defined benefit pension scheme, post retirement medical benefits, electricity rebate and compensated absences on the basis of actuarial valuation and are charged to profit or loss. The most recent valuation was carried out as of June 30, 2019 using the "Projected Unit Credit Method".

Calculation of pension requires assumptions to be made of future outcomes which mainly includes increase in remuneration and other discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

*Note 2, Summary of Significant Accounting Policies, Cont ...*

*Note 2.9, Employees retirement and other service benefits, Cont ...*

**2.9.2 Defined benefit pension scheme**

The Company operates an approved unfunded defined benefit pension scheme for all its eligible employees. The Scheme provides for a graduated scale of benefits dependent on the length of service of the employee on terminal date, subject to the completion of minimum qualifying period of 25 years of service. Pension is based on employees' last drawn salary i.e. (basic salary plus qualifying allowance).

The commutation of pension equals to 35% of the total amount is provided to the employee retiring from the Company and remaining 65% is converted in to the monthly pension payments over the life of the employee and afterwards to his family. In case of expiry of employee during his service 25% of commutation will be provided and remaining 75% will be disbursed to his family through monthly pension payments.

**2.9.3 Post retirement medical benefits**

The Company operates an unfunded defined benefit medical scheme and provides medical allowances and free hospitalization benefits to all its retired employees and their spouses in accordance with their service regulations.

**2.9.4 Electricity rebate**

The Company provides a rebate on electricity bills to its eligible retired employees.

**2.9.5 Earned leave / Compensated absences**

The Company's employees are also entitled for accumulated compensated absences, which are en-cashed at the time of retirement up to a maximum limit of 365 days and allows Leave Preparatory to Retirement (LPR) to officers to the extent of 365 days before actual retirement date.

**2.9.6 Other staff welfare funds**

For General Provident Fund and WAPDA Welfare Fund, the Company makes deduction according to different slab rates as approved by WAPDA from salaries of employees and remits those amounts to funds established by WAPDA.

**2.10 Taxation**

**2.10.1 Current tax**

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

**2.10.2 Deferred tax**

Deferred tax is recognized using balance sheet liability method, providing for all significant temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company recognizes a deferred tax liability for all taxable temporary difference and deferred tax asset to the extent that it is probable that taxable profits for the foreseeable future will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged in or credited in the profit or loss, except where deferred tax arises on the items credited or charged to equity which case this is included in equity.

*Note 2, Summary of Significant Accounting Policies, Cont ...*

*Note 2.10, Taxation, Cont ...*

**2.11 Provisions**

A provision is recognized in the financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions is reviewed at each reporting date and adjusted to reflect current best estimate.

**2.12 Revenue recognition**

Revenue is recognised either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers. Any bundled goods or services that are distinct are separately recognized, and any discounts or rebates on the contract price are generally allocated to the separate elements.

Revenue is to be recognised in accordance with the aforementioned principle by applying the following steps:

- i) Identify the contract with a customer.
- ii) Identify the performance obligation in the contract.
- iii) Determine the transaction price of the contract.
- iv) Allocate the transaction price to each of the separate performance obligations in the contract.
- v) Recognize the revenue when (or as) the entity satisfies a performance obligation.

Mention below are different revenue streams of the Company and their terms of recognition of revenue after satisfy all the five steps of revenue recognition in accordance with IFRS 15.

- a) Revenue from electricity sales is recognized on the basis of electricity supplied to consumers at rates determined by NEPRA and notified by GoP which may be less than as determined by NEPRA.
- b) Tariff differential subsidy is recognized in the relevant period on the basis of rates notified by NEPRA, on accrual basis.
- c) Tariff adjustment in respect of variation in fuel prices is recognized on accrual basis when the Company is entitled to receive it.
- d) Surcharge on delayed payments is recognized on the basis of energy charges and Neelum Jhelum Surcharge (NJS) due from consumers.
- e) Fuel price adjustment is recognized on the basis of rates notified by NEPRA on accrual basis.
- f) Gain or loss on installation of new connection/deposit works is recognized up to 10% variation between receipts against deposit works and actual expenditures incurred on the project.
- g) Commission on collection of PTV fee and electricity duty is recognized on the basis of actual billing collections from consumers.
- h) Interest on bank deposits is recognized on time proportionate basis.
- i) Profit on investments is recognized on the basis of effective yield on time proportionate basis.
- j) Revenue from sale of scrap is recognized at the time of disposal of scrap.
- k) Deferred credit against consumers' contributions is released to profit or loss over the expected useful life of the asset underlying the contribution except for separately indefinable services in which case revenue is recognized upfront upon establishing a connection network.
- l) Meter rentals and late payment surcharges are recognized on accrual basis.
- m) All other miscellaneous incomes are recognized on actual receipt basis.

*Note 2, Summary of Significant Accounting Policies, Cont ...*

**2.13 Foreign currencies**

Transactions in foreign currency during the year are initially recorded in the functional currency at the rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at functional currency using rate of exchange prevailing at the reporting date. All differences are taken to the profit or loss. All non-monetary items are translated into rupees at exchange rates prevailing at the date of transaction or on the date when fair values are determined.

**2.14 Related party transactions**

Transactions with related parties for purchase and sale of electricity are based on tariff determined by NEPRA. Prices for other transactions with related parties are charged on the basis of directives issued by WAPDA and PEPCO.

**2.15 Appropriations to reserves**

Appropriations to reserves are recognized in the financial statements in the period in which these are approved.

**2.16 Contingent liabilities**

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, whose existence will be confirmed only by the occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

**2.17 Financial instruments**

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

**2.17.1 Financial assets**

All financial assets are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

***a) Classification***

Financial assets are classified in either of the three categories: at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. This classification is based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The management determines the classification of its financial assets at the time of initial recognition. The Company currently has all the financial assets classified as at amortised cost.

***b) Initial recognition and measurement***

All financial assets are initially measured at fair value plus transaction costs that are directly attributable to its acquisition except for trade receivable. Trade receivables are initially measured at the transaction price.

***c) Subsequent measurement***

Financial assets measured at amortized cost are subsequently measured using the Effective Interest Rate (EIR) method. The amortized cost is reduced by impairment losses, if any. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value prevailing at the reporting date. The difference arising is charged to profit or loss.

***d) Derecognition***

Financial assets are derecognized when the contractual rights to receive cash flows from assets have expired. The difference between the carrying amount and the consideration received is recognized in profit or loss.

*Note 2, Summary of Significant Accounting Policies, Cont ...*

***e) Impairment of financial assets***

The Company recognizes an allowance for expected credit losses (ECLs) for all financial assets which are measured at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**2.17.2 Financial liabilities**

***a) Initial recognition and measurement***

Financial liabilities are initially classified at amortized cost. Such liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

***b) Subsequent measurement***

The Company measures its financial liabilities subsequently at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in profit or loss. Difference between carrying amount and consideration paid is recognized in profit or loss when the liabilities are derecognized.

**2.17.3 Off-setting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the statement of financial position if the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**2.18 Impact of COVID-19 on the Financial Statements**

The pandemic of COVID-19 which rapidly spread all across the world has not only endangered human lives but has also adversely impacted the global economy. Government of Pakistan announced a temporary lockdown as a measure to reduce the spread of COVID-19. Lockdown impacted the purchasing power of general public. The Government of Pakistan announced a Prime Minister's Relief Package for Small and Medium Enterprises (SMES) and a package for domestic consumers. Under the package for SMEs, the Government of Pakistan will bear relief allowed to commercial and industrial consumers. Under the relief package to domestic consumers the bills are collectible in three installments. Apart from these, according to management's assessment there is no other significant accounting impact of these effects of COVID-19 in these financial statements.



Note 3  
**Property and Equipment**

Operating fixed assets  
Capital work in progress  
Capital stores

**3.1 Operating Fixed Assets**

**Particulars**

	2020			2019					
	Cost as at July 01, 2019	Additions	Adjustments	Cost as at June 30, 2020	Dep Rate	Accumulated Depreciation as at July 01, 2019	Depreciation charge for the Year	Accumulated Depreciation as at June 30, 2020	Carrying Value as at June 30, 2020
Leasehold land (Note 3.2)	100,658,356	-	-	100,658,356	-	-	-	-	100,658,356
Buildings on leasehold land (Note 3.3)	2,475,915,284	51,936,249	-	2,527,851,533	2	440,870,263	50,557,031	491,427,294	2,036,424,239
Distribution equipment	36,850,543,401	857,210,589	-	37,707,753,990	3.5	15,037,819,158	1,292,269,217	16,330,088,375	21,377,665,615
Transportation equipment	182,422,299	-	-	182,422,299	3.3	182,422,299	-	182,422,299	-
Construction equipment	156,721,335	3,821,390	-	160,542,725	10	127,068,832	16,058,123	143,126,955	17,415,770
Computers and office equipment	61,360,385	979,385	-	62,339,770	10	39,273,259	6,798,389	46,071,648	16,268,122
	<u>39,827,621,060</u>	<u>913,947,613</u>	<u>-</u>	<u>40,741,568,673</u>		<u>15,827,453,811</u>	<u>1,365,682,760</u>	<u>17,193,136,571</u>	<u>23,548,432,102</u>

**Comparative figures**

**Particulars**

	Cost as at July 01, 2018	Additions	Adjustments	Cost as at June 30, 2019	Dep Rate	Accumulated Depreciation as at July 01, 2018	Depreciation charge for the Year	Accumulated Depreciation as at June 30, 2019	Carrying Value as at June 30, 2019
	Rupees	Rupees		Rupees	%	Rupees	Rupees	Rupees	Rupees
Leasehold land (Note 3.2)	87,841,655	12,816,701	-	100,658,356	-	-	-	-	100,658,356
Buildings on leasehold land (Note 3.3)	1,956,184,590	519,730,694	-	2,475,915,284	2	392,608,980	48,261,283	440,870,263	2,035,045,021
Distribution equipment	32,776,165,733	4,124,377,668	-	36,850,543,401	3.5	13,880,190,607	1,157,628,551	15,037,819,158	21,812,724,243
Transportation equipment	182,422,299	-	-	182,422,299	3.3	178,325,871	4,096,428	182,422,299	-
Construction equipment	155,767,878	953,457	-	156,721,335	10	111,396,699	15,672,133	127,068,832	29,652,503
Computers and office equipment	59,049,558	2,310,827	-	61,360,385	10	33,126,420	6,146,839	39,273,259	22,087,126
	<u>35,167,431,713</u>	<u>4,660,189,347</u>	<u>-</u>	<u>39,827,621,060</u>		<u>14,595,648,577</u>	<u>1,231,805,234</u>	<u>15,827,453,811</u>	<u>24,000,167,249</u>

*Note 3: Property and Equipment - Cont ...*

**3.2** HESCO has transferred land amounting to Rs. 82.12 million and vehicles amounting to Rs. 0.58 million during the year 2012 to the Company at their respective book values under the business transfer agreement. However, the titles of the aforesaid land and vehicles have not so far been transferred in the name of the Company as the title of the same is not transferred to HESCO from WAPDA.

Through Letter No. D(PMC)/F-7/196-220 dated May 25, 2016, Property Management Cell of WAPDA has communicated to all DISCOs that, in pursuance of the letter No. F.(Pw)/HESCO-FA/PPC/98 dated October 30, 2015 issued by the Privatization Commission of Pakistan, the WAPDA land (as per the requirements of the Companies) will be leased out to the Companies on DC rate rental value and will remain the property of WAPDA and the Company would have to pay rent on these properties to WAPDA. Accordingly, to avoid transfer and re-transfer of the WAPDA land assets, the transfer of the land assets to the Companies would not be done till further instruction on this matter from the Property Management Cell of WAPDA. No further instructions in this regard have been received till the reporting date.

**3.3** This comprise book values of grid station amounting to Rs. 1,111 million (2019: Rs. 1,098,713), residential building amounting to Rs. 913,184 million (2019: Rs. 924,098 million), Hospitals and dispensaries of Rs. 9,916 million (2019: Rs. 9,949 million) and mosque of Rs. 2,177 million (2019: Rs. 2,285 million).

**3.4** The management has assessed the useful lives of operating fixed assets and the residual values which have been considered insignificant in ascertainment of depreciable amounts. Therefore, the depreciable amount at residual values have not been adjusted for the purpose of depreciation.

**3.5 Movement in capital work in progress**

	<b>2020</b>	<b>2019</b>
	Rupees	Rupees
Balance at the beginning of the year	3,872,843,702	4,135,270,042
Additions during the year	2,680,975,709	3,244,857,512
Transferred to:	-	(12,816,701)
- Leasehold land	(51,936,249)	(519,730,694)
- Buildings on leasehold land	(427,397,710)	(2,738,165,094)
- Distribution equipment	(55,086,686)	(236,571,363)
- Repairs and maintenance	-	-
Balance at the end of the year	<u>6,019,398,766</u>	<u>3,872,843,702</u>

3.7

**3.6** The balance includes material, labour and overhead expenditure incurred on extension of transmission and distribution network.

**3.7 Capital work in progress represents:**

- Buildings on leasehold land	113,029,727	125,142,987
- Distribution equipments	5,162,638,454	3,179,710,524
- Repairs and maintenance	679,051,110	567,990,191
- IT equipment	64,679,475	-
	<u>6,019,398,766</u>	<u>3,872,843,702</u>

Note 4

**Long Term Loans to Employees**

	Note	2020 Rupees	2019 Rupees
<b>Considered Good</b>			
For house building	4.1 & 4.2	780,864	1,004,232
For vehicle purchase	4.1 & 4.2	3,239	3,239
		784,103	1,007,471
Less: current portion	8	(663,022)	(427,022)
		<u>121,081</u>	<u>580,449</u>

**4.1** The house building loans are recoverable in ten years; car and motorcycle loans in five years and bicycle loans in four years. Interest is charged on these loans at the same rate as that payable on employees' balances in General Employee Provident Fund maintained by WAPDA. These are unsecured loans.

**4.2** Long-term loans have not been discounted to their present value as the financial impact thereof is not considered material.

Note 5

**Stores and Spares**

	Note	2020 Rupees	2019 Rupees
Stores		460,900,148	585,394,193
Spares		1,265,615,398	1,248,626,564
	5.1	1,726,515,546	1,834,020,757
Less: Provision for slow moving and obsolete stock	5.2	(198,108,462)	(149,143,584)
		<u>1,528,407,084</u>	<u>1,684,877,173</u>

**5.1** Stores and spares include items that may be capitalized in future and are not distinguishable.

**5.2 Movement in provision for slow moving stock and obsolete items**

Opening balance	149,143,584	133,916,693
Provision made during the year	48,964,878	15,226,891
Closing balance	<u>198,108,462</u>	<u>149,143,584</u>

Note 6

**Trade Debts**

	Note	2020 Rupees	2019 Rupees
Considered good		33,404,894,996	33,548,335,086
Considered doubtful		71,596,969,154	54,934,175,574
		105,001,864,150	88,482,510,660
Less: Provision for doubtful debts	6.1	(71,596,969,154)	(54,934,175,574)
		<u>33,404,894,996</u>	<u>33,548,335,086</u>

**6.1 Movement in provision for doubtful debts**

Opening balance	54,934,175,574	37,359,008,762
Provision made during the year	16,662,793,580	17,575,166,812
Closing balance	<u>71,596,969,154</u>	<u>54,934,175,574</u>

**6.2** Trade debts as at the reporting date are classified into Industries, Commercial, Agriculture, Public lights, Residential colonies and others.

**6.3** Trade debts are secured to the extent of corresponding consumers' security deposit. Doubtful trade debts include an amount of Rs. 25.63 million (2019:Rs. 24.5 million), which is disputed and is under litigation with different consumers.

Note 7

**Due from Associated Undertakings**

	Note	2020 Rupees	2019 Rupees
Other power companies:			
- free electricity and other transactions		5,363,935,874	4,400,169,413
- supply of materials		48,896,503	68,385,622
- disbursement of pension		1,002,124,506	981,548,112
	7.1 & 7.2	6,414,956,883	5,450,103,147
Less: Provision against balances considered doubtful		(480,714,607)	(480,714,607)
		5,934,242,276	4,969,388,540
WAPDA:			
- current account		96,038,393	79,966,263
- welfare trust		335,779,852	291,124,604
Receivable from Government Adjuster		-	-
		431,818,245	371,090,867
Less: Provision against balances considered doubtful		(431,818,245)	(371,090,867)
		-	-
Ministry of Water and Power - Considered good (unsecured)			
- Subsidy of tariff differential against sale of electricity	7.3	26,317,112,629	17,962,999,054
- Industrial Support Package (ISP) GOP	7.4	1,710,575,037	1,671,082,098
- Applicable Quarterly Tariff Adjustment (AQTA)	7.5	4,292,799,675	-
-COVID-19 Relief to Small Businesses and Industrial Consumers	7.6	575,170,704	-
		32,895,658,045	19,634,081,152
		<u>38,829,900,321</u>	<u>24,603,469,692</u>

**7.1** These amounts represent balance due from other DISCOs and WAPDA in current account balances. Although certain balances are outstanding for considerable period of time, the management considers these as good receivables as these are due from Government owned entities and will ultimately be recovered in the normal course of business.

**7.2 Due from other power companies**

June 30, 2020

	Free electricity and other transactions	Supply of material	Disbursement of pension	Total
	Rupees	Rupees	Rupees	Rupees
Jamshoro Power Generation Company Limited	14,349,459	-	10,745,272	25,094,731
Central Power Generation Company Limited	5,271,902,721	-	78,065,475	5,349,968,196
Hyderabad Electric Supply Company Limited	-	-	154,941,589	154,941,589
Water and Power Development Authority	-	17,241,475	519,982,410	537,223,885
National Transmission and Despatch Company Limited	-	-	145,817,059	145,817,059
Northern Power Generation Company Limited	3,461,271	-	6,732,765	10,194,036
Lakhra Power Generation Company Limited	23,133,583	-	11,420,318	34,553,901
Quetta Electric Supply Company Limited	22,724,728	14,341,132	55,110,339	92,176,199
Multan Electric Power Company Limited	14,691,527	15,842,254	9,138,052	39,671,833
Peshawar Electric Supply Company Limited	-	-	3,598,514	3,598,514
Islamabad Electric Supply Company Limited	3,493,385	1,471,642	-	4,965,027
Lahore Electric Supply Company Limited	9,013,453	-	1,484,600	10,498,053
Gujranwala Electric Power Company Limited	1,165,747	-	1,227,595	2,393,342
Others	-	-	3,860,518	3,860,518
	<u>5,363,935,874</u>	<u>48,896,503</u>	<u>1,002,124,506</u>	<u>6,414,956,883</u>

Note 7, Due from Associated Undertakings - Cont ...

June 30, 2019

	Free electricity and other transactions	Supply of material	Disbursement of pension	Total
	Rupees	Rupees	Rupees	Rupees
Jamshoro Power Generation Company Limited	11,586,112	-	6,564,306	18,150,418
Central Power Generation Company Limited	4,326,893,381	-	95,587,777	4,422,481,158
Hyderabad Electric Supply Company Limited	-	48,879,766	144,715,283	193,595,049
Water and Power Development Authority	-	-	531,220,962	531,220,962
National Transmission and Despatch Company Limited	-	-	137,574,200	137,574,200
Northern Power Generation Company Limited	3,191,986	-	3,612,218	6,804,204
Lakhra Power Generation Company Limited	13,260,972	-	10,969,018	24,229,990
Quetta Electric Supply Company Limited	20,733,036	-	38,626,683	59,359,719
Multan Electric Power Company Limited	12,939,237	1,670,282	7,875,335	22,484,854
Peshawar Electric Supply Company Limited	-	13,466,904	2,724,506	16,191,410
Islamabad Electric Supply Company Limited	3,191,656	1,917,515	-	5,109,171
Lahore Electric Supply Company Limited	7,583,047	2,193,557	1,087,217	10,863,821
Gujranwala Electric Power Company Limited	789,986	257,598	990,607	2,038,191
	<u>4,400,169,413</u>	<u>68,385,622</u>	<u>981,548,112</u>	<u>5,450,103,147</u>

7.2.1 Movement in provision against due from associated undertakings

	2020	2019
	Rupees	Rupees
Opening balance	851,805,474	811,268,008
Provision made during the year	<u>60,727,378</u>	<u>40,537,466</u>
Closing balance	<u>912,532,852</u>	<u>851,805,474</u>

7.2.2 Ageing of outstanding balances from other power companies

June 30, 2020

	Maximum Amount Outstanding during the Year	1 year or less	More than 1 year	More than 2 years	Total
		Rupees	Rupees	Rupees	Rupees
Jamshoro Power Generation Company Limited	25,094,731	5,771,788	7,779,367	11,543,576	25,094,731
Central Power Generation Company Limited	5,350,093,196	1,069,993,639	1,818,989,187	2,460,985,370	5,349,968,196
Hyderabad Electric Supply Company Limited	155,041,589	37,185,981	46,482,477	71,273,131	154,941,589
Water and Power Development Authority	537,448,885	188,028,360	42,977,911	306,217,614	537,223,885
National Transmission and Despatch Company Limited	145,817,059	13,123,535	27,705,241	104,988,283	145,817,059
Northern Power Generation Company Limited	10,194,036	309,954	5,062,576	4,821,506	10,194,036
Lakhra Power Generation Company Limited	34,553,901	1,032,484	13,422,298	20,099,119	34,553,901
Quetta Electric Supply Company Limited	92,176,199	25,809,336	27,652,860	38,714,003	92,176,199
Multan Electric Power Company Limited	39,671,833	3,570,465	17,058,888	19,042,480	39,671,833
Peshawar Electric Supply Company Limited	3,598,514	179,926	1,079,554	2,339,034	3,598,514
Islamabad Electric Supply Company Limited	4,965,027	1,048,016	1,257,619	2,659,392	4,965,027
Lahore Electric Supply Company Limited	10,498,053	1,784,669	3,464,357	5,249,027	10,498,053
Gujranwala Electric Power Company Limited	2,393,342	287,201	598,336	1,507,805	2,393,342
Others	3,860,518	3,860,518	-	-	3,860,518
<b>Total</b>		<u>1,351,985,872</u>	<u>2,013,530,671</u>	<u>3,049,440,340</u>	<u>6,414,956,883</u>

June 30, 2019

	Maximum Amount Outstanding during the Year	1 year or less	More than 1 year	More than 2 years	Total
		Rupees	Rupees	Rupees	Rupees
Jamshoro Power Generation Company Limited	18,150,418	4,237,122	5,606,683	8,306,613	18,150,418
Central Power Generation Company Limited	4,422,481,158	862,953,830	1,513,442,764	2,046,084,563	4,422,481,157
Hyderabad Electric Power Company Limited	193,595,050	46,729,661	58,986,407	87,878,982	193,595,050
Water and Power Development Authority	531,220,962	186,918,643	44,321,030	299,981,289	531,220,962
National Transmission and Despatch Company Limited	137,574,200	12,314,600	26,718,900	98,540,700	137,574,200
Northern Power Generation Company Limited	6,804,204	216,971	3,328,046	3,259,187	6,804,204
Lakhra Power Generation Company Limited	24,229,990	614,541	9,477,749	14,137,700	24,229,990
Quetta Electric Supply Company Limited	61,030,001	16,804,096	18,399,424	25,826,481	61,030,001
Multan Electric Power Company Limited	34,281,476	3,231,978	14,645,081	16,404,417	34,281,476
Peshawar Electric Power Company Limited	4,642,021	213,150	1,389,600	3,039,271	4,642,021
Islamabad Electric Supply Company Limited	5,385,213	1,593,306	1,962,336	1,829,571	5,385,213
Lahore Electric Supply Company Limited	8,927,862	1,483,419	2,915,003	4,529,440	8,927,862
Gujranwala Electric Power Company Limited	1,780,593	220,888	452,529	1,107,176	1,780,593
<b>Total</b>		<u>1,137,532,205</u>	<u>1,701,645,552</u>	<u>2,610,925,390</u>	<u>5,450,103,147</u>

Note 7, Due from Associated Undertakings - Cont ...

	Note	2020 Rupees	2019 Rupees
<b>7.3 Subsidy of tariff differential against sale of electricity</b>			
Opening balance		22,768,999,155	15,994,185,179
Subsidy accrued during the year	7.3.1	14,152,066,831	16,880,328,664
		<u>36,921,065,986</u>	<u>32,874,513,843</u>
Less: Subsidy adjusted during the year		(5,797,953,256)	(10,105,514,688)
		<u>31,123,112,730</u>	<u>22,768,999,155</u>
Less: Provision against balances considered doubtful		(4,806,000,101)	(4,806,000,101)
Closing balance		<u>26,317,112,629</u>	<u>17,962,999,054</u>

**7.3.1** This represents the tariff subsidy receivable from the Government of Pakistan (GoP) as the difference between the National Electric Power Regulatory Authority (NEPRA) tariff determinations and notifications from time to time and the rates charged to consumers in accordance with the tariff notified by GoP.

**7.4 Industrial Support Package (ISP) GOP**

Opening balance		1,671,082,098	925,283,074
Subsidy accrued during the year		219,321,957	1,238,799,024
		<u>1,890,404,055</u>	<u>2,164,082,098</u>
Less: Subsidy adjusted during the year		(179,829,018)	(493,000,000)
Closing balance		<u>1,710,575,037</u>	<u>1,671,082,098</u>

**7.5 Applicable Quarterly Tariff Adjustment (AQTA)**

Opening balance		-	-
Subsidy accrued during the year	7.5.1	4,292,799,675	-
		<u>4,292,799,675</u>	<u>-</u>
Less: Subsidy adjusted during the year		-	-
Closing balance		<u>4,292,799,675</u>	<u>-</u>

**7.5.1** This represents the quarterly tariff adjustment receivable from the Government of Pakistan (GoP) as the difference between the National Electric Power Regulatory Authority (NEPRA) tariff determinations and notifications from time to time and the rates charged to consumers in accordance with the tariff notified by GoP.

**7.6 COVID-19 Relief to Small Businesses and Industrial Consumers**

Opening balance		-	-
Subsidy accrued during the year	7.6.1	575,170,704	-
		<u>575,170,704</u>	<u>-</u>
Less: Subsidy adjusted during the year		-	-
Closing balance		<u>575,170,704</u>	<u>-</u>

**7.6.1** This relief was allowed under the Prime Minister's Relief Package to Small and Medium Enterprises (SMEs). This relief was given to commercial and industrial consumers based upon the electricity consumption from May 2020 to July 2020. Maximum relief allowed to commercial consumers and industrial consumers was upto Rs. 100,000 and Rs. 450,000 upto 3 months, provided that the connected load of commercial consumers and industrial consumers is upto 5 KW and 70 KW respectively.

Note 8

**Advances and Other Receivables**

	Note	2020 Rupees	2019 Rupees
<b>Considered Good</b>			
General sales tax receivable	8.1	2,010,359,459	3,517,856,355
Duties / charges and tax receivables	8.2	8,260,396,478	5,627,089,566
Profit receivable on bank deposits		88,273,206	26,758,194
Current portion of long term loan to employees	4	663,022	427,022
Advance to suppliers		7,201,616	3,848,105
Other advances		14,097,176	14,276,910
		<u>10,380,990,957</u>	<u>9,190,256,152</u>
Less: Provision against sales tax receivable from WAPDA and other	8.3	(2,022,017,035)	(452,434,726)
		<u>8,358,973,922</u>	<u>8,737,821,426</u>

Note 8, Advances and Other Receivables - Considered good - Cont ...

**8.1** This represents net amount of sales tax presented in these financial statements.

**8.2 Duties / charges and tax receivables**

	Receivables not yet realized	Payables on realization	Total
	Rupees	Rupees	Rupees
<b>Balance as at June 30, 2020</b>			
Electricity duty	1,556,066,201	(1,556,066,201)	-
Income tax	330,123,835	(330,123,835)	-
Neelum Jhelum surcharge	1,170,002,866	(1,170,002,866)	-
T.V. license fee	1,270,576,825	(1,270,576,825)	-
Equalization surcharge	46,619,492	(46,619,492)	-
Extra tax	107,794,653	-	107,794,653
Further tax	161,947,184	-	161,947,184
Sales tax (SRO 608(I)/2014)	24,640,760	-	24,640,760
Finance cost surcharge	2,845,418,816	(2,845,418,816)	-
Tariff rationalization surcharge	193,571,340	(193,571,340)	-
Sales tax	19,373,228,064	-	19,373,228,064
	<u>27,079,990,036</u>	<u>(7,412,379,375)</u>	<u>19,667,610,661</u>
Less: Provision for doubtful receivables (Note 8.2.7)			<u>(11,407,214,183)</u>
			<u>8,260,396,478</u>

	Receivables not yet realized	Payables on realization	Total
	Rupees	Rupees	Rupees
<b>Balance as at June 30, 2019</b>			
Electricity duty	1,335,180,036	(1,335,180,036)	-
Income tax	317,454,847	(317,454,847)	-
Neelum Jhelum surcharge	1,026,576,211	(1,026,576,211)	-
T.V. license fee	1,154,142,094	(1,154,142,094)	-
Equalization surcharge	46,855,517	(46,855,517)	-
Extra tax	107,232,669	-	107,232,669
Further tax	161,247,420	-	161,247,420
Sales tax (SRO 608(I)/2014)	22,732,218	-	22,732,218
Finance cost surcharge	2,216,791,288	(2,216,791,288)	-
Tariff rationalization surcharge	196,186,827	(196,186,827)	-
Sales tax	16,212,336,284	-	16,212,336,284
	<u>22,796,735,411</u>	<u>(6,293,186,820)</u>	<u>16,503,548,591</u>
Less: Provision for doubtful receivables (Note 8.2.7)			<u>(10,876,459,025)</u>
			<u>5,627,089,566</u>

**8.2.1** This represents extra tax levied by the Federal Government through SRO 509(I)/2013 dated June 12, 2013 @ 5 percent of the total billed amount on supplies of electric power to persons having industrial or commercial connections and whose bill in any month exceeds Rs. 15,000, but who have either not obtained sales tax registration number or are not on the Active Taxpayers List maintained by the Federal Board of Revenue.

**8.2.2** This represents further tax levied by the Federal Government through Section 3 (1A) of the Sales Tax Act, 1990 @ 3 percent of total billed amount where taxable supplies are made to a person who has not obtained sale tax registration number.

**8.2.3** This represents sales tax levied by the Federal Government through SRO 608(I)/2014 dated July 02, 2014 to the retailers not falling in the categories specified in sub-rule (1) of rule 5 of the Sales Tax Rules, 2006. Such retailers are charged tax @ of 5 percent where the monthly electricity bill of retailer does not exceed Rs. 20,000 and at the rate of 7.5% where the monthly bill amount exceeds the aforesaid amount as referred in sub-section (1) of Section 3 of the Sales Tax Act, 1990.

*Note 8, Advances and Other Receivables - Considered good - Cont ...*

*Note 8.2, Duties/charges and tax receivables - Cont ...*

- 8.2.4** This represent financing cost surcharge levied by Government of Pakistan through SRO 571(I)/2015 dated June 10, 2015 at the rates mentioned against the categories of electricity consumers as specified in schedule of electricity tariff for the Company.
- 8.2.5** This represent tariff rationalization surcharge levied by National Electric Power Regulatory Authority (NEPRA) through SRO 381(I)/2018 issued under 31(5) of the National Electric Power Regulatory Authority (NEPRA) Act dated March 22, 2018 levied @ notified by the Federal Government mentioned against the categories specified in the schedule of electricity tariff.
- 8.2.6** These receivables include the amount billed to the customers on behalf of respective authorities against which no recoveries have been made as at the reporting date. These amounts have been netted off against respective payables except for further tax, extra tax, sales tax (the SRO 608(I)/2014) and general sales tax payable on accrual basis irrespective of realization from consumers.

<b>8.2.7 Movement in provision against debts considered doubtful</b>	<b>2020</b>	<b>2019</b>
	Rupees	Rupees
Opening balance	10,876,459,025	9,660,599,603
Provision made during the year	530,755,158	1,215,859,422
Closing balance	<u>11,407,214,183</u>	<u>10,876,459,025</u>

- 8.2.7.1** This represents the provision against sales tax, further tax and extra tax considered doubtful of recovery in the same proportion to doubtful debts.

**8.3 Movement in provision against general sales tax receivable and others**

Opening balance	452,434,726	440,777,150
Provision made during the year	1,569,582,309	11,657,576
Closing balance	<u>2,022,017,035</u>	<u>452,434,726</u>



Note 9

**Taxation - Net**

		<b>2020</b>	<b>2019</b>
	Note	Rupees	Rupees
Advance tax	9.1	1,076,467,573	922,276,185
Provision for taxation	9.2	<u>-521,524,190</u>	<u>-488,270,014</u>
		<u><u>554,943,383</u></u>	<u><u>434,006,171</u></u>

**9.1** This includes an amount of Rs. 751.49 million recovered by Federal Board of Revenue (FBR) on attachment of bank accounts of the Company against order-in-original claiming sales tax not paid to FBR. The same has been detailed in note 19.1 (ii).

**11.2 Provision for taxation**

Opening balance	488,270,014	428,040,014
Tax provision made during the year	103,254,176	97,350,000
Payments made during the year	<u>(70,000,000)</u>	<u>(37,120,000)</u>
Closing balance	<u><u>521,524,190</u></u>	<u><u>488,270,014</u></u>

Note 10

**Bank Balances**

		<b>2020</b>	<b>2019</b>
	Note	Rupees	Rupees
Cash at banks			
- current accounts	10.1	342,373,369	1,043,003,598
- saving accounts	10.2	98,983,086	335,392,760
- term deposits maturing within 12 months	10.3	<u>1,284,938,000</u>	<u>644,938,000</u>
		<u><u>1,726,294,455</u></u>	<u><u>2,023,334,358</u></u>

**10.1** This includes an amount of Rs. 100.234 million (2019: Rs. 548.579 million) received as security deposit from consumers and contractors.

**10.2** These carry profit ranging from 5% to 7.5% (2019: 4.4% to 5.5%) per annum.

**10.3** These include term deposits receipts (TDRs) held with National Bank of Pakistan that are pledged against bank guarantee. The rate of return on these TDRs ranges from 5.70% to 11.30% (2019: 7% to 10%) per annum.

Note 11

**Share Capital**

		<b>2020</b>	<b>2019</b>
		Rupees	Rupees
<b>11.1 Authorized capital</b>			
	<u>2020</u> <u>2019</u>		
	Number of Shares		
	500,000      500,000		
	Ordinary shares of Rs. 10 each fully paid in cash	<u>5,000,000</u>	<u>5,000,000</u>
<b>11.2 Issued, subscribed and paid up capital</b>			
	<u>2020</u> <u>2019</u>		
	Number of Shares		
	1,000      1,000		
	Ordinary shares of Rs. 10 each fully paid in cash	<u>10,000</u>	<u>10,000</u>

**11.3** All the shares are beneficially owned by the President of Pakistan directly and through nominee directors.

**11.4** There has been no movement in the share capital during the year (2019: Nil).

Note 12

**Deposit for Issuance of Shares**

		<b>2020</b>	<b>2019</b>
	Note	Rupees	Rupees
Transferred from HESCO	12.1	5,169,464,011	5,169,464,011
Transferred on account of clearance of circular debt	12.2	31,992,006,722	31,992,006,722
		<u>37,161,470,733</u>	<u>37,161,470,733</u>

**12.1** This represents Water and Power Development Authority (WAPDA) share deposit money apportioned and transferred from Hedrabad Electric Supply Company (HESCO).

**12.2** This represents Government of Pakistan's investment / equity in the Company channelized through Pakistan Electric Power Company (Private) Limited (PEPCO) / National Transmission and Despatch Company Limited (NTDC) as a measure taken to clear circular debts prevailing in the power sector. These deposits for shares are unsecured and carry no interest. Number of shares to be issued against these deposit amounts will be determined after finalization of necessary agreements with Water and Power Development Authority (WAPDA). The said deposit has been adjusted on the basis of advices received by the Company from Central Power Purchasing Agency (CPPA).

Note 13

**Deferred Credit**

		<b>2020</b>	<b>2019</b>
	Note	Rupees	Rupees
Opening balance		9,173,795,865	8,481,546,230
Transfer from receipt against deposit work	15	711,467,793	692,249,635
		9,885,263,658	9,173,795,865
Less: amortization			
Opening balance		(4,126,603,306)	(3,827,730,127)
Amortized during the year		(322,742,123)	(298,873,179)
		(4,449,345,429)	(4,126,603,306)
Balance transferred from HESCO written back		-	-
Closing balance	13.1	<u>5,435,918,229</u>	<u>5,047,192,559</u>

**13.1** This represents grant received from nomination authorities in respect of projects capitalized over the years and recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Note 14

**Consumers' Security Deposits**

These represent security deposits received from consumers at the time of electricity connection and are refundable/adjustable on disconnection of electricity supply.

Note 15

**Receipt against Deposit Works and Connections**

		<b>2020</b>	<b>2019</b>
	Note	Rupees	Rupees
Opening balance		3,038,199,704	2,732,413,629
Contribution / Deposits received		1,034,096,562	1,067,875,679
Projects completed and transferred to deferred credit	13	(711,467,793)	(692,249,635)
Transferred to labour and overhead recovery	22.2	(64,823,813)	(69,839,969)
Closing balance		<u>3,296,004,660</u>	<u>3,038,199,704</u>

**The balance as at June 30 consist of:**

Capital Contribution from consumers	15.1	336,698,541	246,287,407
Receipt against deposit works	15.2	<u>2,959,306,119</u>	<u>2,791,912,297</u>
Total		<u>3,296,004,660</u>	<u>3,038,199,704</u>

**15.1** The capital contributions is received in accordance with the government notification SRO 4051(1)/2011 dated January 03, 2011 for approved rates of capital contribution on every new connection.

**15.2** These represent amounts received directly by the Company for electrification of villages, colonies and other deposit works, mainly provided through Government funding against which related works / jobs have not been completed. The Company receives the contributions against the capital work in progress, in advance, from the nominating authorities of the related project. Once completed, these are capitalized in property and equipment from capital work in progress and related receipt against deposit work is transferred to deferred credit.

Note 16  
Employees' Retirement Benefits

	Note	2020 Rupees	2019 Rupees
<b>Post retirement benefits</b>			
Pension	16.1 - 16.5	32,765,949,946	31,607,094,515
Free electricity	16.1 - 16.5	997,070,098	1,008,566,532
Free medical benefits	16.1 - 16.5	2,266,400,690	4,920,064,409
		36,029,420,734	37,535,725,456
<b>Compensated absences</b>	16.8	1,742,699,558	1,504,078,314
		<u>37,772,120,292</u>	<u>39,039,803,770</u>

16.1 The Company is operating unfunded WAPDA's employee pension scheme, post retirement free electricity scheme and post retirement medical benefits scheme as previously followed by HESCO.

16.2 Actuarial valuation of the above schemes was carried out as at the reporting date using Projected Unit Credit Method. Following significant assumptions were used by the independent actuary:

Discount rate	11.00	11.75
Rate of increase in salary	9.00	12.50
Indexation in pension	8.00	9.75
Medical inflation rate	9.00	9.00
Exposure inflation rate	3.00	3.00
Electricity inflation rate	9.00	8.00
Normal retirement (in years)	60.00	60.00

16.3 Defined benefit obligation

Note	June 30, 2020			June 30, 2019		
	Pension Rupees	Electricity Rupees	Medical Rupees	Pension Rupees	Electricity Rupees	Medical Rupees
	31,607,094,515	1,008,566,532	4,920,064,409	16,839,843,495	975,521,222	1,144,393,134
	2,594,000,000	(11,496,434)	(2,500,000,000)	16,048,118,690	33,543,824	3,901,268,783
16.4	34,201,094,515	997,070,098	2,420,064,409	32,887,962,185	1,009,065,046	5,045,661,917
	(1,435,144,569)	-	(153,663,719)	(1,280,867,670)	(498,514)	(125,597,508)
	<u>32,765,949,946</u>	<u>997,070,098</u>	<u>2,266,400,690</u>	<u>31,607,094,515</u>	<u>1,008,566,532</u>	<u>4,920,064,409</u>
						<u>37,535,725,456</u>

16.4 Charge for the year

Profit and loss account:

Current service cost	539,000,000	22,000,000	28,000,000	589,000,000	616,764,242	31,189,010	48,965,228	696,918,480
Interest cost	3,861,000,000	145,503,566	703,000,000	4,709,503,566	1,903,430,635	114,594,456	127,087,340	2,145,112,431
	4,400,000,000	167,503,566	731,000,000	5,298,503,566	2,520,194,877	145,783,466	176,052,568	2,842,030,911

Other comprehensive income:

Remeasurement (gain) / loss due to experience adjustments	(1,806,000,000)	(179,000,000)	(3,231,000,000)	(5,216,000,000)	13,527,923,813	(112,239,642)	3,725,216,215	17,140,900,386
	<u>2,594,000,000</u>	<u>(11,496,434)</u>	<u>(2,500,000,000)</u>	<u>82,503,566</u>	<u>16,048,118,690</u>	<u>33,543,824</u>	<u>3,901,268,783</u>	<u>19,982,931,297</u>

Note 16, Employees' Retirement Benefits - Cont..

**16.5 Reconciliation of present value of obligation**

	June 30, 2020			June 30, 2019			
	Pension Rupees	Electricity Rupees	Medical Rupees	Pension Rupees	Electricity Rupees	Medical Rupees	Total Rupees
Present value of obligation - opening balance	31,607,094,515	1,008,566,532	4,920,064,409	16,839,843,495	975,521,222	1,144,393,134	18,959,757,851
Current service cost	539,000,000	22,000,000	28,000,000	391,000,000	22,000,000	20,000,000	433,000,000
Interest cost	3,861,000,000	145,503,566	703,000,000	1,634,000,000	120,000,000	120,000,000	1,874,000,000
Benefits paid	(1,435,144,569)	-	(153,663,719)	(1,144,456,010)	(792,544)	(98,743,740)	(1,243,992,294)
Remeasurement (gain) / loss due to experience	(1,806,000,000)	(179,000,000)	(3,231,000,000)	1,480,000,000	(185,000,000)	31,000,000	1,326,000,000
Present value of obligation - closing balance	32,765,949,946	997,070,098	2,266,400,690	19,200,387,485	931,728,678	1,216,649,394	21,348,765,557

**16.6 Sensitivity analysis**

	Pension			Electricity			Medical		
	Rupees	Variation in %	Rupees	Rupees	Variation in %	Rupees	Rupees	Variation in %	
Current liability	32,765,949,946	100%	997,566,532	100%	2,265,400,690	100%			
Discount Rate +1 %	28,387,000,000	13.36%	857,000,000	14.09%	2,157,000,000	4.79%			
Discount Rate -1 %	38,235,000,000	-16.75%	1,176,000,000	-17.89%	2,421,000,000	-6.87%			
Salary Increase +1%	33,637,000,000	-2.66%	-	-	-	-			
Salary Increase -1%	31,994,000,000	2.36%	-	-	-	-			
Pension increase rate + 1%	37,148,000,000	-13.37%	-	-	2,320,000,000	-2.41%			
Pension decrease rate - 1%	29,122,000,000	11.12%	-	-	2,220,000,000	2.00%			
Medical Inflation Rate Increase +1%	-	-	1,036,000,000	-3.85%	-	-			
Medical Inflation Rate Increase -1%	-	-	962,000,000	3.57%	-	-			
Electricity Rate +1%	-	-	-	-	-	-			
Electricity Rate -1%	-	-	-	-	-	-			

**16.7 Historical data of the plan**

	2020		2019		2018		2017		2016	
	Rupees	Variation in %	Rupees	Variation in %	Rupees	Variation in %	Rupees	Variation in %	Rupees	Variation in %
Present value of defined benefit obligations	32,765,949,946	100%	31,607,094,515	100%	19,200,387,485	100%	14,479,299,505	100%	14,361,501,505	100%
- Pension	997,070,098	13.36%	1,008,566,532	14.09%	931,728,678	4.79%	1,019,313,766	7.09%	973,803,398	6.87%
- Electricity	2,266,400,690	-2.66%	4,920,064,409	-17.89%	1,216,649,394	-6.87%	1,072,136,874	-12.54%	1,125,542,874	-4.79%
- Medical	36,029,420,734	11.12%	37,535,725,456	3.13%	21,348,765,557	10.23%	16,570,750,145	-22.41%	16,460,847,777	-0.67%
Experience adjustments	-	-	-	-	-	-	-	-	-	-
- Actuarial gain / (loss) on obligation	1,806,000,000	-5.51%	(13,527,923,813)	-69.63%	(1,480,000,000)	-7.04%	1,067,147,000	7.38%	(1,578,096,730)	-10.02%
- Pension	179,000,000	17.87%	112,239,642	62.68%	185,000,000	104.47%	74,580,000	51.63%	(38,675,319)	-51.63%
- Electricity	-	-	(3,725,216,215)	-164.40%	(31,000,000)	-2.55%	112,462,000	8.33%	(32,077,005)	-28.53%
- Medical	3,231,000,000	8.99%	3,225,216,215	0.18%	(31,000,000)	-0.96%	112,462,000	0.74%	(32,077,005)	-0.29%

**16.8 Compensated absences**

	2020		2019	
	Rupees	Variation in %	Rupees	Variation in %
Balance at the beginning of the year	1,504,078,314	100%	1,501,000,000	100%
Charge for the year	334,000,000	22.21%	92,347,531	6.15%
Payments made during the year	(95,378,756)	-6.34%	(89,269,217)	-5.95%
Balance at the end of the year	1,742,699,558	15.57%	1,504,078,314	100%

Note 17

**Creditors, Accrued and Other Liabilities**

	2020	2019
	Rupees	Rupees
Creditors	1,116,988,360	937,241,203
Accrued liabilities	21,717,758	55,348,157
Retention money - contractors / suppliers	249,011,281	188,108,795
Other liabilities:		
Employees' share in funds contribution payable	2,062,245	653,971
Withholding income tax payable - electricity bills	121,499,136	108,131,283
Withholding income tax payable	771,004	819,341
Electricity duty payable	459,211,241	221,129,012
TV license fee payable	5,024,893	5,614,032
Extra tax payable	107,794,653	107,232,669
Further tax payable	161,947,184	161,247,420
Sales Tax payable - 2014	24,640,760	22,732,218
Financing cost surcharge payable	189,751,337	194,549,209
Tariff rationalization surcharge payable	336,606,126	362,180,228
Nelum Jhelum surcharge payable	307,699,396	555,375,068
Equalization surcharge payable	439,046,769	438,808,143
Security deposits	655,909	660,629
Others	4,114,908	5,354,878
	<u>2,160,825,561</u>	<u>2,184,488,101</u>
	<u>3,548,542,960</u>	<u>3,365,186,256</u>

Note 18

**Due to Associated Undertakings**

	2020	2019
	Rupees	Rupees
Central Power Purchasing Agency (Guarantee) Limited	263,718,855,308	213,953,181,405
Peshawar Electric Supply Company Limited	8,105,681	7,662,639
Hyderabad Electric Supply Company Limited	3,330,253,327	2,888,671,260
National Transmission and Despatch Company Limited	4,309,086,149	2,947,681,878
Faisalabad Electric Supply Company Limited	11,337,247	11,828,554
	<u>271,377,637,712</u>	<u>219,809,025,736</u>

**18.1 Ageing of outstanding balances to associated undertakings**

**June 30, 2020**

	1 year or less	More than 1 year	More than 2 years	Total
	Rupees	Rupees	Rupees	Rupees
Central Power Purchasing Agency (Guarantee) Limited	49,765,673,903	36,714,781,898	177,238,399,507	263,718,855,308
Peshawar Electric Supply Company Limited	443,042	6,971,507	691,132	8,105,681
Hyderabad Electric Power Company Limited	441,582,067	1,189,678,512	1,698,992,748	3,330,253,327
National Transmission and Despatch Company Limited	1,356,207,650	586,109,993	2,361,571,885	4,303,889,528
Faisalabad Electric Supply Company Limited	491,307.00	4,184,539	6,661,401	11,337,247
<b>Total</b>	<u>51,564,397,969</u>	<u>38,501,726,449</u>	<u>181,306,316,673</u>	<u>271,372,441,091</u>

**June 30, 2019**

Central Power Purchasing Agency (Guarantee) Limited	36,714,781,898	47,722,496,490	129,515,903,017	213,953,181,405
Peshawar Electric Supply Company Limited	5,860,617	1,115,296	686,726	7,662,639
Hyderabad Electric Power Company Limited	1,189,678,512	629,687,887	1,069,304,861	2,888,671,260
National Transmission and Despatch Company Limited	586,109,993	454,493,459	1,907,078,426	2,947,681,878
Faisalabad Electric Power Company Limited	5,167,153	6,661,401	-	11,828,554
<b>Total</b>	<u>6,621,118</u>	<u>14,099</u>	<u>26,184</u>	<u>219,797,197,182</u>

Note 19

**Contingencies and Commitments**

**19.1 Contingencies**

- i) Term Deposit Certificates amounting to Rs. 393.620 million and Rs. 251.318 million from National Bank of Pakistan are held under guarantee in favour of Dadu Energy Power (Private) Limited and Shikarpur Power (Private) Limited respectively in accordance with power purchase agreement. Based on management assessment, no adverse decision is expected. Therefore no provision has been recognised in these financial statements.
- ii) Deputy Commissioner Inland Revenue, RTO Sukkur vide letter No. DCIR/AUDIT-I/ZONE-I/RTO/90/2014-15 ordered for the recovery of sales tax amounting to Rs. 12.246 billion. Furthermore, default surcharge and penalty of Rs. 2.556 billion and Rs. 979.689 million respectively were also added in the aforementioned claim. The Department had recovered Rs. 751.488 million through attachment of bank accounts of the Company. Appeal filed with the Commissioner Appeals was dismissed and the Company filed an appeal before the Income Tax Appellate Tribunal (ITAT) being aggrieved. Appellate Tribunal Inland Revenue – Karachi vide its order No. STA No. 261/KB-2016, dated October 10, 2016, has set aside the impugned order with the directions, to the concerns OIR having jurisdiction over the instant case, to re-examine the impugned claim of payment of sale tax in the light of submission to ITAT and allow the claim of payment strictly in accordance with law on merit to the extent of examination and verification of evidence of payment made by SEPCO to the government treasury during the relevant tax period involved in the order-in-original. The Officer Inland Revenue has issued a show-cause for examination of the Company's record evincing the claim of payment of sales tax by the Company. Based on the management assessment, no adverse decision is expected. Therefore no provision has been recognised in these financial statements.
- iv) Assistant Commissioner - Sindh Revenue Board vide letter No. SRB.AC.SKR.WHT/2015/10869 dated March 13, 2015 issued a show cause notice for short payment of Sindh Sales Tax (SST) of Rs. 40.830 million on account of taxable services amounting to Rs. 255.187 million. Assistant Commissioner - Sindh Revenue Board vide letter No. SRB/SKR/SEPCO-132/2015/11197 dated May 12, 2015 passed an order under the aforementioned show cause notice to pay principal amount of tax amounting to Rs. 40.830 million with additional amount of penalty @ 100% of principal amount. The Company had filed an appeal with Commissioner (Appeals) Sindh Revenue Board (SRB) on June 12, 2015 against this order along with payment of installment of Rs. 15 million on account of protest. The Commissioner (Appeals) Sindh Revenue Board has set aside the initial order being without jurisdiction void, ab-initio vide order No. 1124/2016 dated August 22, 2016. The concerned officer at present may proceed against the Appellant as per law as he may deem it appropriate. Based on management assessment, no adverse decision is expected. Therefore no provision has been recognised in these financial statements.
- v) In addition to above-mentioned matters, large number of small cases have been filed against the Company, primarily by the Company's employees, customer and vendors, the quantum of which cannot be estimated reliably. However, the management is of the view that in the overall context of these financial statements, there would be no significant liability on the part of the Company in respect of such cases.

**19.2 Commitments**

	<b>2020</b>	<b>2019</b>
	Rupees	Rupees
Purchase orders outstanding	<u>413,397,960</u>	<u>307,099,230</u>

Note 20

**Revenue from Contract with Customer**

		<b>2020</b>	<b>2019</b>
	Note	Rupees	Rupees
Residential	20.1	20,018,201,548	19,180,044,616
Commercial		3,981,071,383	3,805,614,205
Industrial		5,864,051,664	6,747,296,422
Agricultural		612,839,430	956,479,777
AQTA		2,705,476,954	-
Others	20.2	3,260,062,648	3,346,342,530
	20.3	<u>36,441,703,627</u>	<u>34,035,777,550</u>

**20.1** During the year, the Company sold 2,710,083,353 (KWH) (2019: 2,780,700,095 (KWH)) electricity units to consumers in different tariff categories. Out of these units, 672,814,676 (KWH) (2019: 581,855,257 (KWH)) represent the electricity units billed to consumers under detection billing, the majority of which have been billed to residential connections.

**20.2** This includes supply of electricity in respect of street lights, bulk connections and residential colonies attached to industrial undertakings.

**20.3** The above sales is net of sales tax billed to consumer of Rs. 6,069,163,139 (2019: Rs. 6,291,251,401).

**20.4 Tariff subsidy from GOP**

This represents the tariff subsidy receivable from the Government of Pakistan (GoP) as the difference between the National Electric Power Regulatory Authority (NEPRA) tariff determinations and notifications from time to time and the rates charged to consumers in accordance with the tariff notified by GoP as disclosed in Note 7.3.

Note 21

**Cost of Electricity**

	<b>2019</b>	<b>2018</b>
	Rupees	Rupees
<b>Purchase of electricity</b>		
<b>Power Purchase Price (PPP)</b>		
PPP - Variable charges	25,875,574,367	28,192,690,262
PPP - Fixed charges	30,108,520,106	23,359,762,991
Use of system charges	1,777,922,819	1,645,138,809
Market operation fee	16,309,502	15,932,971
	<u>57,778,326,794</u>	<u>53,213,525,033</u>
Units purchased (kwh)	4,252,761,704	4,411,569,483
Units sold (kwh)	2,710,083,353	2,780,700,095
Transmission and distribution losses %	36.27	36.97

**21.1** This represents cost of electricity purchased from Central Power Purchasing Agency (Guarantee) Limited (CPPA), authorised by GoP. Electricity purchases during the year have been incorporated according to the invoices issued by NTDC/CPPA and adjusted in accordance with monthly Fuel Price Adjustment determined and notified by NEPRA. The Company purchases electricity from other private power producers. However, invoices are issued to the Company by CPPA on aggregate basis.

**21.2** The above figures are exclusive of sale tax amounting to Rs. 4,369,936,675 (2019: Rs. 4,850,143,914).



Note 22

**Other Income**

	Note	2020 Rupees	2019 Rupees
<b>Income from financial assets</b>			
Return on bank deposits		167,489,458	135,096,157
<b>Income from non - financial assets</b>			
Rental and service income	22.1	1,258,226,095	1,260,984,295
Reconnection fee		116,776	109,019
Service charges recovered from PTV		2,338,044	2,574,383
Non - utility operations	22.2	72,266,290	76,153,556
Stores handling and others	22.3	222,059,412	409,266,507
		<u>1,555,006,617</u>	<u>1,749,087,760</u>
		<u>1,722,496,075</u>	<u>1,884,183,917</u>

**22.1 Rental and service income**

Meter and service rentals	13,338,253	13,263,490
Late payment surcharge	1,244,586,346	1,247,399,889
Public lighting	301,496	320,916
	<u>1,258,226,095</u>	<u>1,260,984,295</u>

**22.2** This includes recovery on labour and overhead charges aggregating to Rs. 111,797,946 (2019: Rs. 69,839,969) at the time of application for new connections. It is recognized at the time of installation of connection.

**22.3** This represents amount received from customers in respect of material handling charges and receipts of liquidated damages during the year.

Note 23

**Operating Expenses**

	Note	2020 Rupees	2019 Rupees
Salaries, wages and other benefits	23.1	9,356,573,760	6,618,713,983
Repairs and maintenance		907,924,900	689,399,187
Travelling		210,882,903	268,829,734
Transportation		144,524,920	125,541,616
Rents, rates and taxes		4,869,516	5,193,722
Office supplies and other expenses		44,061,143	33,166,519
Legal and professional charges		16,686,481	15,806,156
Fees and subscriptions		272,625	345,590
Utility expenses		10,083,121	25,797,094
Advertisement expenses		2,610,522	14,013,976
Collection charges		25,208,911	21,209,311
Management and consultation fees		88,221,802	57,013,900
Postage and telephone		11,297,055	10,643,933
Directors' meeting fee		2,625,000	3,052,000
Auditors' remuneration		1,750,000	1,750,000
Others		39,999,044	42,421,377
		<u>10,867,591,703</u>	<u>7,932,898,098</u>

**23.1** The aggregate amount charged in respect of employees' post retirement benefits amounts to Rs. 5,632 million (2019: Rs. 2,934.378 million).

Note 24

Finance Cost

	Note	2020 Rupees	2019 Rupees
Finance cost booked by CPPA	24.1	8,700,655,950	6,268,849,824
Bank charges		6,484,651	5,442,088
		<u>8,707,140,601</u>	<u>6,274,291,912</u>

24.1 Due to delayed payments from the Company against power purchase, Central Power Purchasing Agency Guarantee Limited (CPPA) had to obtain loans from different lenders. The financial charges incurred thereon have been allocated by CPPA and accounted for by the Company.

Note 25

Taxation

	2020 Rupees	2019 Rupees
Income tax expense	103,254,176	97,350,000
Prior year tax	-	77,880,000
	<u>103,254,176</u>	<u>175,230,000</u>

25.1 The Company has incurred gross loss during the year. Therefore, provision for minimum tax under section 113 to the Income Tax Ordinance, 2001 has not been accounted for in these financial statements.

25.2 Deferred tax asset has been worked out amounting to Rs. 66,466.879 million (2019: Rs. 78,484.084 million) which has not been accounted for in these financial statements due to uncertainties regarding the future taxable profits against which such asset would be utilized.

Business tax losses aggregating Rs. 91,966.659 million against which deferred tax asset has not been recognized, will expire as follows:

Tax Year to	Amount in	Tax Year in
2015	25,069,026,624	2021
2016	11,390,686,537	2022
2017	25,454,349,051	2023
2018	19,669,015,438	2024
2019	<u>10,383,581,708</u>	2025
	<u>91,966,659,358</u>	

Note 26

Transactions With Related Parties

Related parties comprise Government of Pakistan, Pakistan Electric Power Company Limited, National Transmission and Despatch Company Limited, eight distribution companies, four power generation companies, Central Power Purchasing Agency (Guarantee) Limited (CPPA) and WAPDA. Amounts due from and due to related parties and key management personnel, if any, are shown under receivables and payables.

Remuneration of Chief Executive is disclosed in note 27 and director's meeting fee is disclosed in note 23 to these financial statements. Other significant transactions with related parties are as follows:

Name of Party	Relationship with Related party	Nature of Transactions	2020	2019
			-----Rupees-----	
Central Power Purchasing Agency	Associated Undertaking	Purchase of electricity	57,778,326,794	46,292,905,316
National Electric Power Regulatory Authority	Associated Undertaking	Annual Distribution License Fee	9,165,845	8,020,100

A number of governmental departments are the electricity consumers of the Company to whom the electricity is sold on the notified tariff rates, the detail of which cannot be produced due to impracticability.

The outstanding balances are as follows:

Central Power Purchasing Agency	Associated Undertaking	Due to Associated Undertakings	263,718,855,308	213,953,181,405
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Note 27

Remuneration of Chief Executive Officer and Directors

The aggregate amounts charged in the financial statements for the year as remuneration and benefits to the chief executive, directors and executives of the Company are as follows:

	2020			2019		
	Chief Executive Rupees	Directors Rupees	Executives Rupees	Chief Executive Rupees	Directors Rupees	Executives Rupees
Managerial remuneration	3,351,618	-	27,073,080	3,051,645	-	21,715,200
Housing / TA allowance	2,085,263	-	3,019,792	3,774,351	-	1,892,388
Utilities	-	-	-	-	-	-
Bonus and other allowances	282,313	-	22,214,130	154,780	-	11,955,636
Retirement benefits	-	-	-	-	-	-
Meeting fee	-	2,625,000	-	-	3,577,000	-
	<u>5,719,194</u>	<u>2,625,000</u>	<u>52,307,002</u>	<u>6,980,776</u>	<u>3,577,000</u>	<u>35,563,224</u>
Number of persons	1	11	16	1	11	8

27.1 An executive is defined as an employee, other than the chief executive and directors, whose basic salary exceeds Rs. 1.2 million in a financial year. Comparative figures have been restated to reflect changes in the definition of executive as per the Companies Act, 2017 (Previously, basic salary limit for executive was Rs. 500,000).

27.2 The Chief Executive Officer is provided unfurnished accommodation, free electricity, free use of Company's maintained vehicle and telephone facility as per the the Copmany's rules. Moreover, all the executives are provided free electricity and some of executives are also provided with unfurnished accommodation, free use of Company's maintained vehicle and telephone facility as per the Company's rules.

Note 28

## Financial Risk Management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including cash flow interest rate risk, currency risk, equity price risk and fair value interest rate risk).

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management. The Board has established a Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. Further, the Risk Management Committee assists the Board in discharging its oversight responsibility. The management has been made responsible for identifying, monitoring and managing the Company's financial risk exposures.

### 28.1 Credit risk and concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is exposed to credit risk from its operating activities primarily for trade debts, deposits with banks and other financial instruments. The carrying amount of financial assets as at the reporting date represents the maximum credit exposure, which is as follows:

	June 30, 2020		June 30, 2019	
	Financial Asset	Maximum Exposure	Financial Asset	Maximum Exposure
	-----Rupees-----			
Trade debts	105,001,864,150	33,404,894,996	88,482,510,660	33,548,335,086
Long term loans	784,103	784,103	1,007,471	1,007,471
Other receivables	19,755,883,867	6,326,652,649	16,945,686,887	5,616,793,136
Due from associated undertakings	44,548,433,274	38,829,900,321	30,261,275,267	24,603,469,692
Bank balances	1,726,294,455	1,726,294,455	2,023,334,358	2,023,334,358
	<u>171,033,259,849</u>	<u>80,288,526,524</u>	<u>137,713,814,643</u>	<u>65,792,939,743</u>

Out of total financial asset of Rs. 171,033.260 million (2019: Rs. 137,713.815 million), the financial asset which are subject to credit risk amount to Rs. 80,288,527 million (2019: Rs. 65,792.940 million). Difference in the balances as per statement of financial position and maximum exposure is due to the fact that trade debt and other receivables amounting to Rs. 85,026.200 million (2019: Rs. 66,263.069 million) have been provided for and Rs. 3310.131 million (2019: Rs. 3,102.476 million) represents the receivables from regulatory authorities.

#### 28.1.1 Credit risk related to trade debts

Financial instruments that potentially subject the Company to concentration of credit risk are trade debts. The Company's electricity is sold to domestic, commercial, agricultural, industrial and bulk rate consumers including government organizations. Due to large number and diversity of its customer base, concentration of credit risk with respect to trade debts is limited. Further, the Company manages its credit risk by obtaining security deposit from customers. The Company believes that it is not exposed to significant credit risks except to the extent of receivables from its defaulted consumers including government administrative offices. The Company controls its credit risk by continuous monitoring of its receivables and disconnecting defaulting consumers. In addition, outstanding customer receivables are regularly monitored and appropriate actions are taken to minimize risk of bad debts. The ageing of trade receivables including duties and taxes receivables at the reporting date was as follows:

	2020		2019	
	Gross Rupees	Impairment Rupees	Gross Rupees	Impairment Rupees
Past due up to 1 year	10,566,669,959	105,720,781	9,946,372,963	103,389,932
Past due between 1 to 3 years	11,887,503,703	898,626,640	9,841,819,254	847,667,407
Past due over 3 years	<u>102,303,574,355</u>	<u>81,469,080,758</u>	<u>85,197,867,034</u>	<u>64,859,577,260</u>
	<u>124,757,748,017</u>	<u>82,473,428,179</u>	<u>104,986,059,251</u>	<u>65,810,634,599</u>

Note 28, Financial Risk Management - Cont ...

**28.1.2 Collateral against trade debts**

The Company receives security deposit from each customer at the time of allotment of new connection which is adjustable against the amount due from him in case of his default. At present the Company holds security deposit amounting to Rs. 1,174.242 million (2019: Rs. 1,080.144 million).

**28.1.3 Credit risk related to financial instruments and cash deposits**

Credit risk from balances with banks and financial institutions is managed by Chief Executive Officer and Finance Director in accordance with the Company's policy.

The credit risk on liquid funds (cash and bank balances) is limited because the counter parties are banks with a reasonably high credit rating. The names and credit rating of banks as at June 30, 2020 where the Company maintains its major bank balances are as follows:

Name of bank	Rating Agency	Credit rating	
		Short-term	Long-term
National Bank of Pakistan	JCR-VIS	A1+	AAA
Allied Bank Limited	PACRA	A1+	AAA
Bank Al Habib Limited	PACRA	A1+	AA+
Bank Alfalah Limited	JCR-VIS	A1+	AA+
Silk Bank Limited	JCR-VIS	A-2	A-
Askari Bank Limited	PACRA	A1+	AA+
Habib Bank Limited	JCR-VIS	A1+	AAA
MCB Bank Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AAA
First Women Bank Limited	PACRA	A2	A-

There is no significant credit risk against other receivables as majority of the receivables are from other distribution companies which are financially backed by the Ministry of Water and Power and the Government of Pakistan.

**28.2 Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or would have difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring substantial losses or risk damage to the Company's reputation.

The following table shows the Company's remaining contractual maturities of financial liabilities, including interest payments:

	Less than 1 year	1-5 years	More than 5 years	Total
	Rupees	Rupees	Rupees	Rupees
<b>June 30, 2020</b>				
Creditors, accrued and other liabilities	1,145,539,180	-	-	1,145,539,180
Due to associated undertakings	271,377,637,712	-	-	271,377,637,712
	<u>272,523,176,892</u>	<u>-</u>	<u>-</u>	<u>272,523,176,892</u>
	Less than 1 year	1-5 years	More than 5 years	Total
	Rupees	Rupees	Rupees	Rupees
<b>June 30, 2019</b>				
Creditors, accrued and other liabilities	927,450,940	-	-	927,450,940
Due to associated undertakings	181,306,316,673	-	-	181,306,316,673
	<u>182,233,767,613</u>	<u>-</u>	<u>-</u>	<u>182,233,767,613</u>

**28.3 Market risk management**

Market risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as fuel price and equity price risk. Financial instruments affected by market risk include loans and borrowings and bank deposits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

Note 28, Financial Risk Management - Cont ...

### 28.3.1 Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the following:

	<b>2020</b>	<b>2019</b>
<b>Fixed rate instruments at carrying amount</b>	Rupees	Rupees
Bank deposits	98,983,086	335,392,760
Term deposits certificate (maturing within 12 months)	1,284,938,000	644,938,000

#### **Fair value sensitivity analysis for fixed rate instruments:**

The Company does not account for any fixed rate financial assets and liabilities at fair values through profit and loss. Therefore, change in interest rates at the reporting date would not affect profit and loss account.

### 28.3.2 Foreign exchange risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company deals in local supply of electricity and does not have any foreign currency debtors.

## 28.4 Determination of fair values

### 28.4.1 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction other than in a forced or liquidation sale.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

#### (i) Fair value hierarchy

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying value and the fair value estimates.

As at June 30, 2020 the net fair value of all financial assets and financial liabilities are estimated to approximate their carrying values.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The fair values of all other financial assets and liabilities are not considered to be significantly different from their carrying values.

The Company classifies the financial instruments measured in the balance sheet at fair value in accordance with the following fair value measurement hierarchy:

Level 1	Quoted market prices
Level 2	Valuation techniques (market observable)
Level 3	Valuation techniques (non market observable)

### 28.4.2 Recognized fair value measurements - non - financial assets

There are no non-financial assets as at June 30, 2020 (2019: Nil) which are recognised at fair value.

Note 28, Financial Risk Management - Cont ...

**28.5 Financial instruments by category**

The accounting policies for financial instruments have been applied for line items below:

<b>Financial asset as at amortized cost</b>	<b>2020</b>	<b>2019</b>
	Rupees	Rupees
Bank balances	1,726,294,455	2,023,334,358
Long term loans to employees	784,103	1,007,471
Trade debts	33,404,894,996	33,548,335,086
Advances and other receivables	6,326,652,649	5,616,793,136
Due from associated undertakings	38,829,900,321	24,603,469,692
	<u>80,288,526,524</u>	<u>65,792,939,743</u>
<b>Financial liabilities at amortized cost</b>		
Creditors, accrued and other liabilities	1,145,539,180	927,450,940
Due to associated undertakings	271,377,637,712	181,306,316,673
	<u>272,523,176,892</u>	<u>182,233,767,613</u>

Note 29

**Capital Risk Management**

The objective of the Company when managing capital, i.e. its shareholder's equity is to safeguard its ability to continue as a going concern to maintain a strong capital base to support the sustained development of its business. The Company is not exposed to any external capital requirement. As mentioned in note 12, the Company will issue shares amounting to Rs. 37,161,470,733 @ Rs. 10/share on the closing of supplementary business transfer agreement which will strengthen the capital management of the Company. As a public interest entity, the financial support is available to the Company from Federal Government and WAPDA in the form of delayed settlement of CPPA against electricity purchase, tariff revision and subsidy on purchases.

Note 30

**Capacity**

The Company's capacity of the electricity distribution depends on various factors including supply and demand of electricity, and transmission and distribution losses. The Company distributed 2,710,083,353 (2019: 2,780,700,095) units of electricity to its consumers during the year.

Note 31

**Number of Employees**

	<b>2020</b>	<b>2019</b>
	Number	Number
Number of employees as at June 30,	<u>6,342</u>	<u>6,579</u>
Average number of employees during the year	<u>6,461</u>	<u>6,603</u>

Note 32

**Date of Authorization for Issuance**

These financial statements were approved and authorized for issuance on \_\_\_\_\_ by the Board of Directors of the Company.

Note 33

**General**

Comparative figures are re-arranged / reclassified, wherever necessary, to facilitate comparison. No material re-arrangements / reclassifications have been made in these financial statements.

  
CHIEF EXECUTIVE OFFICER

  
DIRECTOR