

**Islamabad Electric Supply
Company Limited**
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Islamabad Electric Supply Company Limited** (the Company) as at June 30, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement, and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) as explained in note 9.1 to the financial statements, the Company's trade debts include an amount of Rs. 54,781 million (2016: Rs. 44,276 million), receivable from the Government of Azad Jammu and Kashmir (GoAJK) against supply of electricity, being the difference between electricity amounts billed to the GoAJK, at the tariff rates determined by National Electric Power Regulatory Authority, and notified by the Federal Government, from time to time and the amount paid by the GoAJK at Rs. 2.59 per unit. The Company has claimed this amount from the Government of Pakistan (GoP) based on decision taken as discussed in the above referred note. However, in absence of official notification in this regard, we have not been able to obtain sufficient appropriate audit evidence regarding the recovery of these receivables and consequently, we were unable to determine whether any adjustment to this amount was necessary;
- (b) in our opinion, except for the possible effects of the matter described in paragraph (a) above, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (c) in our opinion, except for the possible effects of the matter described in paragraph (a) above;
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

- (d) in our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in paragraph (a) above, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming parts thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required, and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2017 and of the loss, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- (e) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to the contents of following notes to the financial statements:

- (i) as explained in note 11.2 to the financial statements, management has taken up the matter of subsidy receivable from the Government of Pakistan, amounting to Rs. 2,815 million recognized in 2014 on account of non-charging of Fuel Price Adjustment to domestic consumers, for the period from August 2011 to March 2013. The recovery of said amount is dependent on the notification by the Government of Pakistan;
- (ii) note 25.2.1, where it has been explained that the Company has not recorded various credit and debit notes received from the Central Power Purchasing Agency (CPPA), relating to the Company's share of borrowings obtained by the Federal Government, in order to settle the matter of circular debt in the country along with the related accrued markup thereon, amounting to Rs. 25,399 million and Rs. 11,690 million, respectively; and
- (iii) note 25.1, which describes various matters regarding tax contingencies, the ultimate outcome of which cannot be presently determined; hence pending the resolution thereof, no provision for the same has been made in accompanying financial statements.

Our opinion is not qualified in respect of these matters.


Chartered Accountants

Engagement Partner:
Shahzad Ali

Dated: October 23, 2017
Islamabad

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
BALANCE SHEET
AS AT JUNE 30, 2017

ASSETS

NON-CURRENT ASSETS

Fixed assets

Property, plant and equipment
Long-term loans
Long-term deposit

CURRENT ASSETS

Stores, spares and loose tools
Trade debts
Current portion of long-term loans
Short-term advances
Interest accrued
Receivable from Government of Pakistan
Other receivables
Recoverable from tax authorities
Receivable from TIBL
Cash and bank balances

NON-CURRENT ASSETS HELD FOR SALE

TOTAL ASSETS

EQUITY AND LIABILITIES

SHARE CAPITAL AND RESERVES

Share capital

Authorized capital

5,000,000,000 (2015: 5,000,000,000) Ordinary
shares of Rs. 10/- each

Issued, subscribed and paid up capital

Revenue reserve

Accumulated (loss) / unappropriated profit

Deposit for shares

SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - NET OF TAX

NON-CURRENT LIABILITIES

Long-term loans
Long-term security deposits
Deferred liabilities:
Staff retirement benefits
Deferred taxation - net
Deferred credit

CURRENT LIABILITIES

Trade and other payables
Interest accrued on long-term loans
Current portion of long-term loans

CONTINGENCIES AND COMMITMENTS

TOTAL EQUITY AND LIABILITIES

The annexed notes from 1 to 43 form an integral part of these financial statements.


CHIEF EXECUTIVE

2017
-----Rupees-----
2016

Note

6	89,672,471,335	86,430,846,482
7	59,874,078	60,020,353
	44,776,293	1,586,230
	89,777,121,706	86,492,453,065
8	665,321,987	604,712,053
9	65,761,111,141	55,980,270,195
7	27,155,933	20,374,089
10	206,971,429	255,525,824
	901,021	784,555
11	14,806,782,863	7,768,646,740
12	5,021,326,553	9,393,221,327
13	14,863,421,887	13,656,825,360
14	30,790,759	80,681,259
15	2,412,742,341	1,354,641,206
	103,796,525,914	89,115,682,608
14	65,890,500	16,000,000
	193,639,538,120	175,624,135,673
	50,000,000,000	50,000,000,000
16	5,798,253,340	5,798,253,340
	(11,878,657,797)	6,086,187,964
	(6,080,404,457)	11,884,441,304
17	20,112,510,939	20,112,510,939
18	25,097,127,128	25,561,479,637
19	5,746,971,007	5,564,263,745
20	5,028,195,630	4,581,775,257
21	40,080,387,781	31,639,179,729
22	-	-
23	23,893,672,310	23,079,719,609
	74,749,226,728	64,864,938,340
24	68,552,197,534	44,122,053,850
	7,715,564,563	6,218,088,444
19	3,493,315,685	2,860,623,159
	79,761,077,782	53,200,765,453
25		
	193,639,538,120	175,624,135,673


CHAIRMAN

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017 -----Rupees-----	2016
Sale of electricity - net	26	79,625,879,172	68,326,433,516
Tariff differential subsidy	11	7,038,136,123	6,502,411,709
		<u>86,664,015,295</u>	<u>74,828,845,225</u>
Cost of electricity	27	(84,307,754,745)	(72,478,456,439)
Gross profit		<u>2,356,260,550</u>	<u>2,350,388,786</u>
Amortization of deferred credit	23	1,227,196,802	1,155,756,569
		<u>3,583,457,352</u>	<u>3,506,145,355</u>
Operating expenses:			
Administrative expenses	28	(4,935,953,242)	(5,280,695,242)
Distribution costs	29	(8,963,077,386)	(7,789,287,333)
Customer services costs	30	(590,974,275)	(528,085,200)
		<u>(14,490,004,903)</u>	<u>(13,598,067,775)</u>
Operating loss		<u>(10,906,547,551)</u>	<u>(10,091,922,420)</u>
Other income	31	1,115,397,938	1,222,340,535
		<u>(9,791,149,613)</u>	<u>(8,869,581,885)</u>
Finance costs	32	(1,373,502,968)	(1,176,155,720)
LOSS BEFORE TAXATION		<u>(11,164,652,581)</u>	<u>(10,045,737,605)</u>
Taxation			
Current		(695,335,099)	(683,264,335)
Deferred		-	2,983,201,531
	33	<u>(695,335,099)</u>	<u>2,299,937,196</u>
NET LOSS FOR THE YEAR		<u><u>(11,859,987,680)</u></u>	<u><u>(7,745,800,409)</u></u>

The annexed notes from 1 to 43 form an integral part of these financial statements.


 CHIEF EXECUTIVE


 CHAIRMAN

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees-----	
Net loss for the year	(11,859,987,680)	(7,745,800,409)
Other comprehensive income not to be reclassified to profit and loss account in subsequent periods:		
Actuarial loss relating to defined benefit plans	(6,567,273,262)	(8,090,282,058)
Total comprehensive income for the year	(18,427,260,942)	(15,836,082,467)

Surplus arising on 'revaluation of operating fixed assets' is presented under a separate head below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O.45(I)/2003 dated 13 January 2003 and Companies Ordinance, 1984, respectively.

The annexed notes from 1 to 43 form an integral part of these financial statements.


CHIEF EXECUTIVE


CHAIRMAN

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

2017 2016
 -----Rupees-----

CASH FLOWS FROM OPERATING ACTIVITIES

Loss before taxation (11,164,652,581) (10,045,737,605)

Adjustment for non-cash items:

Depreciation	2,207,940,357	2,045,131,180
Write off of distribution equipment	3,063,325	1,166,289
Amortization of deferred credit	(1,227,196,802)	(1,155,756,569)
Provision for staff retirement benefits	3,531,751,835	3,861,114,380
Provision for doubtful debts	-	158,213,049
Provision for obsolete inventory	41,074,614	21,002,427
Reversal of provision for impairment	(6,813,267)	-
Profit on bank deposits	(10,722,970)	(15,264,138)
Exchange loss - net	35,128	5,476,235
Finance costs	1,373,467,840	1,170,679,485
	<u>(5,252,052,521)</u>	<u>(3,953,975,267)</u>

Working capital changes:

(Increase) / decrease in current assets

Store, spares and loose tools	(101,684,548)	(178,045,992)
Trade debts	(9,780,840,946)	(8,830,558,083)
Short term advances	48,554,395	(98,082,761)
Recoverable from tax authorities	(1,091,920,398)	1,772,870,145
Receivable from Government of Pakistan	(7,038,136,123)	(2,028,338,368)
Other receivables	4,371,894,774	(5,299,119,952)

Increase / (decrease) in current liabilities

Trade and other payables	26,471,293,187	26,812,453,793
	<u>12,879,160,341</u>	<u>12,151,178,782</u>
	7,627,107,820	8,197,203,515

Net operating cash flows after working capital changes

Long-term security deposits	446,420,373	336,228,015
Long-term deposit	(43,190,063)	40,003,000
Staff retirement benefits paid	(1,657,817,045)	(1,381,525,739)
Long-term loans given during the year	(6,635,569)	(9,263,046)
Finance costs paid	(10,448,367)	(8,608,291)
Income tax paid	(810,011,228)	(2,728,043,581)
Net cash generated from operating activities	<u>5,545,425,921</u>	<u>4,445,993,873</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditure	(5,313,295,950)	(5,195,046,067)
Profit on bank deposits	10,606,504	15,117,474
Net cash used in investing activities	<u>(5,302,689,446)</u>	<u>(5,179,928,593)</u>

Signature

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees-----	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	815,364,660	634,251,869
Net cash generated from financing activities	815,364,660	634,251,869
Net increase / (decrease) in cash and cash equivalents	1,058,101,135	(99,682,851)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,354,641,206	1,454,324,057
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,412,742,341	1,354,641,206

The annexed notes from 1 to 43 form an integral part of these financial statements.


CHIEF EXECUTIVE


CHAIRMAN

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2017

	Share capital	Revenue reserve	
	Issued, subscribed and paid up	Unappropriated profit/Accumulated (loss)	Total
	Rupees		
Balance as at June 30, 2015	5,798,253,340	21,699,667,115	27,497,920,455
Net loss for the year	-	(7,745,800,409)	(7,745,800,409)
Other comprehensive income	-	(8,090,282,058)	(8,090,282,058)
Total comprehensive income for the year	-	(15,836,082,467)	(15,836,082,467)
Transfer from surplus on revaluation of operating fixed assets recognized directly in equity - net of deferred tax	-	222,603,316	222,603,316
Balance as at June 30, 2016	5,798,253,340	6,086,187,964	11,884,441,304
Net loss for the year	-	(11,859,987,680)	(11,859,987,680)
Other comprehensive income	-	(6,567,273,262)	(6,567,273,262)
Total comprehensive income for the year	-	(18,427,260,942)	(18,427,260,942)
Transfer from surplus on revaluation of operating fixed assets recognized directly in equity - net of deferred tax	-	462,415,181	462,415,181
Balance as at June 30, 2017	5,798,253,340	(11,878,657,797)	(6,080,404,457)

The annexed notes from 1 to 43 form an integral part of these financial statements.


CHIEF EXECUTIVE


CHAIRMAN

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. The Company and its operations

Islamabad Electric Supply Company Limited (the Company) is a public limited company incorporated in Pakistan, under Companies Ordinance 1984. The Company was established to take over all the properties, rights and liabilities of Islamabad Area Electricity Board owned by Pakistan Water and Power Development Authority (WAPDA). The Company was incorporated on April 25, 1998 and commenced commercial operations on June 01, 1998.

The Company is principally engaged in distribution and supply of electricity within defined geographical boundaries. The Company was granted a license on November 02, 2001 by the National Electric Power Regulatory Authority (NEPRA) for electricity distribution. The registered office of the Company is situated at IESCO Headquarters, Street 40, G-7/4, Islamabad.

2. Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, and provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

During the year, the Companies Act, 2017 was enacted on May 30, 2017 and came into force at once. Subsequently, Securities and Exchange Commission of Pakistan has notified through Circular No. 17 of July 20, 2017 that companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Therefore, these financial statements have been prepared under the Companies Ordinance 1984.

2.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2017

The following standards, amendments and interpretations are effective for the year ended June 30, 2017. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

	Effective date (accounting periods beginning on or after)
Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the consolidation exception	January 01, 2016
Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	January 01, 2016
Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure initiative	January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 38 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants	January 01, 2016
Amendments to IAS 27 'Separate Financial Statements' - Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	January 01, 2016

Certain annual improvements have also been made to a number of IFRSs.

2.2 *New accounting standards / amendments and IFRS interpretations that are not yet effective*

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

	Effective date (accounting periods beginning on or after)
Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	January 01, 2018
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined. Earlier adoption is permitted.
Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	January 01, 2017
Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealized losses	January 01, 2017
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property	January 01, 2018
IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	January 01, 2018
IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	January 01, 2019

Certain annual improvements have also been made to a number of IFRSs.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases
- IFRS 17 – Insurance Contracts

During the year, the Companies Act, 2017 (the new Companies Act) was enacted and promulgated by the SECP on May 30, 2017. However, SECP has notified through Circular No. 17 of July 20, 2017 that companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, the Company shall prepare the financial statements for periods closing after June 30, 2017 in accordance with the provisions of the new Companies Act. The Company is currently in process of determining impact, if any, on future financial statements due to implementation of the Act.

3. **Basis of preparation**

These financial statements have been prepared on the basis of the historical cost convention except for staff retirement benefits, which are measured using actuarial techniques and freehold land, leasehold land, buildings on freehold and leasehold lands and distribution equipment, which are stated using the revaluation model.

4. Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. These estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. A revision to the accounting estimates is 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, if the revision affects both current and future periods.

The estimates / judgements and associated assumptions that have significant effects on the financial statements are as follows:

4.1 Useful life and residual value of property, plant and equipment

The Company reviews the appropriateness of the rates of depreciation, useful lives and residual values used in the calculation of depreciation on items of property, plant and equipment on a regular basis (note 6.1). Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis. In making these estimates, the Company uses the technical resources available inside/outside the Company, as appropriate. Any change in these estimates in the future might affect the carrying amount of items of property, plant and equipment, with a corresponding effect on the depreciation charge, impairment and amortization of deferred credit.

The Company measures certain items of property, plant and equipment (as disclosed in note 6.1) at revalued amounts, with changes in fair value being recognized directly in equity.

4.2 Provision for obsolete stores, spares and loose tools

The Company reviews the carrying amount of stores, spares and loose tools on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools.

4.3 Provision for doubtful trade debts

Management reviews its trade debts at each balance sheet date to identify the existence of any doubtful debts and to assess whether a provision should be recorded in the profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of the future cash flows, when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

4.4 Provision for staff retirement benefits

The actuarial valuation of pension, medical benefits, compensated absences plans and free electricity (note 21) requires the use of certain assumptions related to future periods, including increase in future salary / pension / medical costs, inflation rate and the discount rate used to discount future cash flows to present values.

4.5 Provision for taxation

The Company recognizes income tax provisions using estimates based upon expert opinions of its tax and legal advisors. Differences, if any, between the recorded income tax provision and the Company's tax liability, are recorded on the final determination of such liability.

Deferred tax assets are recognized for all unused tax losses and credits to the extent that it is probable that future taxable profit will be available against which such losses and credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

4.6 Other provisions and contingent liabilities

The management exercises judgment in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigations or other outstanding claims. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

5. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years for which financial information is presented in these financial statements, unless otherwise stated.

5.1 Functional and presentation currency

The financial statements have been prepared using functional and presentation currency of Pakistan i.e. Pak Rupees. All financial information presented in Pakistan Rupees has been rounded to the nearest rupee unless otherwise stated.

5.2 Foreign currency transactions and translations

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency using the exchange rate prevailing on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary items at end of the year exchange rates, are charged to income for the year.

5.3 Borrowings 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. All other borrowing costs are charged to profit and loss account whenever incurred.

5.4 Property, plant and equipment

a) Operating fixed assets

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for land, buildings and distribution equipment, which are stated at their revalued amounts less subsequent accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Depreciation is charged to income on a straight-line method so as to write-off the depreciable amount of an asset over its estimated useful life at the rates given in note 6.1 to the financial statements. Depreciation on depreciable assets is commenced from the month the asset is available for use up to the month preceding the month of disposal. Major renewals and improvements are capitalized. Minor replacement, repairs and maintenance are charged to profit and loss account.

An item of operating fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account, in the year the asset is derecognized.

b) Surplus on revaluation of operating fixed assets

The surplus arising on revaluation of operating fixed assets is credited to the "Surplus on Revaluation of Operating Fixed Assets account" shown below equity in the balance sheet in accordance with the requirements of section 235 of the Companies Ordinance, 1984. The said section was amended through the Companies (Amendment) Ordinance, 2002 and accordingly the Company has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the Securities and Exchange Commission of Pakistan's (SECP) SRO 45(1)/2003 dated January 13, 2003:

- i. depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation; and
- ii. an amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on Revaluation of Fixed Assets account" to accumulated profits / losses through Statement of Changes in Equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

c) Capital work-in-progress

Capital work-in-progress is stated at cost less impairment in value, if any. It consists of expenditure incurred and advances made in respect of operating fixed assets in the course of their construction, erection, installation and acquisition. The assets are transferred to the relevant category of operating fixed assets when they are ready for their intended use.

5.5 Impairment of non-financial assets

Assets that have an indefinite useful life, for example freehold-land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet date, or whenever events or changes in circumstances indicate, that the carrying amount may not be recoverable. An impairment loss is recognized, equal to the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment loss are restricted to the original cost of the asset. An impairment loss, or the reversal of an impairment loss, is recognized in the profit and loss account for the year.

5.6 Stores, spares and loose tools

These are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis, comprising invoice values and the related charges incurred up to the date of the balance sheet. 100% provision is made for inactive stores and spares over 3 years.

Net realisable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and estimated cost necessary to be incurred to effect such sale.

5.7 Trade debts

Trade debts are carried at original billed value less an estimate for provision for doubtful debts. Trade debts are written-off when considered irrecoverable. No provision is made for amount due from federal and provincial government consumers.

5.8 Loans and other receivables

These are initially recognized at the fair value of consideration given. Subsequent to initial recognition these are recorded at their amortized cost less impairment, if any.

5.9 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks in current and savings accounts, and short-term highly liquid investments with original maturities of three months or less, and that are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

5.10 Staff retirement benefits

The Company operates unfunded pension, post retirement free electricity, medical benefits and compensated absences schemes for all its permanent employees. Provisions are made in accordance with the actuarial recommendations using the Projected Unit Credit Method as required by IAS-19. The latest valuation was carried out as at June 30, 2017.

The Company also maintains a General Provident Fund and WAPDA Welfare Fund for all its regular employees. The Company makes deductions from salaries of its employees and remits these amounts to the respective funds established by WAPDA.

5.11 Deferred credit

As the Company has applied IFRIC 18, as a result of which amounts received from consumers and the Government as contributions towards the cost of extension of distribution network and of providing service connections are deferred for amortization over the estimated useful lives of related assets except for separately identifiable services in which case revenue is recognized upfront upon establishing a connection network.

5.12 Trade and other payables

Trade and other payables are recognised initially at fair value plus directly attributable cost, if any, and subsequently carried at amortized cost, which approximates the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

5.13 Revenue recognition

Revenue is recognized to the extent it is probable that the future economic benefits will flow to the Company. The Company generates revenue from:

a) Electricity sale

Revenue related to electricity sales is recognized on supply of electricity to consumers at the rates determined by NEPRA and notified by the Government of Pakistan, from time to time. Late payment surcharges are recognized on an accrual basis.

b) Tariff differential subsidy

Tariff differential subsidy on electricity announced by the Government of Pakistan for consumers is recognized under revenue on an accrual basis.

c) Rental and service income

Meter rentals are recognized on a time proportionate basis.

d) Interest / mark-up

Interest / mark-up on bank deposits is recognized on accrual basis using the effective interest rate method.

5.14 Borrowings

Borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at original cost less subsequent repayments, while the difference between the original recognized amounts (as reduced by periodic payments) and the redemption value is recognized in the profit and loss account over the period of borrowing on an effective rate basis. The borrowing cost on qualifying assets is included in the cost of the related assets.

5.15 Provisions

A provision is recognized in the balance sheet 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 are measured at the present value of expected expenditure, discounted at a pre-tax rate that reflects current market assessment of the time value of the money and the risk specific to the obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimates.

5.16 Taxation

a) Current

Provision for current tax is based on 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 current tax rates or tax rates after taking into account rebates and tax credits, if any, expected to apply to the profit for the year, if enacted or minimum tax at the rate of 1 percent of the turnover, whichever is higher. 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.

b) Deferred

Deferred tax is accounted for all timing differences between carrying amounts of assets and liabilities in the financial statements and their tax base. Deferred tax liabilities are recognized for all taxable temporary differences. The Company recognizes deferred tax assets on all deductible temporary differences to the extent it is probable that future taxable profits will be available against which these deductible temporary differences can be utilized. Deferred tax asset is also recognized for the carry forward of unused tax losses and unused tax credits to the extent it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized. Deferred tax is charged to/credited in the profit and loss account except in case of items credited or charged to equity in which case it is included in equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income tax expense comprises of current and deferred tax. Income tax is recognized in profit and loss account except to extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

5.17 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument, and de-recognized when the Company loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities, when the obligation specified in the contract is discharged, cancelled or expires. All financial assets and liabilities are initially recognized at fair value plus transaction costs other than financial assets and liabilities carried at fair value through profit or loss. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to income for the year. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or losses on de-recognition of financial assets and financial liabilities are included in profit and loss account for the year.

a) Financial assets

Classification and subsequent measurement

The Company classifies its financial assets in the following categories: fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset.

i. Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets, designated upon initial recognition, at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the financial statements at their fair values, with changes therein recognized in the income for the year. Assets in this category are classified as current assets.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are measured at amortized cost, using the effective interest rate method, less impairment, if any.

Impairment of financial assets

The Company assesses at the, end of each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

b) Financial liabilities

Initial recognition and measurement

The Company classifies its financial liabilities in the following categories: fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, also include directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

i) Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. The Company has not designated any financial liabilities upon initial recognition as being at fair value through profit or loss.

ii) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

c) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements, if the Company has a legally enforceable right to set-off the recognized amounts, and the Company either intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

5.18 Off-setting of financial assets and financial liabilities

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

6. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets
Capital work-in-progress

Note	2017		2016	
	Rupees		Rupees	
6.1	82,235,067,206	79,888,913,112	82,235,067,206	79,888,913,112
6.2	7,437,404,129	6,541,933,370	7,437,404,129	6,541,933,370
	89,672,471,335	86,430,846,482	89,672,471,335	86,430,846,482

6.1 Operating fixed assets

Description	Cost			Accumulated depreciation			Written down value				
	At 01 July	Additions/ transfers*	Disposals/write off/adjustments	Revaluation surplus /(deficit) / (revaluation adjustment)**	Rate	At 30 June	Charge for the year note 6.1.2	Disposals	Revaluation adjustment	At 30 June	At 30 June
Rupees											
Freehold land	12,888,976,458	1	-	-	33 years	12,888,976,459	-	-	-	-	12,888,976,459
Leasehold land	4,824,460,000	-	-	-	-	4,824,460,000	-	-	-	-	4,824,460,000
Buildings on freehold land	3,047,208,417	96,438,993	-	-	2%	3,143,647,410	62,188,325	-	-	62,613,494	3,081,033,916
Buildings on leasehold land	387,293,556	4,669,788	-	-	2%	391,963,344	228,879	-	-	7,397,911	384,965,453
Distribution equipment	58,449,733,757	4,427,740,481	(3,063,325)	-	3.5%	62,874,410,913	2,089,583,663	-	-	2,125,210,301	60,749,200,612
Vehicles	693,764,725	10,902,187	-	-	10%	704,666,912	504,958,893	-	-	530,840,185	173,826,727
Computer and ancillary equipment	125,191,143	2,267,480	-	-	33%	127,458,623	120,170,296	-	-	124,981,724	2,476,899
Furniture and fixtures	70,264,461	5,597,797	-	-	10%	75,862,258	39,357,266	-	-	44,278,518	31,583,740
Other plant and equipment	239,089,658	13,618,141	-	-	10%	252,707,799	17,462,457	-	-	153,764,379	98,943,420
	80,725,982,175	4,561,234,868	(3,063,325)	-		85,284,153,718	837,069,063	2,212,017,449	-	3,049,086,512	82,235,067,206
2016											
Freehold land	13,119,976,454	4	(231,000,000)	-	33 years	12,888,976,458	-	-	-	-	12,888,976,458
Leasehold land	4,824,460,000	-	-	-	-	4,824,460,000	-	-	-	-	4,824,460,000
Buildings on freehold land	3,972,839,352	122,514,562	(102,300,001)	(562,826,333)	2%	3,047,208,417	317,676,489	80,567,141	(14,799,298)	(383,019,163)	3,046,783,248
Buildings on leasehold land	553,000,923	46,126,477	-	(383,019,163)	2%	387,293,556	48,035,371	10,830,246	-	(58,636,738)	387,064,677
Distribution equipment	53,158,557,519	4,853,521,065	(1,166,289)	(58,636,738)	3.5%	58,449,733,757	8,031,319,152	1,904,740,208	-	(9,900,432,722)	58,414,107,119
Vehicles	681,817,686	11,947,039	-	(153,197,106)	10%	693,764,725	478,349,386	26,609,507	-	-	188,805,832
Computer and ancillary equipment	121,400,105	3,791,038	-	(58,636,738)	33%	125,191,143	113,501,870	6,668,426	-	-	5,020,847
Furniture and fixtures	61,189,317	9,075,144	-	10,339,254,184	10%	70,264,461	35,005,289	4,351,977	-	-	30,907,195
Other plant and equipment	207,354,112	31,735,546	-	(9,900,432,722)	10%	239,089,658	120,861,155	15,440,767	-	-	102,787,736
	76,700,595,468	5,078,710,875	(334,466,290)	(718,857,878)		80,725,982,175	9,144,748,712	2,049,208,272	(14,799,298)	(10,342,088,623)	79,888,913,112

* Revaluation adjustment represents elimination of accumulated depreciation as at the revaluation date against the gross carrying amount of revalued asset

- 6.1.1** The Company's freehold land, leasehold land, buildings thereon and distribution assets are carried at the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Company's buildings and distribution assets as at June 30, 2016 were performed by F.K.S Building Services, independent valuers not related to the Company. F.K.S are on list of approved valuers issued by Pakistan Banks Association. They have the appropriate qualifications and experience in fair value measurement in the relevant locations.

The fair value of the buildings were determined based on market rate per square foot of the covered area after taking into account factors such as provision of utilities and allied services, location and condition of property, legality of occupation of property, type of construction, state of maintenance, building depreciation and law and order situation prevailing in the country. The market value/ cost of construction has been worked out on the analysis of the rates of material and labour prevailing in the local market.

The fair value of the grid stations were determined based on new Cost and Freight (C&F) values obtained from various sources. Further, factors such as capacity and type of the installed equipment, year of make and its manufacturer and overall condition of these assets were also taken into account while assesment of the fair values. For transmission lines and related equipment, 70% of the new price of distribution material have been taken for assets valuation after taking into account the type of material used, and overall condition of these assets.

Had there been no revaluation, the related figures of revalued assets would have been as follows:

	Cost	Accumulated depreciation	Written down value
	-----Rupees-----		
2017			
Freehold land	107,124,318	-	107,124,318
Leasehold land	56,887,270	(23,004,920)	33,882,350
Buildings on freehold land	4,009,576,053	(686,463,627)	3,323,112,426
Buildings on leasehold land	466,026,224	(92,808,512)	373,217,712
Distribution equipment	65,442,818,193	(21,307,960,999)	44,134,857,194
	70,082,432,058	(22,110,238,058)	47,972,194,000

2016

Freehold land	107,124,318	-	107,124,318
Leasehold land	56,887,270	(23,004,920)	33,882,350
Buildings on freehold land	3,913,137,060	(608,487,302)	3,304,649,758
Buildings on leasehold land	461,356,436	(83,631,482)	377,724,954
Distribution equipment	61,018,141,037	(19,214,447,396)	41,803,693,641
	65,556,646,121	(19,929,571,100)	45,627,075,021

- 6.1.2 Depreciation charge for the year has been allocated as follows:**

	Note	2017	2016
		-----Rupees-----	
Administrative expenses	28	57,933,019	66,818,909
Distribution costs	29	2,092,675,603	1,911,493,362
Customer service costs	30	57,331,735	66,818,909
Included in capital work-in-progress		4,077,092	4,077,092
		2,212,017,449	2,049,208,272

- 6.1.3** In 2002, the Company entered into an agreement with Bahria Town Private Limited (BTPL) for the distribution of electricity to the society. As per the agreement, BTPL transferred 32 Kanals land in the name of the Company and agreed to bear all costs associated with the construction of a grid station and a building on the land. Later on, the Company assumed the ownership of the land, building and grid station, currently having carrying value of Rs. 240.68 million as at 30 June 2017, and recognized these assets in its books of accounts, during the year ended 30 June 2009.

On 24 November 2010, National Electric Power Regulatory Authority (NEPRA) granted a license to Bahria Town (Private) Limited (BTPL) for distribution of electricity to licensed locations. The Company considers the territory granted under distribution licensees to BTPL as its inalienable right and any action to withdraw a part thereof would be violation of the Company's right under the NEPRA Act. Accordingly, the Company filed writ petition in Islamabad High Court to challenge NEPRA's decision of granting license to BTPL. In the meantime, BTPL approached Ministry of Water and Power, Government of Pakistan (MOWP) and submitted a request for settlement of the matter through arbitration process. On BTPL's request Secretary MOWP requested the chairman of the Board of Directors of the Company to withdraw the writ petition and settle the matter through arbitration. Shareholders of the Company in their Extra Ordinary General Meeting held on 14 June 2011 resolved to withdraw the writ petition filed in Islamabad High Court and enter into arbitration process with BTPL. However, the arbitration process could not yield the desired results to the Company and subsequent to which Board of Directors of the Company in their meeting held on 03 July 2012 decided to re-file a writ petition with Islamabad High Courts against the decision of NEPRA to grant distribution license to BTPL, which has been filed on 01 September 2012. During the year no hearing was held and the matter is pending for adjudication.

The management of the Company is confident of a favorable outcome of the writ petition filed with the Honorable Islamabad High Court and accordingly the fixed assets and land received from BTPL, having carrying values in aggregate of Rs. 240.68 million (2016: Rs. 242.76 million) have not been derecognized in these financial statements.

	Note	2017 -----Rupees-----	2016
6.2 Capital work-in-progress			
Civil works		86,483,230	29,929,307
Distribution equipment	6.2.2	5,529,562,405	4,923,213,721
	6.2.1	5,616,045,635	4,953,143,028
Provision for impairment	6.2.3	(82,924,930)	(89,738,197)
Capital stores		5,533,120,705	4,863,404,831
Advances to suppliers	6.2.4	1,776,353,560	1,538,926,950
		127,929,864	139,601,589
		<u>7,437,404,129</u>	<u>6,541,933,370</u>
6.2.1 Movement in capital work-in-progress during the year			
Balance at the beginning of the year		4,953,143,028	5,115,174,537
Additions during the year		5,188,688,544	4,860,130,595
Transfers to operating fixed assets during the year:			
- Building on freehold land		(96,438,993)	(122,514,562)
- Building on leasehold land		(4,669,788)	(46,126,477)
- Distribution equipment		(4,424,677,156)	(4,853,521,065)
		(4,525,785,937)	(5,022,162,104)
Balance at the end of the year		<u>5,616,045,635</u>	<u>4,953,143,028</u>

	2017	2016
	-----Rupees-----	
6.2.2 Breakup of distribution equipment is as follows:		
Material	2,917,317,859	2,522,572,605
Labour	432,266,418	379,871,224
Overheads:		
Borrowing costs	134,456,646	196,012,471
Other	949,021,666	709,147,823
	1,083,478,312	905,160,294
Contract work	1,096,499,816	1,115,609,598
	5,529,562,405	4,923,213,721

6.2.2.1 The capitalization ratio for the year is 16.12% (2016: 16.19%)

6.2.3 This represents costs incurred on various capital projects which are no longer viable and are therefore fully provided for by the Company.

6.2.4 These represent items of stores, spares and loose tools held for capitalization.

	2017	2016
	-----Rupees-----	
7. LONG-TERM LOANS		
Secured, considered good		
To employees	87,030,011	80,394,442
Current portion shown under current assets	(27,155,933)	(20,374,089)
	59,874,078	60,020,353

7.1 These represent long-term loans given to employees for purchase of houses, plots, cars and motor cycles. House building and plot loans are repayable in 10 years, car and motor-cycle loans in 5 years and bicycle loans in 4 years. As per the Company's policy, the rate of mark-up charged on these loans is 12%-14% (2016: 12%-14%) per annum, which is the same rate as that payable on employees balances in the General Provident Fund. Loans are secured by a mortgage of immovable property and hypothecation of vehicles.

	Note	2017	2016
		-----Rupees-----	
8. STORES, SPARES AND LOOSE TOOLS			
Stores, spares and loose tools		808,894,884	707,210,336
Provision for slow moving / obsolete items	8.1	(143,572,897)	(102,498,283)
		665,321,987	604,712,053

8.1 Movement in provision during the year is as follows:

Balance at the beginning of the year	102,498,283	81,495,858
Charge for the year	41,074,614	21,002,425
Balance at the end of the year	143,572,897	102,498,283

	Note	2017 -----Rupees-----	2016
9. TRADE DEBTS			
Considered good	9.1, 9.2 & 26.1	65,761,111,141	55,980,270,195
Considered doubtful		565,070,232	565,070,232
		66,326,181,373	56,545,340,427
Provision for doubtful debts	9.3	(565,070,232)	(565,070,232)
		65,761,111,141	55,980,270,195

- 9.1** These include an amount of Rs. 54,781 million (2016: Rs. 44,276 million), receivable from the Government of Azad, Jammu and Kashmir (GoAJK), representing the differential of the amount billed to GoAJK on tariff determined by the National Electric Power Regulatory Authority (NEPRA) and the tariff approved by the sub-committee constituted at the time of a presentation given to the Chief Executive of Pakistan, in September 2002, on the Raising of the Mangla Dam. The rate approved by the sub-committee at that time was Rs. 2.32 per unit which was increased to Rs. 2.59 per unit subsequently. However, the Company has a practice to bill electricity supplied to GoAJK, on the basis of tariffs notified by the GoP from time to time, after determination by NEPRA. The GoAJK has been settling its dues at a tariff of Rs. 2.59/unit and contesting the applicability of tariff approved by NEPRA and notified by the GoP by claiming that AJK does not fall under purview of NEPRA.

The Company has taken up the matter with the Ministry of Finance and GoAJK. Further, the Ministry of Water and Power had decided in a meeting held on May 29, 2015 to constitute a committee to deliberate the tariff issue with NEPRA and sort out an amicable tariff for all stake-holders. The said committee, in its meeting held on December 8, 2015, has formulated a proposal to revise the tariff by increasing up to Rs. 5.79 KWH, with effect from, July 01, 2015 which has also been agreed by GoAJK vide letter no. SE/PS/70-82/2016 dated: January 01, 2016. However, Ministry of Water and Power is further deliberating on the matter, thus no official notification has been received in this regard. Further, the Company has filed a claim of Rs. 54,374 million representing the AJK receivable balance, as tariff differential, with the Ministry of Water and Power for the period from April 2008 to June 2017, for onward submission to Ministry of Finance, pursuant to the decision made in meeting of such committee. Accordingly, the management is confident that the amount will be recovered as tariff differential subsidy in near future.

- 9.2** The Company's receivable from non-government consumers are secured to the extent of the consumers' security deposits against electricity connections, as disclosed in note 20.

	2017 -----Rupees-----	2016
9.3 Movement in provision for doubtful debts is as follows:		
Balance at the beginning of the year	565,070,232	406,857,183
Provision during the year	-	158,213,049
Balance at the end of the year	565,070,232	565,070,232

10. SHORT-TERM ADVANCES
Considered good

To suppliers	158,757,289	214,773,135
To employees against operating expenses	48,214,140	40,752,689
	206,971,429	255,525,824

	Note	2017 -----Rupees-----	2016
11. RECEIVABLE FROM GOVERNMENT OF PAKISTAN			
Balance at the beginning of the year		7,768,646,740	5,740,308,372
Subsidy recognized during the year on account of tariff differential subsidy	11.1	7,038,136,123	6,502,411,709
Subsidy received from GoP during the year		-	(4,474,073,341)
Balance at the end of the year	11.2	<u>14,806,782,863</u>	<u>7,768,646,740</u>
11.1	This represents Tariff Differential Subsidy (TDS) receivable from GoP as a difference between NEPRA rates notified as per "Schedule-I" and the rates charged to the consumers as per "Schedule-II" as notified by federal government in S.R.O. 569 (I)/2015 dated June 10, 2015.		
11.2	This includes subsidy recognized of Rs. 2,814,646,230 in previous financial year for the period from August 2011 to March 2013, in respect of non-charging of Fuel Price Adjustment to domestic consumers, having consumption of units from 51 to 350 units, pursuant to the determination of the IESCO's tariff by the NEPRA, duly notified by the GoP vide SRO No. 701 dated 05 August 2013 and SRO No. 914 dated 11 October 2013 and the NEPRA's clarification issued in the case of another distribution company.		
12. OTHER RECEIVABLES			
Unsecured, considered good			
Receivable from related parties:			
Central Power Purchasing Agency		2,260,769,023	6,899,554,246
Other related parties on account of:			
Free electricity and other transactions	12.1	1,463,080,801	1,376,307,123
Pensions	12.2	1,264,785,174	1,104,259,544
Others		32,691,555	13,100,414
		<u>5,021,326,553</u>	<u>9,393,221,327</u>
12.1	This represents the net amount receivable from WAPDA and other related parties on account of free electricity provided to the employees of these companies residing within the Company's territorial jurisdiction; a party wise breakup is as follows:		

	2017	2016
	-----Rupees-----	
WAPDA	847,275,948	822,511,555
National Transmission and Dispatch Company Limited	589,607,424	516,610,062
Pakistan Electric Power Company Limited	-	14,324,697
Quetta Electric Supply Company Limited	9,246,391	7,730,345
Northern Power Generation Company Limited	5,869,741	5,208,679
Central Power Generation Company Limited	4,355,091	3,911,367
Tribal Electric Supply Company Limited	4,070,232	3,566,029
Jamshoro Power Company Limited	1,531,132	1,403,989
Lakhra Power Generation Company Limited	1,124,842	1,040,400
	<u>1,463,080,801</u>	<u>1,376,307,123</u>

- 12.2 This represents the amount receivable from WAPDA and other related parties on account of pension paid to the retired employees of these companies residing within the Company's territorial jurisdiction; a party wise breakup is as follows:

Note	2017	2016
	-----Rupees-----	
WAPDA	879,370,410	786,613,319
National Transmission and Dispatch Company Limited	150,265,904	161,606,645
Lahore Electric Supply Company Limited	18,580,728	16,426,854
Faisalabad Electric Supply Company Limited	42,318,955	23,072,862
Gujranwala Electric Power Company Limited	57,999,912	36,981,511
Peshawar Electric Supply Company Limited	21,238,269	10,222,904
Multan Electric Power Company Limited	17,767,888	13,879,029
Hyderabad Electric Supply Company Limited	8,390,804	9,461,693
Northern Power Generation Company Limited (GENCO-III)	17,214,954	12,436,830
Central Power Generation Company Limited (GENCO-II)	13,276,343	8,772,030
Quetta Electric Supply Company Limited	6,672,511	6,489,909
Jamshoro Power Company Limited (GENCO-I)	505,489	1,771,054
Lakhra Power Generation Company Limited (GENCO-IV)	265,115	131,373
Pakistan Electric Power Company Limited	24,245,714	13,879,411
Tribal Area Electric Supply Company	1,452,251	1,402,623
Sukkur Electric Supply Company	3,848,733	1,111,497
Power Information Technology Company	1,297,118	-
GENCO Holding Company Limited	74,076	-
	<u>1,264,785,174</u>	<u>1,104,259,544</u>

13. RECOVERABLE FROM TAX AUTHORITIES

Sales tax		220,758,250	1,316,463,281
Other receivables from tax authorities	13.1	14,076,103,358	11,888,477,929
Advance income tax		566,560,279	451,884,150
		<u>14,863,421,887</u>	<u>13,656,825,360</u>

- 13.1** As provided in note 25.1, the Company has received various tax demand orders under the relevant provisions of the Income Tax Ordinance, 2001, for different tax years by treating the Company as taxpayer in default on various matters. Said note also provides that Company has received various orders from Inland Revenue Department raising sales tax demand orders on account of failure to recover sales tax from various customers or incorrect adjustment of input tax in its returns. The Company has filed various appeals against these cases which are pending before the taxation authorities and different courts of law. The management of the Company is confident of favorable outcome of these pending cases and accordingly, provision has not been recorded in the financial statements against these demands. However, the taxation authorities have recovered amounts aggregating to Rs. 14,076 million (2016: Rs. 11,888 million) from the Company against above referred income tax and sales tax demands.

	Note	2017 -----Rupees-----	2016
14. RECEIVABLE FROM TIBL	14.1	30,790,759	80,681,259

- 14.1** These represented investment made in the TDRs of Trust Investment Bank Limited (TIBL) in accordance with the Ministry of Finance Regulations, which were matured in January 2013. However, the Bank was facing liquidity issues, due to which the full amount of investments made could not be recovered on the maturity date. During the year ended 30 June 2014, under a Settlement Agreement dated 09 April 2014 between the Company and TIBL, the Company recovered an amount of Rs. 2,149,282 in cash, and for the remaining principal amount of Rs. 96,681,259 and accumulated interest thereon amounting to Rs. 10,297,841, TIBL transferred the possession of certain properties in the name of the Company representing various lands and buildings, having fair values of Rs. 49,890,500 and Rs. 57,088,600, respectively.

Further, under another separate agreement dated 04 July 2014, it was agreed that if the Company would sell or transfers all of the properties to a bona fide third party/parties on an arm's length basis before 30 June 2015, and the sales considerations paid by such third party/parties would be less than the outstanding amount as per the original agreement, than TIBL would be required to compensate the Company for shortfall amount, either in the form of cash or any other means within seven days of notification by the Company.

During 2015, the Company was able to obtain the legal transfer of only one property in its name, having current market value of Rs. 16 million at that time, while steps were being taken to obtain the physical possession and to transfer the remaining properties in the name of the Company. The Separate Agreement mentioned above was also extended to 30 June 2016. However during the year ended June 30, 2016, BoD, in the light of the fact that TIBL has not honored its commitments under the Separate Agreement mentioned above, resolved not to extend the above mentioned agreement between IESCO and TIBL. The BoD further directed the management to prepare a complete reference to be filed in NAB.

During the year another property having market value of Rs. 49,890,500 has been transferred in the name of the Company. Matter for the remaining settlement is pending with NAB.

Therefore, an amount of Rs. 30.52 million representing the carrying values of properties not transferred by TIBL so far is being carried as receivable against investments in these financial statements while the fair value of transferred property is still carried as non-current assets held-for-sale as the management has the positive intention to dispose off this property in near future.

	Note	2017 -----Rupees-----	2016
15. CASH AND BANK BALANCES			
Cash			
In hand		6,926	8,581
At banks in:			
- Deposit accounts	15.1 & 15.2	1,518,732,847	686,340,092
- Current accounts		894,002,568	668,292,533
		2,412,735,415	1,354,632,625
		2,412,742,341	1,354,641,206

- 15.1 These carry mark-up ranging from 4% to 7% per annum (2016: 4% to 7% per annum).
- 15.2 Included herein is an amount of Rs. 51.44 million (2016: Rs. 50.81 million) kept in separate bank accounts relating to customers' and employees' security deposits.

16. **ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

2017	2016		2017	2016
----Number of shares----			-----Rupees-----	
1,000	1,000	Ordinary shares of Rs. 10 each, issued for consideration in cash	10,000	10,000
579,824,334	579,824,334	Ordinary shares of Rs. 10 each, issued for consideration other than in cash	5,798,243,340	5,798,243,340
<u>579,825,334</u>	<u>579,825,334</u>		<u>5,798,253,340</u>	<u>5,798,253,340</u>

- 16.1 The President of Pakistan, WAPDA and the IESCO Employees Trust Fund, respectively hold 1,000 (2016: 1,000), 510,245,414 (2016: 510,245,414) and 69,578,920 (2016: 69,578,920) Ordinary shares of the Company at the year end. In 2012, 69,578,920 shares, previously owned by WAPDA, were transferred to the IESCO Employees Trust Fund under the Benazir Employees Stock Option Scheme.

	2017	2016
	-----Rupees-----	
17. DEPOSIT FOR SHARES	<u>20,112,510,939</u>	<u>20,112,510,939</u>

- 17.1 This represents Government of Pakistan's investment/equity in the Company channelized through PEPCO/NTDC as a measures taken to clear circular debts prevailing in the power sector.

	Note	2017	2016
		-----Rupees-----	
18. SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS- NET OF TAX			
Balance at the beginning of the year		31,364,396,813	22,382,280,273
Surplus on revaluation during the year	6.1	-	9,623,230,745
Transfer to unappropriated profit in respect of incremental depreciation		(462,415,181)	(222,603,316)
Related deferred tax liability		(207,751,748)	(100,010,186)
Adjustment		(1,937,328)	(318,500,703)
		(672,104,257)	(641,114,205)
Impact of deferred taxation		<u>30,692,292,556</u>	<u>31,364,396,813</u>
Deferred tax liability at the beginning of the year		(5,802,917,176)	(2,919,725,831)
Charge for the year		-	(2,983,201,531)
Deferred tax liability on incremental depreciation charged during the year		207,751,748	100,010,186
		(5,595,165,428)	(5,802,917,176)
Balance at the end of the year - net of tax		<u>25,097,127,128</u>	<u>25,561,479,637</u>

	Note	2017 -----Rupees-----	2016
19. LONG-TERM LOANS			
From Government of Pakistan out of:			
Asian Development Bank - Trench I	19.1	2,056,802,452	2,056,802,452
Asian Development Bank - Trench II	19.2	1,636,996,810	1,636,996,810
International Bank for Reconstruction and Development	19.3	3,687,887,986	3,687,887,986
Asian Development Bank - Trench III	19.4	1,396,712,169	776,530,034
Earthquake Reconstruction and Rehabilitation Authority	19.5	187,736,283	187,701,155
Asian Development Bank - Trench IV	19.6	274,150,992	78,968,467
		9,240,286,692	8,424,886,904
		9,240,286,692	8,424,886,904
Current maturity shown under current liabilities		(3,493,315,685)	(2,860,623,159)
		5,746,971,007	5,564,263,745

- 19.1** This represents re-lent portions of the total term finance facility obtained by the Government of Pakistan (GoP) from Asian Development Bank (ADB) for power distribution and enhancement projects. Out of total finance facility, an amount of US \$ 30.06 million has been allocated to the Company vide a letter [No. 6(9) ADB-I/86 dated 30 March 2009] of the Ministry of Economic Affairs and Statistics (MEAS), against which the Company has utilized US \$ 23.31 (2016: US \$ 23.31 million) up to the year end. The loan carries interest at 17% p.a. inclusive of exchange risk coverage fee of 6% charged both on the principal amount and the interest amount, separately. The initial agreed amount was later revised to a total allocation of US \$ 23.3 million via letter number 5654 from ADB dated July 17th, 2013. This closed the loan from ADB-1.

The loan is repayable in 26 semi-annual installments, excluding a grace period of 2 years, ending 15 August 2023 with first repayment due on 15 February 2011. Owing to an expected revision in the repayment schedules between the Debt Management Wing of MEAS and ADB, the Company has withheld the principal repayments along with related interest accrued up to 30 June 2017, aggregating to Rs. 1,136,775,051 and Rs. 1,728,875,523 respectively. However, the principal amount which has fallen due and is due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

- 19.2** This represents re-lent portions of the total term finance facility obtained by the GoP from ADB for power distribution and enhancement projects. Out of the total finance facility an amount of US \$ 24.86 million has been allocated to the Company [vide letter No. 1(3) ADB-II/06-A dated 31 March 2011] of the MEAS, against which the Company has utilized US \$ 16.50 million (2016: US \$ 16.50 million) up to the year end. The loan carries interest at 15% p.a. inclusive of exchange risk coverage fee of 6.8% charged on both the principal amount and the interest amount separately. The total amount of this loan was later revised to a total of US \$ 18.56 through letter number 4871 from ADB dated June 06, 2013.

The loan is repayable in 34 semi-annual installments, excluding a grace period of 3 years, ending 01 December 2030, with a first repayment due on 01 June 2014. Owing to an expected revision in the repayment schedules between the Debt Management Wing of MEAS and ADB, the Company has withheld the principal repayments along with related interest accrued up to 30 June 2017, aggregating to Rs. 418,669,693 and Rs. 1,064,201,372 respectively. However, the principal amount which has fallen due and is due for repayment within the next 12 months of the reporting date have been transferred to the current portion.

- 19.3** This represents re-lent portions of the total term finance facility obtained by the GoP from the International Bank for Reconstruction and Development (IBRD) for electricity distribution and transmission projects. Out of the total finance facility an amount of US \$ 58.50 million has been allocated to the Company [vide letter No. 1(28) IDA-I/2006 dated 16 November 2011] of the MEAS, against which the Company has utilized US \$ 41 million (2016: US \$ 41 million) up to the year end. The loan carries interest at 17% p.a. inclusive of exchange risk coverage fee of 6% charged on both the principal amount and the interest amount, separately. The total amount of loan to be utilized has been revised for IESCO to a figure of US \$ 40.98 via the letter from World Bank dated July 16, 2015 and this closed the total loan from the World Bank.

The loan is repayable in 26 semi-annual installments, excluding a grace period of 2 years, ending 15 March 2024 with first repayment due on 15 September 2011. Owing to an expected revision in the repayment schedules between the Debt Management Wing of MEAS and ADB, the Company has withheld the principal repayments along with related interest accrued up to 30 June 2017, aggregating to Rs. 1,874,764,622 and Rs. 3,445,091,439 respectively. However, the principal amount, which has fallen due and is due for repayment within the next 12 months of the reporting date, has been transferred to the current portion.

- 19.4** This represents re-lent portions of the total term finance facility obtained by the GoP from ADB for power distribution and enhancement projects. Out of the total finance facility an amount of US \$ 24.55 million has been allocated to the Company [vide letter No. 2(9) ADB-II/12 dated 31 December 2013] of the MEAS, against which the Company has utilized US \$ 13.46 million (2016: US \$ 7.54 million) up to the year end. The loan carries interest at 15% p.a. inclusive of exchange risk coverage fee of 6.8% charged on both the principal amount and the interest amount, separately.

The loan is repayable in 40 semi-annual installments, excluding a grace period of 5 years, ending 31 December 2037, with a first repayment due on 01 June 2018. Owing to an expected revision in the repayment schedules between the Debt Management Wing of MEAS and ADB, the Company has withheld the principal repayments along with related interest accrued up to 30 June 2017, aggregating to Rs. 34,917,804 and Rs. 288,806,392 respectively. However, the principal amount, which has fallen due and is due for repayment within the next 12 months of the reporting date, has been transferred to the current portion.

- 19.5** This represents re-lent portions of the total term finance facility obtained by the GoP from ADB for Earthquake Emergency Assistance Project. Out of total finance facility an amount of US \$ 1.40 million has been allocated to the Company [vide letter No. 6(9) ADB-II/86 dated 22 July 2008] of MEAS, against which the Company has fully utilized US \$ 1.79 million in year 2011. The loan carries interest at 1% p.a. on the amount of loan withdrawn from loan account and outstanding from time to time.

The loan is repayable in US \$ in 60 semi-annual installments, excluding a grace period of 10 years, ending 15 December 2045, with the first repayment due on 15 June 2017. No payment on this loan has yet been made. Owing to an expected revision in the repayment schedules between the Debt Management Wing of MEAS and ADB, the Company has withheld the principal repayments along with related interest accrued up to 30 June 2017, aggregating to Rs. 28,188,514 and Rs. 21,093,843 respectively. However, the principal amount, which has fallen due and is due for repayment within the next 12 months of the reporting date, has been transferred to the current portion.

- 19.6** This represents re-lent portions of the total term finance facility obtained by the GoP from ADB for power distribution and enhancement projects. Out of the total finance facility an amount of US \$ 18.58 million has been allocated to the Company [vide letter from EAD dated 07 November 2014] of the MEAS, against which the Company has utilized US \$ 2.6 million (2016: US \$ 0.75 million) up to the year end. The loan carries interest at 15% p.a. inclusive of exchange risk coverage fee of 6.8% charged on both the principal amount and the interest amount, separately.

The loan is repayable in 40 semi-annual installments, excluding a grace period of 5 years, ending 1 December 2037 with the first payment due on 01 June 2019. Since the grace period is yet to end for this loan, there is no amount due to the Economics Affairs Division against this loan until period end.

		2017	2016
	Note	-----Rupees-----	
20. LONG-TERM SECURITY DEPOSITS			
Consumers' security deposits	20.1	<u>5,028,195,630</u>	<u>4,581,775,257</u>
20.1	These represent security deposits received from consumers at the time of installation of electricity connections and are refundable / adjustable on disconnection of electricity supply.		

21. STAFF RETIREMENT BENEFITS

Four types of defined benefit plans are offered by the Company namely, pension obligations, medical benefits, free electricity and compensated absences.

21.1	The amounts recognized in the balance sheet	Pension obligations		Medical benefits		Free electricity		Compensated absences		Total	
		2017	2016	2017	2016	2017	2016	2017	2016		
											-----Rupees-----
	Present value of defined benefit obligations	35,902,558,781	24,920,210,832	1,522,608,896	3,314,065,097	1,481,757,454	2,313,500,538	1,173,462,650	1,091,403,262	40,080,387,781	31,639,179,729
21.2	Changes in the present value of defined benefit obligations:										
	Balance at the beginning of the year	24,920,210,832	15,899,135,403	3,314,065,097	2,559,145,940	2,313,500,538	1,824,024,176	1,091,403,262	787,003,511	31,639,179,729	21,069,309,030
	Current service cost	578,928,854	1,256,863,036	56,814,666	61,714,678	63,295,799	134,180,446	154,743,611	348,907,581	853,782,930	1,801,665,741
	Interest cost	2,173,060,915	1,601,720,554	297,751,067	267,989,687	207,156,923	189,738,398	-	-	2,677,968,905	2,059,448,639
	Benefits paid during the year	(1,550,179,119)	(1,289,307,884)	(11,439,812)	(13,726,403)	(23,513,891)	(33,983,622)	(72,684,223)	(44,507,830)	(1,657,817,045)	(1,381,525,739)
	Actuarial losses on obligation	9,780,537,299	7,451,799,723	(2,134,582,122)	438,941,195	(1,078,681,915)	199,541,140	-	-	6,567,273,262	8,090,282,058
	Balance at the end of the year	35,902,558,781	24,920,210,832	1,522,608,896	3,314,065,097	1,481,757,454	2,313,500,538	1,173,462,650	1,091,403,262	40,080,387,781	31,639,179,729
21.3	Charge for the year:										
	Current service cost	578,928,854	1,256,863,036	56,814,666	61,714,678	63,295,799	134,180,446	154,743,611	348,907,581	853,782,930	1,801,665,741
	Interest cost	2,173,060,915	1,601,720,554	297,751,067	267,989,687	207,156,923	189,738,398	-	-	2,677,968,905	2,059,448,639
	Charge to other comprehensive income	2,751,989,769	2,858,583,590	354,565,733	329,704,365	270,452,722	323,918,844	154,743,611	348,907,581	3,531,751,835	3,861,114,380
	Actuarial loss	9,780,537,299	7,451,799,723	(2,134,582,122)	438,941,195	(1,078,681,915)	199,541,140	-	-	6,567,273,262	8,090,282,058
21.4	Significant actuarial assumptions at the balance sheet date are:										
	Discount rate	9.5%	9.0%	9.5%	9.0%	9.5%	9.0%	-	9.0%	9.0%	
	Future salary increase	7.5%	8.0%	-	-	-	-	-	-	8.0%	
	Indexation Rate	4.25%	4.0%	-	-	-	-	-	-	4.0%	
	Future medical cost increase	-	-	4.25%	7.5%	-	-	-	-	-	
	Exposure Inflation Rate	-	-	-	3.0%	-	-	-	-	-	
	Electricity Inflation Rate	-	-	-	-	4.25%	8.0%	-	-	-	

The defined benefit plans expose the Company to the following risks:

Final salary risk - The risk that the final salary at the time of cessation of service is greater than what was assumed.
Withdrawal risk - The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.
Mortality risk - The risk that the actual mortality experience is different. Similar to the Withdrawal risk, the effect depends on the beneficiaries' service/age distribution and the benefit.
Medical escalation risk - The risk that the cost of post retirement medical benefits will increase.

21.6 Sensitivity analysis

The calculations of the defined benefit obligations are sensitive to the significant actuarial assumptions set out in note 21.4. The table below summarizes how the defined benefit obligations at the end of the reporting period would have increased / (decreased) as a result of change in the respective assumptions.

	Present value of defined benefit obligation		
	Pension obligations	Medical benefits	Free electricity
		-----Rupees-----	
Current Liability	35,902,558,781	1,522,608,896	1,481,757,453
Discount Rate +1%	31,799,371,401	1,696,622,945	1,312,412,184
Discount Rate -1%	40,959,223,751	1,737,059,435	1,690,454,305
Salary increase +1%	37,627,702,522	-	1,552,956,963
Salary decrease -1%	34,393,489,099	-	1,419,475,674
Pension increase rate +1%	39,141,780,620	-	-
Pension decrease rate -1%	33,114,487,636	-	-
Medical Inflation rate increase +1%	-	1,756,431,933	-
Medical Inflation rate decrease -1%	-	1,331,917,705	-
Electricity Rate +1%	-	-	1,732,530,575
Electricity Rate -1%	-	-	1,279,647,560
			38,906,925,130
			34,808,406,529
			44,386,737,491
			39,180,659,485
			35,812,964,773
			39,141,780,620
			33,114,487,636
			1,756,431,933
			1,331,917,705
			1,732,530,575
			1,279,647,560

	Remeasurement (gain) / loss recognized in OCI		
	Pension scheme	Medical benefits	Free electricity
		-----Rupees-----	
- Financial Assumptions	(926,044,082)	(1,216,433,386)	(1,621,421,901)
- Demographic Assumptions	(1,387,636,964)	(295,612,775)	(160,317,471)
- Experience Adjustments	12,094,218,345	(622,535,961)	703,057,457
Total Remeasurement (gain) / loss	9,780,537,299	(2,134,582,122)	(1,078,681,915)
Total Remeasurement (gain) / loss recognized in OCI	9,780,537,299	(2,134,582,122)	(1,078,681,915)

The above sensitivity analyses are based on changes in assumptions while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

		2017	2016
	Note	-----Rupees-----	
22. DEFERRED TAXATION - net			
Deferred tax asset	22.1	5,595,165,428	5,802,917,176
Deferred tax liability	22.2	(5,595,165,428)	(5,802,917,176)
		-	-
22.1 Movement in deferred tax asset			
Balance at the beginning of the year		5,802,917,176	2,919,725,831
Income for the year		-	2,983,201,531
Reversal for the year		(207,751,748)	(100,010,186)
		5,595,165,428	5,802,917,176
22.2 Movement in deferred tax liability			
Balance at the beginning of the year		(5,802,917,176)	(2,919,725,831)
Charge for the year		-	(2,983,201,531)
Transfer to profit and loss account on account of incremental depreciation		207,751,748	100,010,186
		(5,595,165,428)	(5,802,917,176)

22.3 In view of the uncertainty of taxable profits in the foreseeable future against which the tax losses could be utilized, the Company has not recognized net deferred tax asset of Rs. 31,302 million (2016: Rs. 33,029 million).

		2017	2016
	Note	-----Rupees-----	
23. DEFERRED CREDIT			
Balance at the beginning of the year		33,021,616,258	30,588,529,681
Additions during the year		2,041,149,503	2,433,086,577
		35,062,765,761	33,021,616,258
Amortization			
Balance at the beginning of the year		(9,941,896,649)	(8,786,140,078)
For the year		(1,227,196,802)	(1,155,756,571)
		(11,169,093,451)	(9,941,896,649)
Balance at the end of the year		23,893,672,310	23,079,719,609

24. TRADE AND OTHER PAYABLES

Creditors:			
Associated undertakings	24.1	106,855,647	53,541,092
Others		1,176,198,904	1,724,932,645
		1,283,054,551	1,778,473,737
Other payables:			
Receipts against deposit works		8,328,367,320	7,370,509,695
Advances from customers		1,456,880,548	1,963,373,173
Provision for Workers' Profit Participation Fund (WPPF)	24.2	1,179,422,289	1,179,422,289
Due to related parties on account of:			
- Free electricity	24.3	1,343,163,277	1,292,523,084
- Pension	24.4	367,908,893	283,404,879
		1,711,072,170	1,575,927,963
Capital contributions awaiting connections		554,615,017	564,634,146
C/f		14,513,411,895	14,432,341,003

	Note	2017 -----Rupees-----	2016
B/f		14,513,411,895	14,432,341,003
Accrued liabilities		412,883,374	272,528,148
Retention money - contractors / suppliers		265,333,720	275,691,294
Government surcharges payable:			
- Realized			
Equalization surcharge	24.5	1,667,952,054	1,664,815,788
Tariff rationalization surcharge	24.6	33,288,806,358	16,437,319,828
Electricity duty		547,143,898	152,661,590
Neelum Jhelum surcharge		1,136,109,647	784,722,274
TV License fee		62,687,378	59,812,932
Financing cost	24.7	7,781,838,043	3,981,420,000
Withholding tax		117,153,803	194,641,520
		44,601,691,181	23,275,393,932
- Unrealized			
Equalization surcharge	24.5	180,764,889	185,940,628
Electricity duty		47,240,357	52,140,030
Neelum Jhelum surcharge		972,126,286	873,902,078
TV license fee		45,157,396	40,363,191
Tariff rationalization surcharge	24.6	6,043,051,802	3,720,742,097
Financing cost	24.7	1,325,593,656	871,163,696
Income tax		75,091,538	71,174,335
General sales tax		-	-
Advance income tax		3,385,436	6,082,459
Steel melters income tax		1,084,000	103,637
		8,693,495,360	5,821,612,151
Others		65,382,004	44,487,322
		68,552,197,534	44,122,053,850

24.1 Creditors - associated undertakings

Lahore Electric Supply Company Limited	28,210,161	28,210,161
Peshawar Electric Supply Company Limited	78,645,486	17,798,642
Faisalabad Electric Supply Company Limited	-	1,058,060
National Transmission and Dispatch Company Limited	-	6,474,229
	106,855,647	53,541,092

- 24.2** The Company has held payment of its contribution towards Workers' Profit Participation Fund (WPPF) amounting to Rs. 1,179 million, being Company's liability on account of WPPF till June 30, 2014, which is long outstanding. Further, the Company did not book any provision last year. PEPCO has forwarded its recommendation to Ministry of Water and Power for exemption of DISCO's, GENCO's, and NTDC from the liability of the payment to be made under the Companies Profit (Workers' Participation) Act, 1968, which is pending decision. Hence no payments are being made till the outcome of the decision. Moreover, during the year company incurred a loss, therefore no provision was booked during the year.

24.3 Due to related parties

This represents the net amounts payable to related parties on account of free electricity provided to the families of IESCO's employees residing within the territorial jurisdiction of these companies. A party wise breakup is as follows:

	2017	2016
	-----Rupees-----	
Lahore Electric Supply Company Limited	899,197,865	899,207,055
Peshawar Electric Supply Company Limited	232,001,607	205,856,188
Multan Electric Power Company Limited	76,037,957	75,395,013
Faisalabad Electric Supply Company Limited	111,182,495	92,696,499
Gujranwala Electric Power Company Limited	17,667,262	15,275,937
Hyderabad Electric Supply Company Limited	2,548,599	2,439,008
Sukkur Electric Power Company	1,969,191	1,653,384
Pakistan Electric Power Company Limited	2,558,301	-
	<u>1,343,163,277</u>	<u>1,292,523,084</u>

24.4 Payable to related parties on account of pension

This represents amounts payable to related parties on account of pension paid to the retired employees of IESCO residing within the territorial jurisdiction of these Companies. A party wise breakup is as follows:

	2017	2016
	-----Rupees-----	
Peshawar Electric Supply Company Limited	111,362,739	88,979,220
Gujranwala Electric Power Company Limited	144,485,536	93,305,597
Faisalabad Electric Supply Company Limited	96,042,147	74,319,325
Lahore Electric Supply Company Limited	5,902,782	18,452,563
Hyderabad Electric Supply Company Limited	378,421	1,268,684
Multan Electric Power Company Limited	9,135,591	6,488,275
Quetta Electric Supply Company Limited	571,332	591,215
Sukkur Electric Power Company Limited	30,345	-
	<u>367,908,893</u>	<u>283,404,879</u>

24.5 This represents amounts collected from consumers, during the period from April 2011 to June 2012, pursuant to S.R.O 236(1)2011, dated 15 March 2011, issued by the Ministry of Water and Power. However, the amount was collected from customers during the period from April 2011 to May 2012 but further collection has been discontinued on account of a subsequent S.R.O 506(1)2012, dated 16 May 2012. The payment of this amount to the Federal Government is pending as payment mechanism has not been conveyed to the Company by the GoP.

24.6 Tariff rationalization surcharge has been notified by GOP vide SRO. 569 (1) / 2015 dated June 10, 2015, at the rates mentioned against categories of electricity consumers as specified in schedule of electricity tariff for the Company to maintain uniform rates of electricity across the country for each of the consumer category.

24.7 Financing cost surcharge has been notified by GoP vide SRO.569 (1) / 2015 dated June 10, 2015, at the rates mentioned against categories of electricity consumers as specified in schedule of electricity tariff for the Company. The amount of surcharge is to be kept in escrow account of CPPA for the payment of the financing cost of various loans obtained to discharge liabilities of power producers against the sovereign guarantees of the GoP.

25. CONTINGENCIES AND COMMITMENTS

25.1 Tax and other contingencies

- 25.1.1** The Additional Commissioner Inland Revenue (ACIR) has amended the assessments of the Company for the Tax Years 2010, 2011 and 2013 by charging minimum tax on distribution margin, earned by the Company inclusive of subsidy; thereby raising an aggregate tax demand of Rs. 715.92 million. The Company filed an appeal with the Commissioner Inland Revenue (CIR) which was decided against the Company. The Company filed an appeal before the Appellate Tribunal Inland Revenue (ATIR) which was also decided against the Company. The Company has now preferred an appeal before Islamabad High Court (IHC), which is pending.
- 25.1.2** The Deputy Commissioner Inland Revenue (DCIR) has issued various orders u/s 124/161/205 of the Income Tax Ordinance, 2001 for the tax years from 2007 to 2012, aggregating to Rs. 2,122 million by treating the Company as taxpayer in default on certain revenue and capital expenditures. CIR and ATIR both upheld the order in original. Now, the Company has preferred an appeal before Islamabad High Court (IHC), which is pending.
- 25.1.3** DCIR has issued order u/s 161/205 of the Income Tax Ordinance, 2001 for the tax year 2013 raising an income tax demand of Rs. 332.85 million by treating the Company as taxpayer in default on certain revenue and capital expenditures. Company's appeal before the CIR was unsuccessful. The order is currently challenged before the ATIR, which is pending.
- 25.1.4** DCIR has issued order u/s 161/205 of the Income Tax Ordinance, 2001 for the tax year 2014 raising an income tax demand of Rs. 1,152.43 million by treating the Company as taxpayer in default for short collection of advance tax on electricity consumption from its consumers. The Company appealed before the Commissioner Inland Revenue (CIR) which was unsuccessful. The company filed an appeal before ATIR and ATIR has remanded back the case to ACIR for reconsideration.
- 25.1.5** The Company's case was selected for audit u/s 214C of the Income Tax Ordinance 2001 and information was called u/s 177 during the course of audit. The demand in this particular case was Rs. 2,403,708,629. The ACIR finalized the audit proceedings by issuing order vide DCR No. 04/02 dated 31 October 2016 u/s 122(1) of the Income Tax Ordinance, 2001. Feeling aggrieved, the Company had filed an appeal before the Commissioner Inland Revenue (Appeal) Islamabad against the order. The learned CIR(A), passing a partial judgment on certain issues, decided the appeal vide Appellate Order No. 488/2017 dated 30 May 2017, while completely ignoring some issues raised during the Appeal proceedings. The Company has filed an appeal against the appellate order of the learned CIR(A) before the learned Appellate Tribunal Inland Revenue, Islamabad. Whereas, the main appeal is pending adjudication before the ATIR, the ATIR has granted stay against the recovery proceedings till the decision of main appeal, which is valid till 24 September 2017.
- 25.1.6** The assessment of the Company was amended u/s 122(5A) of the Income Tax Ordinance 2001 vide order DCR No. 8/75(U-1) dated 28 April 2016 by disallowing subsidy amounting to Rs. 11,239,577,025 and business losses from TY 2010-14 amounting to Rs. 72,868,014,193. The Company had filed an appeal before the CIR(A) against the order. The CIR(A) vide order No. 131/2016 dated 10 November 2016 sustained the order passed by the DCIR. Whereas, the tax demand has been recovered by the department however, appeal filed before the learned ATIR is pending at adjudication.
- 25.1.7** Notice to amend assessment of the Company u/s 122(5A) of the Income Tax Ordinance 2001 has been issued by the ADCIR on 14 February 2017. The response has been filed vide letter no. IT/2046/2017 dated 28 February 2017 and a hearing was also attended on 27 March 2017 with the ACIR. Further notice 226 dated 27 April 2017 to that effect was issued and a response was filed vide letter no. IT/2613/2017 dated 15 May 2017. No further action has been taken by the department to date.
- 25.1.8** Notice No. WHT-Unit-VI/433 dated 12 April 2017 was served on the Company by alleging a shortfall of withholding taxes u/s 153 of Income Tax Ordinance 2001, amounting to Rs. 3,110,045,232, ascertained based on the information by comparing the monthly Sales Tax Returns with the monthly withholding tax statements filed during the period from July 2016 to February 2017. The Company submitted a detailed documentary evidence vide letter no. IT/2805/2017 dated 8 June 2017, wherein the analysis and working were presented in a CD format explaining that the transactions amounting to Rs. 2,064,885,558 were not subject to withholding taxes, being exempt. A meeting was held on 22 Aug 2017 along with the Company's representatives and it was mutually agreed upon between the Company and the department that all the verification of withholding tax pertaining to the issues raised in the notice will be carried out by the department in an on spot audit. The same has been documented vide letter no. IT/0406/2017 dated 29 August 2017. No further action has been taken by the department in this regard.

- 25.1.9** Taxation Officer Inland Revenue (TOIR) passed the order against the Company in relation to alleged non-payment of sales tax on electricity supplied to the Government of AJK (GoAJK) involving sales tax demand of Rs. 1,269 million including default surcharge and penalty. This amount was withdrawn from the Company's bank accounts or paid by the Company under protest under amnesty scheme. On the Company's Appeal, Appellant Tribunal Inland Revenue (ATIR) Islamabad decided the case in favor of IESCO vide order No. 65/IB/2011 and declared electricity supply to GoAJK as exempt supply by considering the Mangla raising agreement as bilateral treaty between the GoP and GoAJK. Subsequently, ATIR vide order No. 207 dated October 28, 2015, granted sales tax adjustment of Rs. 1,269 million on monthly sales tax return. FBR filed petition in Islamabad High Court (IHC) against the decision of ATIR. The Company also preferred an appeal before the IHC to declare such sales as an export. IHC decided the case against the Company, vide STR No. 265/2011 dated March 21, 2016, declaring the supplies as taxable. The Company has filed review petition in Honorable Supreme Court which is pending.
- 25.1.10** Officer Inland Revenue passed an Order-in-Original No.04/2011 dated 30 October 2013 raising sales tax demand of Rs. 1,708 million plus default surcharge and penalty chargeable thereon for the tax period July 2007 to June 2008 on account of supply of electricity to AJK, free supply of electricity to employees and distribution companies, sale of scrap, demand notes for reimbursement of capital and other costs by electricity consumers, input tax apportionment on account of Government subsidy, and non-payment of unrealized sales tax. The Company filed an appeal before the CIR which was decided against the Company. The Company has preferred an appeal before ATIR which is pending. The tax office has already recovered amounted to Rs.340,623,001 till date.
- 25.1.11** Officer Inland Revenue passed an Order-in-Original No.13/2012 dated 03 September 2012 raising sales tax demand of Rs. 2,454 million plus default surcharge and penalty chargeable thereon for the tax period July 2008 to June 2009 on account of free supply of electricity to employees and distribution companies, sale of scrap, demand notes for reimbursement of capital and other costs by electricity consumers, input tax apportionment on account of Government subsidy, and non-payment of unrealized sales tax. The CIR and ATIR both dismissed the appeals filed by the Company and upheld the order of the Officer Inland Revenue. The Company has preferred an appeal before IHC who remanded the case back to ATIR, for reconsideration.
- 25.1.12** Officer Inland Revenue passed an Order-in-Original No.02/2013 dated 14 October 2013 raising sales tax demand of Rs.7,784 million plus default surcharge and penalty chargeable thereon for the tax period July 2009 to June 2012 on account of free supply of electricity to employees and distribution companies, sale of scrap, demand notes for reimbursement of capital and other costs by electricity consumers, input tax apportionment on account of Government subsidy, and non-payment of unrealized sales tax. The Company preferred an appeal before CIR who dismissed the appeal filed by the Company and upheld the order of the Officer Inland Revenue. The Company preferred an appeal before the ATIR, who deleted the demand to the extent of Rs. 1,224 million on account of unrealized sales tax and Rs. 6,504 million on account of sales tax on subsidy and sales tax on demand notes. Further, the ATIR remanded back the case of sales tax on free electricity to employees and distribution companies for DE novo consideration. The matter of sales tax on sale of scrap has been decided against the Company against which the Company has preferred an appeal before IHC, which is still pending.
- 25.1.13** Officer Inland Revenue issued an Order-in-Original no. 21/2012 dated April 24, 2012 raising sales tax demand of Rs 1,527 million plus default surcharge and penalty chargeable thereon for the tax period July 2010 to June 2011 on account of non-payment of sales tax on supply of electricity to AJK. In a similar case referred in note 13.1.1 of these financial statements, the ATIR had declared the supply of electricity to AJK as exempt, vide order no. 65/18/2011 dated September 07, 2011 against which FBR filed petition in IHC. The Company also preferred an appeal before the IHC to declare such sales as an export. The IHC decided the case against the Company, vide STR No. 265/2011 dated March 21, 2016, declaring the supplies as taxable. The Company has filed the reference before the Honorable Supreme Court, which is still pending. Since, both the cases are of similar nature, the outcome of these is dependent on the decision of Supreme Court.
- 25.1.14** Officer Inland Revenue passed an Order-in-Original No.55/2014 dated 14 May 2014 raising sales tax demand of Rs. 8,407 million plus default surcharge and penalty chargeable thereon for the tax year 2012 to 2013 on account of non payment of sales tax on supply of electricity to AJK, non payment of sales tax on subsidy from GoP, demand notes for reimbursement of capital and other costs by electricity consumers and short payment of sales tax pertaining to miscellaneous receipts. The Company preferred an appeal before the CIR who upheld the order of the Officer Inland Revenue. The Company preferred an appeal before ATIR who passed the Order-in-Appeal vide STA No. 326/IB/2014 dated 27 January 2016 whereby tax demand to the extent of Rs. 6,998 million on the matter of sales tax on demand notes, supply of electricity to AJK and subsidy from GoP has been deleted. The matter of sales tax amounting to Rs. 1,353 million pertaining to miscellaneous receipts has been remanded back to the original adjudicating authority for reconsideration. The demand of sales tax on scrap amounting to Rs.3,154,694 has been confirmed by ATIR.

The order of ATIR had not given any findings on the matter of sales tax on supplies other than electricity involving Sales tax of Rs.53,117,242.

- 25.1.15** The ACIR passed an Order-in-Original No. 57/2014 dated May 29, 2014 raising sales tax demand of Rs. 212 million plus default surcharge and penalty chargeable thereon for the tax periods July 2009 to June 2012 on account of inadmissible adjustment of input tax for steel sector. The Company filed an appeal before the CIR which was dismissed by CIR. The Company has preferred an appeal before ATIR which is pending. Company understands that the Company would be able to produce evidences in support of the contention that the due taxes of steel melters and re-rollers have been deposited by the Company.
- 25.1.16** The ACIR passed an Order-in-Original No. 14/2015 dated January 28, 2015 raising sales tax demand of Rs. 312 million plus default surcharge and penalty chargeable thereon for the tax period July 2013 to June 2014 on account of inadmissible adjustment of input tax for steel sector. DCIR had redetermined the original sales tax demand to Rs. 182 million vide Order in Remand No. 05/14 of 2015. The Company has preferred an appeal before ATIR which is pending. Company understands that the Company would be able to produce evidences in support of the contention that the due taxes of steel melters and re-rollers have been deposited by the Company.
- 25.1.17** The ACIR passed an Order-in-Original No. 06/2016 dated January 01, 2016 raising sales tax demand of Rs. 1,029 million plus default surcharge and penalty chargeable thereon for the tax periods July 2011 to March 2012 on account of inadmissible adjustment of input tax over output tax. The Company filed an appeal before the CIR which was dismissed by CIR. The Company preferred an appeal before ATIR who has directed the Company and department to reconcile the numbers and submit a report in the court. The reconciliation exercise has been completed and also submitted and presented at the last hearing of the case. No order is yet passed by ATIR.
- 25.1.18** ACIR passed an Order-in-Original No. 11/2016 dated February 11, 2016 raising sales tax demand of Rs. 1,948 million plus default surcharge and penalty chargeable thereon for the tax periods July 2015 to February 2016 on account of inadmissible adjustment of input tax over output tax. The Company has filed an appeal before the CIR which is pending.
- 25.1.19** The Inland Revenue audit officer withholding zone issued the show cause notice number 608 dated March 28, 2017 laying out the observations on short deduction of sales tax withholding based on the review of the income tax returns filed by the company for the year 2014, 2015 and 2016 and sales tax returns for the period July 2015 to January 2017. The same was upheld by the order in original number 149/2017 dated May 22, 2017, passed by the Assistant Director (Audit) - Regional tax office. The company has filed an appeal with the Commissioner Appeals which is pending.
- 25.1.20** The office of the DCIR issued the show cause notice (SCN) number 74 dated 24 March, 2017 alleging short payment of sales tax on the difference between gross supplies and taxable supplies as appearing in the monthly sales tax returns. Further alleging that the Company has wrongly treated supplies to AJK and others as zero rated. This demand was reduced on account of supplies made to the textile sector through the order in original 09/2017 dated May 12, 2017. The company preferred an appeal against the order in original and filed the same on 12 June 2017, no hearing has been done by the Commissioner Appeals and pending with him.
- 25.1.21** Show Cause Notice number 577 dated January 17, 2017 was issued alleging short payment of sales tax on the difference between gross supplies and taxable supplies as appearing in the monthly sales tax returns. Currently the company has preferred an appeal with the Appellate Tribunal against the order in appeal of commissioner appeals, Appellate Tribunal has decided the case according to which sales tax related to supply of electricity to textile sector and retailers has been remanded back whereas sales tax on supply of electricity to AJK has been confirmed.
- 25.1.22** Sales Tax on the difference between gross supplies and taxable supplies as appearing in the monthly sales tax returns. Further, alleging that the company has wrongly treated supplies to AJK and others as zero rated. This demand was reduced on account of supplies made to textile sector through the order in original. The company preferred an appeal against the order in original and filed the same on 12 June 2017, no hearing has been done by the Commissioner Appeals and pending with him.
- 25.1.23** The Inland Revenue Audit Officer withholding zone issued the order laying out observation on short deduction of sales tax withholding based on the review of the income tax returns filed by the company for the year 2014, 2015, 2016 and sales tax return for the period July 2015 to January 2017. The same was upheld by the order in original passed by the Assistant Director (Audit) Regional Tax Office. The company has filed an appeal with commissioner appeals which is pending.

- 25.1.24** The SCN number 487 dated 05 December 2016, was issued alleging short payment of sales tax on non-payment of sales tax on supply of free electricity to other distribution co and to employees residing within the company's territorial jurisdiction, non-payment of sales tax in taxable supplies other than electricity, short payment of sales tax, non-payment of sales tax on amount received on account of demand notices and non-payment of sales tax on subsidy from government of Pakistan. An appeal against the audit has been filled with the appellate tribunal which is pending. The related tax demand is Rs. 4,817,866,924.
- 25.1.25** The DCIR while reviewing the sales tax return of the company for the tax period October 2016 has alleged that the company has not filled the sales details in the Annex – C of the return and accordingly pass order number 01/2017 dated 14 January 2017 against the company. An appeal against the Order-in-original has filed on 13 February 2017 which is pending with Commissioner Appeal.
- 25.1.26** The Employees' Old age Benefits Institute (EOBI) served a demand notice on the Company under section 12(3) of the Employees' Old Age Benefits Act, 1976 (EOBI Act) for payment of the Company's and its employees' contributions, amounting to Rs. 788 million, for the period from June 1998 to May 2012. The Company contested the case before the adjudicating authority through its legal advisor, however, view of the Company could not prevail and decision was made against the Company on April 04, 2014. The Company also took up matter with the Federal Secretary for Water & Power in February 2014 to request the Economics Co-ordination Committee of the Cabinet to extent IESCO the same exemption granted to WAPDA under section 47 (d) of the EOBI Act. On April, 25 2014, the Company filed a writ petition before the Honorable Islamabad High court and EOBI has been asked to file its comments. Thereafter, the writ petition has been adjourned to date. Further, the Company has also obtained a stay order restraining EOBI for the recovery of the abovementioned demand. The Company and its legal advisor are of the view that the matter will be settled in the favor of the Company and hence, no provision has been made in these financial statements.
- 25.1.27** No provision on account of above contingencies has been made in these financial statements as the management and the tax / legal advisors of the Company are of the view, that these matters will eventually be settled in favour of the Company.
- 25.1.28** In addition to above-mentioned matters, large number of small cases have been filed against the Company, primarily by the Company's employees, customers 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.

25.2 Claims not acknowledged as debts are as follows:

		2017	2016
	Note	-----Rupees-----	
Loans not acknowledged as debt by the Company	25.2.1	<u>25,399,096,471</u>	<u>34,240,653,319</u>
Interest on syndicated loans	25.2.1	11,689,829,047	7,715,764,337
Supplemental charges of CPPA	25.2.2	7,134,976,637	6,864,324,906
Advertisement charges - net	25.2.3	459,949,667	459,949,667
O&M Cost of PEPCO	25.2.4	515,203,738	413,326,849
Short cash remittance as per CPPA		1,910,712,834	310,849,163
FC Surcharge withdrawn from cash	25.2.5	5,745,565,671	-
Use of system charges	25.2.6	5,347,479,188	-
Others	25.2.6	274,356,307	1,869,650,355
		<u>33,078,073,089</u>	<u>17,633,865,277</u>

- 25.2.1** In order to curb the circular debt in the country, the Federal Government, through Power Holding Private Limited (PHPL) has injected money from time to time through borrowings from commercial banks. The amount was ultimately transferred to Distribution Companies on the basis of outstanding payables towards Central Power Purchasing Agency (CPPA) which aggregates to Rs. 335,474 million up till last year.

Originally, PHPL planned to re-lend the loan to DISCO's through multi-party agreement between Lenders, DISCOs and PHPL with each DISCO jointly and severally liable in-case of default. The Management of DISCOs objected to this arrangement and based on their observations the proposed mechanism of extending the loan was revised in a joint meeting held at the Ministry of Water and Power on 14 May 2012, whereby a bilateral agreement was proposed to be signed between each DISCO and PHPL with all DISCOs being severally liable. The Board of Directors of the Company accorded its approval in its 100th and 101st meeting subject to certain reservations. The draft of the relending agreement between the Company and PHPL was received on 13 August 2012. Subsequently, during a joint meeting held at LESCO Head Office on 27 August 2012, it was agreed among DISCOs that the relending agreement will be effective from the date it is signed by the respective DISCOs and the same was communicated to Ministry of Water & Power vide a letter issued by the LESCO Legal Director [# L-Dir/12150-53 dated 28 August 2012]. As of 30 June 2014, CPPA has issued advices of loan amounting to Rs. 10,377 million representing the facility allocated to the Company by the Ministry.

MOWP vide its letter dated 19 February 2015, had directed the CPPA to re-allocate the loans obtained by the Federal Government between DISCOs on the basis of energy drawl basis instead of receivable basis. Therefore, CPPA issued two more credit invoices to the Company amounting to Rs. 17,301 million and Rs. 6,562 million, resulting in total loan allocation of Rs. 34,241 million, along with related accrued mark-up of Rs. 7,716 million.

During the year, CPPA on direction of MOWP issued one credit note amounting to Rs.6,703 million and one debit note amounting to Rs. 15,545 million resulting in re-allocation of loans to the Company. Total loans re-allocation to the Company as at June 30 ,2017 is Rs. 25,399 million, along with related accrued mark-up of Rs. 11,690 million.

The World Bank, being the lender of the Company, and NEPRA being the power sector regulator have also raised certain concerns on the structure of the transaction which have been forwarded to the Ministry of Water and Power vide [letter No. 1970-73 dated 07 September 2012]. Pending resolution of matters raised by the World Bank and NEPRA, the relending agreement between PHPL and the Company was not finalized. Further during year 2016, Pak Electric Power Company (Pvt.) Limited vide its letter 235-38, dated January 21, 2016, directed the Company to book the debit/credit notes already issued by CPPA in respect of its share in loans and markups thereon. However, the management believes that its obligation under the arrangement will arise once the bilateral relending agreement between the Company and PHPL is finalized, which is still pending. Accordingly, the Company has not accounted for the loan along with the related markup due to non-availability of terms and conditions of the loan and finalization of re-lending agreement between the Company and PHPL. Further, as per the management, NEPRA did not allow the Company to claim the markup cost in its tariff determination in previous years, hence the markup cost has not been recorded in its books. The management also obtained an independent legal opinion in 2014-15 from a law firm which concurred with the management point of view to not to record the liability and related markup cost in its books.

- 25.2.2** This represents supplementary charges invoiced by CPPA to the Company on account of allocation of late payment charges to oil and gas companies. During year 2016, the matter was discussed in para 43 of tariff determination by NEPRA communicated through letter no. NEPRA/TRF-336/IESCO-2015 dated February 29, 2016. According to which late payment charges recovered from consumers on utility bills shall be off set against the late payment invoices raised by CPPA-G to Company in determination of its consumer end tariff pertaining to financial years 2015-16 to 2019-20. In response to that company has recorded the invoiced amount of Rs. 741 million, received during the year 2014-15 against the late payment charges billed to consumers amounting to Rs. 692 million during 2015-16. B327 However, matter of invoices raised prior to the year ended June 30, 2015 is still to be resolved and of which management is of the view that invoices should not be recorded until same is allowed by NEPRA in its tariff determination.

- 25.2.3** CPPA has charged Rs. 459,949,667 (2016: Rs. 459,949,667) to the Company as its share in advertisement carried out by Pakistan Electric Power Company (PEPCO). The management of the Company asserts that these amounts will not be payable to CPPA as they do not relate to the Company and further detail of these amounts have not been received by the Company. Further, the management of the Company asserts that the Company will not be able to claim these amounts from NEPRA through tariff determination. Accordingly these amounts have not been recognized in these financial statements as liability towards CPPA.

- 25.2.4** The amount was debited by the CPPA during 2015 on account of certain O&M cost of PEPCO formations which is still under consideration of management and has not been recorded at year end.
- 25.2.5** During the year CPPA issued two debit notes amounting to Rs. 2,105 million and Rs. 3,640 million respectively on account of FC Surcharges collected from the customers and adjusted the same against cash remittances made by the Company to CPPA. This adjustment has also resulted in significant difference in the cash remittances as per records of CPPA. As mentioned in the above notes the terms of the loans received under the re-lent arrangements to the Company are not yet finalized. Accordingly the adjustment of FC Surcharge to the CPPA has not been recognized by the Company in its books.
- 25.2.6** During the year, CPPA has issued a credit note to the Company for an amount of Rs. 5,347 million on account of system charges payable to National Transmission and Dispatch Company Limited (NTDC). The Company has not recorded this amount as CPPA has not provided relevant details/calculations for this adjustment.
- 25.2.7** These represents debit notes/ credit notes issued to the Company by CPPA on account of adjustments against the provisional monthly power purchase billing for previous years and certain other charges. Management do not agree with these adjustment, therefore these have not been recorded in the Company's books.

25.3 Commitments

- 25.3.1** Inland letters of credits as at 30 June 2017 amounted to Rs. 1,043 million (2016: 746 million).

	Note	2017	2016
		-----Rupees-----	
26. SALE OF ELECTRICITY			
Gross sales	26.1 & 26.2	93,931,805,944	81,301,547,499
Sales tax		(14,305,926,772)	(12,975,113,983)
		79,625,879,172	68,326,433,516

- 26.1** This includes unbilled revenue of Rs. 3,108,423,834 (2016: Rs. 3,956,031,958).

26.2 Re-determination of Tariff for 2015-16 to 2019-20 by NEPRA

The tariff determination for the Company, pertaining to financial year 2015-16 to 2019-20, was issued by NEPRA in February 2016. The Company preferred a review motion with NEPRA in March 2016 on the basis that the tariff determination had not taken into account all the requirements laid down in the NEPRA (Tariff Standards and Procedures) Rules, 1998, which was declined. Subsequently the Federal Government also requested NEPRA for reconsideration of the Company's tariff determined for the financial year 2015-16 to 2019-20 which was also decided against the Company.

The Company along with other DISCOs, being aggrieved with the decisions of NEPRA pertaining to the respective tariff determinations for financial year 2015-16 to 2019-20, filed a petition with the Islamabad High Court (IHC), requesting IHC to refer the tariff for financial year 2015-16 to 2019-20 back to NEPRA for redetermination. IHC has decided the matter vide judgment dated June 22, 2017 whereby previous tariff determination by NEPRA for financial year 2015-16 to 2019-20 has been set aside. Accordingly, tariff redetermination for IESCO vide letter no. NEPRA/TRF -336/IESCO-2015/15633-15635, dated September 18, 2017 for financial year 2015-16 to 2019-20 has been made by NEPRA and consequential tariff notification for financial year 2015-16 to 2019-20 from the Federal Government is awaited.

	Note	2017	2016
		-----Rupees-----	
27. COST OF ELECTRICITY			
Central Power Purchase Agency			
Cost of electricity	27.1	84,307,754,745	71,736,995,041
Supplementary charges	27.2	-	741,461,398
		84,307,754,745	72,478,456,439

- 27.1** This represents tariff charged by Central Power Purchase Agency as determined by National Electric Power Regulatory Authority (NEPRA) and notified by the Government of Pakistan in the Gazette of Pakistan.

- 27.2** As per para 43 of tariff determination by NEPRA communicated through letter no. NEPRA/TRF-336/IESCO-2015 dated February 29, 2016, late payment charges recovered from consumers on utility bills shall be off set against the late payment invoices raised by CPPA-G to Company in determination of its consumer end tariff pertaining to financial years 2015-16 to 2019-20. In response to that, the Company has recorded the invoiced amount of Rs. 741 million, received during the year 2014-15 against the late payment charges billed to consumers amounting to Rs. 692 million during 2015-16. As no such notification was received during the year, no adjustment is recorded in 2016-17.

		2017	2016
	Note	-----Rupees-----	
28. ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	28.1	4,272,881,996	4,496,135,884
Transportation		119,486,525	99,135,835
Depreciation	6.1.2	57,933,019	66,818,909
Electricity bill collection charges		125,733,810	146,019,124
Provision for doubtful debts	9.3	-	158,213,049
Office supplies and other expenses		69,740,832	55,504,824
Legal and professional charges		71,118,192	55,087,603
Repairs and maintenance		3,773,570	6,517,687
Power, light and water charges		6,261,771	4,294,243
Postage and telephone		69,140,504	35,825,438
Insurance expense		25,946,653	28,706,059
NEPRA fee and charges		24,289,940	22,699,016
Advertising and publicity		26,162,387	45,436,332
Auditor's remuneration		1,300,000	1,089,000
Miscellaneous expenses		62,184,043	59,212,239
		<u>4,935,953,242</u>	<u>5,280,695,242</u>

28.1 This includes a sum of Rs. 3,188 million (2016: Rs. 3,492 million) and Rs. 247 million (2016: Rs. 290 million) in respect of staff retirement benefits and provision of free electricity benefits to employees, respectively.

		2017	2016
	Note	-----Rupees-----	
29. DISTRIBUTION COSTS			
Salaries, wages and other benefits	29.1	5,528,799,691	4,533,188,830
Depreciation	6.1.2	2,092,675,603	1,911,493,362
Repairs and maintenance		796,866,620	846,052,690
Transportation		411,826,677	389,231,744
Provision for slow moving stores, spares and loose tools	8.1	41,074,614	21,002,427
Office supplies and other expenses		12,678,945	11,669,387
Rent, rates and taxes		35,554,777	33,967,295
Power, light and water charges		22,759,007	22,085,330
Postage and telephone		19,715,459	18,045,510
Miscellaneous expenses		1,125,993	2,550,758
		<u>8,963,077,386</u>	<u>7,789,287,333</u>

29.1 This includes a sum of Rs. 63 million (2016: Rs. 37 million) and Rs. 9 million (2016: Rs. 20 million) in respect of staff retirement benefits and provision of free electricity benefits to employees, respectively.

		2017	2016
	Note	-----Rupees-----	
30. CUSTOMER SERVICES COSTS			
Salaries, wages and other benefits	30.1	441,740,217	373,939,107
Transportation		26,505,980	25,093,686
Electricity bill collection charges		47,706,537	46,552,453
Depreciation	6.1.2	57,331,735	66,818,909
Office supplies and other expenses		3,848,810	3,252,398
Rent, rates and taxes		3,723,903	2,564,794
Power, light and water charges		2,725,266	2,843,261
Postage and telephone		2,006,873	2,006,896
Repairs and maintenance		1,186,619	1,098,153
Miscellaneous expenses		4,198,335	3,915,543
		<u>590,974,275</u>	<u>528,085,200</u>

30.1 This includes a sum of Rs. 8.0 million (2016: Rs. 7.7 million) and Rs. 14.7 million (2016: Rs. 14 million) in respect of staff retirement benefits and provision of free electricity benefits to employees, respectively.

	2017	2016
	-----Rupees-----	
31. OTHER INCOME		
Income from financial assets		
Profit on bank deposits	10,722,970	15,264,138
Late payment surcharge	529,977,433	692,222,818
	540,700,403	707,486,956
Income from non-financial assets		
Sale of scrap	7,960,000	-
Vetting and processing fee	80,353,093	43,660,771
Other operating revenue	292,973,357	224,046,788
	381,286,450	267,707,559
Others		
Commission on collection of electricity duty and PTV license fee	78,341,116	101,233,973
Liquidated damages on vendors' contracts	27,711,052	43,032,368
Miscellaneous	87,358,917	102,879,679
	193,411,085	247,146,020
	<u>1,115,397,938</u>	<u>1,222,340,535</u>

32. FINANCE COSTS

Interest on long-term loans	1,363,019,473	1,162,071,179
Bank charges	10,448,367	8,608,306
Exchange loss	35,128	5,476,235
	<u>1,373,502,968</u>	<u>1,176,155,720</u>

33. TAXATION

Current		
- For the year	695,335,099	683,264,335
- Prior year	-	-
	695,335,099	683,264,335
Deferred	33.2	(2,983,201,531)
	<u>695,335,099</u>	<u>(2,299,937,196)</u>

33.1 The provision for minimum taxation is calculated @ 1% (2016: 1%) of the Company's gross revenue and other income under the provisions of the Income Tax Ordinance, 2001.

	2017	2016
	-----Rupees-----	
33.2 Charge for deferred tax is as follows:		
Charge for the year	-	2,983,201,531
Reversal of taxable differences relating to incremental depreciation	207,751,748	100,010,186
Reversal of deductible differences	(207,751,748)	(100,010,186)
	<u>-</u>	<u>2,983,201,531</u>

33.3 RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

Accounting loss before tax	(11,164,652,581)	(1,045,737,605)
Tax Rate	31%	31%
Tax at Applicable Rate	(3,461,042,300)	(324,178,658)
Impact of inadmissible expenses	685,725,409	1,886,492,921
Impact of admissible tax depreciation	(1,296,657,625)	(1,363,306,038)
Impact of other admissible expenses	(2,562,253,207)	(2,444,020,609)
Impact of incomes chargeable at lower rate	3,868,520,522	4,220,770,922
	<u>695,335,099</u>	<u>2,299,937,196</u>

34. REMUNERATION OF THE CHIEF EXECUTIVE AND DIRECTORS

34.1 Remuneration of the Chief Executive

Managerial remuneration	1,318,920	943,622
Other allowance	1,917,813	1,676,668
Bonus	417,228	344,310
	<u>3,653,961</u>	<u>2,964,600</u>
Number of persons	<u>1</u>	<u>1</u>

In addition, the Chief Executive is also provided with free transport, residential telephone and medical facilities.

34.2 The aggregate amount charged in the financial statements for the year as fees to Directors is Rs. 7,064,000 (2016: Rs.2,275,000) for attending Board of Directors and sub-committee meetings.

35. FINANCIAL RISK MANAGEMENT

35.1 Financial risk factors

The Company's activities expose it to a variety of financial risks that include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects on its financial performance.

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market variables such as foreign exchange rates and interest rates. Market risks include currency risk, interest rate risk and other price risk, such as equity price risk. The Company is exposed to the following market risks:

i) Currency risk

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. Currency risk arises mainly from future commercial transactions, or receivables and payables that exist due to transactions in foreign currencies.

Exposure to currency risk

The company has taken foreign loans from Asian Development Bank and International Bank for Reconstruction and Development (IBRD) through Government of Pakistan (GoP), denominated in US dollars; however, since the receipt and repayment of loan from GoP is in Pak rupees and Exchange Risk Component is also being paid as part of its financing arrangement with GoP, it is not subject to currency risk on this financial instrument. However, the Company is exposed to currency risk on its loan from Asian Development Bank (ADB) for Earthquake Emergency Assistance Project as follows:

	2017	2016
	-----Rupees-----	
USD		
Long-term loans - secured	<u>187,736,283</u>	<u>187,701,155</u>

The following significant exchange rates were applied during the year:

	2017	2016
Rupees per USD		
Average rate	<u>104.80</u>	<u>104.37</u>
Reporting date rate	<u>104.85</u>	<u>104.83</u>

Sensitivity analysis

Following is the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant, of the Company's profit before tax.

	2017		2016	
	+10%	-10%	+10%	-10%
Change in rate				
	-----Rupees-----			
Effect on profit before tax	<u>18,773,628</u>	<u>(18,773,628)</u>	<u>18,770,116</u>	<u>(18,770,116)</u>

ii) **Non-financial assets at fair value using a valuation technique**

The table below analyses non-financial assets carried at fair value, by valuation method. The various fair value levels have been defined as follows:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
		-----Rs-----	
Land	-	17,713,436,459	-
Building	-	3,465,599,349	-
Distribution equipment	-	60,749,200,612	-
As at June 30, 2017	-	81,928,236,420	-
As at June 30, 2016	-	79,561,391,502	-

Valuation technique are defined in note 6.1.1 of these financial statements.

There were no transfers made among various levels of fair value hierarchy during the year.

iii) **Interest rate risk**

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. At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments is:

Interest rate sensitivity

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for previous year.

<u>Variable rate financial liability</u>	Profit and loss 100 bps	
	Increase	Decrease
As at June 30, 2017	92,402,867	92,402,516
As at June 30, 2016	84,248,869	84,248,869

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Company.

The analysis of interest rate / mark up rate risk is as under:

	2017	2016	2017	2016
	Effective rate (in Percentages)		Carrying amount Rupees	
Financial Assets				
<u>Variable rate instruments:</u>				
Deposit accounts	4 to 7	4 to 7	1,518,732,847	686,340,092
Financial Liabilities				
<u>Fixed rate instruments:</u>				
Long term loans	15 to 17	15 to 17	9,240,286,692	8,424,886,904

Cash flow sensitivity analysis for the fixed rate instruments

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

iv) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to commodity and equity price risk.

b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge an obligation.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2017		2016	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
	-----Rupees-----			
Long-term loans	87,030,011	87,030,011	80,394,442	80,394,442
Long-term deposits	44,776,293	44,776,293	1,586,230	1,586,230
Trade debts	66,326,181,373	66,326,181,373	56,545,340,427	56,545,340,427
Short-term advances	206,971,429	206,971,429	255,525,824	255,525,824
Interest accrued	901,021	901,021	784,555	784,555
Other receivables	5,021,326,553	5,021,326,553	9,393,221,327	9,393,221,327
Receivable from TIBL	30,790,759	30,790,759	80,681,259	80,681,259
Bank balances	2,412,735,415	2,412,735,415	1,354,632,625	1,354,632,625
	<u>74,130,712,854</u>	<u>74,130,712,854</u>	<u>67,712,166,689</u>	<u>67,712,166,689</u>

The management believes that there is no credit risk involved in respect of receivables from the Government of Pakistan. The credit risk on liquid funds is limited, because the counter parties are banks with reasonably high credit ratings. In case of trade debts the Company believes that due to large number and diversity of its consumer base, concentration of credit risk is limited. Further, the Company manages its credit risk by obtaining security deposits from consumers.

The maximum exposure to credit risk for trade receivables at the reporting date by type of sector is as follows:

	2017	2016
	-----Rupees-----	
Government sector	55,434,749,490	46,757,467,371
Private sector	<u>10,891,431,883</u>	<u>9,787,873,057</u>
	<u>66,326,181,373</u>	<u>56,545,340,428</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of product is:

	2017	2016
	-----Rupees-----	
Electricity consumers	<u>66,326,181,373</u>	<u>56,545,340,428</u>

Ageing

The ageing of trade receivables at the reporting date was:

	2017		2016	
	Gross	Impairment	Gross	Impairment
	-----Rupees-----			
Not past due	11,644,947,087	-	10,210,312,211	-
Past due up to 1 year	9,927,343,009	18,098,873	11,320,882,314	23,577,475
Past due between				
- 1 to 3 years	293,684,288	32,775,221	472,851,382	28,301,584
- 3 to 5 years	14,774,889,083	514,196,138	6,398,488,436	513,191,173
Over 5 years	29,685,317,906		28,142,806,084	-
	66,326,181,373	565,070,232	56,545,340,427	565,070,232

The receivable balance due over 5 years relates to receivable from government entities and Azad Jammu and Kashmir. As per the company, the balance is fully recoverable from these parties, so no provision has been made for this balance.

The credit quality of bank balances, that are neither past due nor impaired, can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate. The recent credit ratings of counterparties are as follows:

Rating Agency		Rating		2017	2016
		Short-term	Long-term	-----Rupees-----	
Public Sector Banks					
National Bank of Pakistan	JCR-VIS	A-1+	AAA	691,641,270	259,835,641
Sindh Bank Limited	JCR-VIS	A-1+	AA	611,290	1,585,507
The Bank of Khyber	PACRA	A1	A	(142,230)	112,388
The Bank of Punjab	PACRA	A1+	AA	202,917,656	100,087,279
Specialized Banks					
SME Bank Limited	PACRA	B	B	17,834	55,356
Zarai Taraqiat Bank Limited	JCR-VIS	A-1+	AAA	2,280,083	14,342,610
Private Sector Banks					
Allied Bank Limited	PACRA	A1+	AA+	514,333,045	329,450,394
Askari Bank Limited	PACRA	A1+	AA+	523,109,970	385,790,294
Bank Alfiah Limited	PACRA	A1+	AA+	9,727,165	16,611,177
Faysal Bank Limited	PACRA	A1+	AA	(788,398)	3,376,319
Habib Bank Limited	JCR-VIS	A-1+	AAA	35,441,197	22,593,897
Habib Metropolitan Bank Limited	PACRA	A1+	AA+	(2,595,941)	1,608,028
JS Bank Limited	PACRA	A1+	AA-	5,650,073	1,177,703
MCB Bank Limited	PACRA	A1+	AAA	224,863,708	35,027,332
NIB Bank Limited	PACRA	A1+	AA-	1,410,158	4,889,354
Silk Bank Limited	JCR-VIS	A-2	A-	(558,985)	100,318
Soneri Bank Limited	PACRA	A1+	AA-	1,712,455	236,181
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA	2,228,145	3,291,531
Summit Bank	JCR-VIS	A-1	A-	840,228	14,176,852
United Bank Limited	JCR-VIS	A-1+	AAA	104,668,359	76,143,323
Other institutions	N/A	N/A	N/A	95,368,332	76,332,039
				2,412,735,415	1,314,828,351

Due to Company's long standing business relationships with these counterparties, and after giving due consideration to their strong financial standing, including obtaining security deposits from them, the management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, credit risk is minimal.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its 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 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 funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities:

2017

	Carrying Amount	Contractual cash flows	Less than one year	One to five years	More than five years
-----Rupees-----					
Long-term loans - secured	9,240,286,692	9,240,286,692	3,493,315,685		
Long-term security deposits	5,028,195,630	5,028,195,630	-	-	5,028,195,630
Trade and other payables	12,142,442,778	12,142,442,778	12,142,442,778	-	-
Accrued interest	7,715,564,563	7,715,564,563	7,715,564,563	-	-
	34,126,489,663	34,126,489,663	23,351,323,026	-	5,028,195,630

2016

Long-term loans - secured	8,424,886,904	8,424,886,904	2,860,623,159	2,314,936,275	3,249,327,470
Long-term security deposits	4,581,775,257	4,581,775,257	-	-	4,581,775,257
Trade and other payables	11,565,236,835	11,565,236,835	11,565,236,835	-	-
Accrued interest	6,218,088,444	6,218,088,444	6,218,088,444	-	-
	30,789,987,440	30,789,987,440	20,643,948,438	2,314,936,275	7,831,102,727

35.2 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of all the financial instruments reflected in these financial statements approximate their fair value.

35.3 Financial instruments by categories

	Loans and receivables		Held-to-maturity	
	2017	2016	2017	2016
-----Rupees-----				
Financial assets as per balance sheet				
Long-term loans	87,030,011	80,394,442	-	-
Long-term deposits	44,776,293	1,586,230	-	-
Trade debts	66,326,181,373	56,545,340,427	-	-
Interest accrued	901,021	784,555	-	-
Receivable from Government of Pakistan	14,806,782,863	7,768,646,740	-	-
Other receivables	5,021,326,553	9,393,221,327	-	-
Receivable from TIBL	30,790,759	80,681,259	-	-
Bank balances	2,412,735,415	1,354,632,625	-	-
	88,730,524,288	75,225,287,605	-	-

	Liabilities at fair value through profit and loss		Other financial liabilities	
	2017	2016	2017	2016
-----Rupees-----				
Financial liabilities as per balance sheet				
Long-term loans - secured	-	-	9,240,286,692	8,424,886,904
Long-term security deposits	-	-	5,028,195,630	4,581,775,257
Trade and other payables	-	-	12,142,442,778	11,565,236,835
Accrued interest	-	-	7,715,564,563	6,218,088,444
	-	-	34,126,489,663	30,789,987,440

35.4 Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to maintain a strong capital base to support the sustained development of its business. The Company manages its capital structure, which comprises capital and reserves, by monitoring its return on net assets, and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend to shareholders, appropriation of amounts to capital reserves and / or issue new shares.

The Company monitors capital using the net debt to total capital ratio, which is total debt of the Company as reduced by cash and cash equivalents, divided by total equity plus the net debt. Equity comprises of share capital, capital and revenue reserves. During the year, the Company's strategy was to maintain leveraged gearing. The net debt to equity ratio as at 30 June 2016 and 30 June 2017 were as follows:

		2017	2016
	Note	-----Rupees-----	
Long-term loans	19.	5,746,971,007	5,564,263,745
Long-term security deposits	20.	5,028,195,630	4,581,775,257
Deferred credit	23.	23,893,672,310	23,079,719,609
Trade and other payables	24.	68,552,197,534	44,122,053,850
Interest accrued on long-term loans		7,715,564,563	6,218,088,444
Current portion of long-term loans		3,493,315,685	2,860,623,159
Total debt		114,429,916,729	86,426,524,064
Cash and bank balances		(2,412,742,341)	(1,354,641,206)
Net debt		112,017,174,388	85,071,882,858
Equity		(6,080,404,457)	11,884,441,304
Total Capital		105,936,769,931	96,956,324,162
Net debt to total equity		1.06	0.88

WAPDA holds 88% (2016: 88%) shares of the Company, therefore all electricity generation and distribution undertakings of WAPDA are related parties of the company. Other related parties comprise of directors, key management personnel, Government of Pakistan and Government owned entities.

Revenue transactions with Government of Pakistan and Government owned entities are not disclosed as the management is of the opinion that it is impracticable to disclose such transactions due to the nature of the Company's operations.

Balances with related parties have been disclosed in respective notes to the financial statements. Transactions with electricity generation and distribution undertakings of WAPDA, other than remuneration and benefits to the Chief Executive as disclosed in note 33 to the financial statements, are as follows:

	2017	2016
	-----Rupees-----	
WAPDA		
Pension paid on behalf of WAPDA	<u>92,856,991</u>	<u>37,491,642</u>
Related parties		
Free electricity supplied on behalf of related parties	<u>54,407,788</u>	<u>55,380,520</u>
Free electricity supplied on behalf of Company	<u>53,022,534</u>	<u>47,812,453</u>
Assets transferred to the Company	<u>13,637,848</u>	<u>6,389,327</u>
Electricity duty paid by the Company	<u>183,160,000</u>	<u>1,416,090,000</u>
Pension paid on behalf of related parties	<u>67,668,639</u>	<u>46,944,710</u>

	2017	2016
	-----Rupees-----	
Pension paid on behalf of the Company	84,504,014	102,080,463
Cost of power purchased from CPPA	84,307,754,745	72,478,456,439
Cash remitted to CPPA	88,926,853,275	83,161,238,016
Services provided to the Company	1,110,714	380,353
Government related entities		
Relent loan received during the year	815,364,660	639,728,104
Markup expense during the year	1,363,019,473	1,162,071,179
Subsidy claimed during the year	7,038,136,123	6,502,411,709
Subsidy received through adjustment of CPPA		
Payable during the year	-	4,474,073,341

37. NUMBER OF EMPLOYEES

The number of total employees at the year end were 12,288 (2016: 13,178), whereas the average number of employees during the year were 12,788 (2016: 13,287).

38. PROVIDENT FUND

The Company contributes to a general provident fund scheme, operated by WAPDA for all power sector companies.

39. 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 9,627,548,801 (2016: 8,773,669,114) units of electricity to its consumers during the year.

40. BENAZIR EMPLOYEE STOCK OPTION SCHEME

On August 14, 2009, the Government of Pakistan (GoP) launched "Benazir Employee Stock Option Scheme" (the Scheme) for employees of certain State Owned Enterprises (SOEs) and Non-State Owned Enterprises (Non-SOEs) where GoP holds significant investments. The scheme is applicable to permanent and contractual employees who were in employment of these entities on the date of launch of the scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The scheme provides for cash payments to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GoP shall transfer 12% of its investments in such SOEs and Non SOEs to a Trust Fund to be created for the purpose by each of such entities. The eligible employees are allotted units by each Trust Fund in proportion to their respective length of service. On retirement or termination such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price for listed entities or breakup value for non-listed entities. The shares relating to the surrendered units would be transferred back to GoP.

The scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GoP. The Scheme, developed in compliance with the above stated GoP policy of empowerment of employees of SOEs need to be accounted for by the covered entities, including the Company, under the provisions of amended IFRS 2. However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the Securities and Exchange Commission of Pakistan in June 2011 vide SRO 587(I)/2001; on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan, granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted, the salaries, wages & other benefits cost and accumulated profits of the Company would not have had a significant impact.

41. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purposes of comparison.

42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 05 OCT 2017 by the Board of Directors of the Company.

43. GENERAL

Figures in these financial statements have been rounded off to the nearest Rupee.


CHIEF EXECUTIVE


CHAIRMAN