

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT

To the members of Islamabad Electric Supply Company Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the annexed financial statements of Islamabad Electric Supply Company Limited (the Company), which comprise the statement of financial position as at 30 June 2020, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that, except as described in the basis for qualified opinion section below, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2020 and of the loss, other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Qualified Opinion

As discussed in note 2.7 to the financial statements, in accordance with the Company's accounting policy, subsequent to the initial recognition, land, buildings and distribution equipment are measured at the revalued amount less accumulated depreciation and impairment loss (if any). In accordance with the requirements of International Accounting Standard 16 "Property, Plant and Equipment" ("IAS 16"), revaluations should be made with sufficient regularity such that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the reporting period. The last revaluation of freehold and leasehold land was carried out as at 30 June 2014, while revaluation of buildings and distribution equipment was carried out as at 30 June 2016. In our view, the revaluation should be updated as of 30 June 2020 to comply with the requirements referred to above. The effect of this departure from International Financial Reporting Standards on the financial statements, including but not limited to the effect on operating fixed assets, revaluation surplus and related deferred tax, could not be determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the

Riaz Ahmad & Company

Chartered Accountants

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Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty related to Going Concern

We draw attention to note 1.3 in the financial statements, which indicates that the Company incurred a net loss of Rupees 12,282.44 million during the year ended 30 June 2020 and, as of that date, the Company's current liabilities exceeded its current assets by Rupees 25,013.00 million. These events or conditions, along with other matters as set forth in note 1.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matters

We draw attention to the following matters:

- a) As explained in note 9.1 of the accompanying financial statements, management has taken up the matter of subsidy receivable from the Government of Pakistan (GoP), amounting to Rupees 2,814.65 million recognized in 2014 on account 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 GoP;
- b) Note 24.1 of the accompanying financial statements, 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; and
- c) As stated in note 24.2 of the accompanying financial statements, there are certain charges levied by Central Power Purchasing Agency (Guarantee) Limited (CPPA) which the Company does not acknowledge.

Our opinion is not modified in respect of these matters.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We draw attention to the matter described in

the *Basis for Qualified Opinion* section above. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are

required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Raheel Arshad.


RIAZ AHMAD & COMPANY
Chartered Accountants

ISLAMABAD

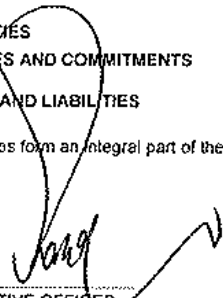
Date: 04 JAN 2021

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ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	NOTE	2020 Rupees	2019 Restated Rupees	2018 Restated Rupees
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	3	101,717,246,250	99,792,713,363	93,971,124,012
Intangible asset under development	4	114,032,619	43,678,792	43,678,792
Long term loans	5	191,605,142	122,060,871	89,139,069
		<u>102,022,784,011</u>	<u>99,958,453,026</u>	<u>94,103,941,873</u>
CURRENT ASSETS				
Stores, spares and loose tools	6	1,409,307,717	1,156,738,534	957,872,617
Trade debts	7	128,660,358,568	96,970,187,670	84,097,887,276
Advances	8	436,662,038	317,317,918	358,071,649
Receivable from Government of Pakistan	9	7,458,533,039	4,848,749,415	4,380,332,889
Security deposits	10	73,736,230	73,736,230	73,736,230
Other receivables	11	3,779,997,691	3,489,964,018	2,320,811,731
Recoverable from tax authorities	12	22,669,866,997	22,632,626,478	20,136,655,218
Cash and bank balances	13	5,204,373,983	3,332,892,482	1,930,782,070
		<u>169,692,836,263</u>	<u>132,822,212,745</u>	<u>114,256,249,680</u>
Non-current assets held for sale	11.2	65,890,500	65,890,500	65,890,500
		<u>169,758,726,763</u>	<u>132,888,103,245</u>	<u>114,322,140,180</u>
TOTAL ASSETS		<u>271,781,510,774</u>	<u>232,846,556,271</u>	<u>208,426,082,053</u>
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Authorized share capital		50,000,000,000	50,000,000,000	50,000,000,000
5,000,000,000 (2019: 5,000,000,000) Ordinary shares of Rupees 10 each				
Issued, subscribed and paid up share capital	14	5,798,253,340	5,798,253,340	5,798,253,340
Accumulated loss		(62,306,471,763)	(50,562,747,413)	(45,599,227,102)
Capital reserves				
Deposit for shares	15	20,250,770,096	20,250,770,096	20,030,165,684
Surplus on revaluation of operating fixed assets - net of deferred income tax	16	29,335,045,587	30,534,963,137	31,736,024,864
		<u>49,565,815,683</u>	<u>50,785,733,233</u>	<u>51,766,190,548</u>
Total equity		<u>(6,922,402,740)</u>	<u>6,021,239,180</u>	<u>11,965,216,786</u>
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term loans	17	6,265,591,770	7,053,024,516	6,350,636,935
Long term security deposits	18	6,533,606,741	6,045,080,129	5,588,091,813
Staff retirement benefits	19	42,832,870,892	41,187,410,111	39,932,566,143
Deferred income tax liability	20	-	-	-
Deferred credit	21	28,300,117,042	20,997,537,666	25,158,738,218
		<u>83,932,187,045</u>	<u>81,283,052,422</u>	<u>77,010,031,107</u>
CURRENT LIABILITIES				
Trade and other payables	22	186,726,208,274	139,651,790,351	105,978,265,012
Accrued mark-up	23	5,689,221,268	4,332,903,161	9,289,686,928
Current portion of long term loans	17	2,356,296,927	1,557,571,177	4,182,882,220
		<u>194,771,726,469</u>	<u>145,542,264,689</u>	<u>119,450,834,160</u>
TOTAL LIABILITIES		<u>278,703,913,514</u>	<u>226,825,317,111</u>	<u>196,460,865,267</u>
CONTINGENCIES AND COMMITMENTS	24			
TOTAL EQUITY AND LIABILITIES		<u>271,781,510,774</u>	<u>232,846,556,271</u>	<u>208,426,082,053</u>

The annexed notes form an integral part of these financial statements. *Raw*


CHIEF EXECUTIVE OFFICER


DIRECTOR

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ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2020**

	NOTE	2020 Rupees	2019 Rupees
SALE OF ELECTRICITY - NET	25	133,735,414,491	128,926,728,033
TARIFF DIFFERENTIAL SUBSIDY	9	23,400,270,652	16,964,938,061
		<u>157,135,685,143</u>	<u>145,891,666,094</u>
COST OF ELECTRICITY	26	(146,844,621,646)	(132,916,340,967)
GROSS PROFIT		<u>10,291,063,497</u>	<u>12,975,325,127</u>
AMORTIZATION OF DEFERRED CREDIT	21	1,531,254,386	1,432,070,184
		<u>11,822,317,883</u>	<u>14,407,395,311</u>
OPERATING EXPENSES			
ADMINISTRATIVE EXPENSES	27	(7,016,750,452)	(6,846,601,855)
DISTRIBUTION COSTS	28	(14,716,403,526)	(13,362,076,301)
CUSTOMER SERVICES COSTS	29	(936,833,849)	(739,890,398)
		<u>(22,669,987,827)</u>	<u>(20,948,568,554)</u>
LOSS FROM OPERATIONS		<u>(10,847,669,944)</u>	<u>(6,541,173,243)</u>
OTHER INCOME	30	1,968,694,951	2,243,358,298
FINANCE COST	31	(1,372,188,755)	(1,658,645,866)
LOSS BEFORE TAXATION		<u>(10,251,163,748)</u>	<u>(5,954,460,811)</u>
TAXATION	32	(2,031,277,444)	(1,638,924,453)
LOSS AFTER TAXATION	1.3 (b)	<u>(12,282,441,192)</u>	<u>(7,593,385,264)</u>

The annexed notes form an integral part of these financial statements. *2020*


CHIEF EXECUTIVE OFFICER


DIRECTOR

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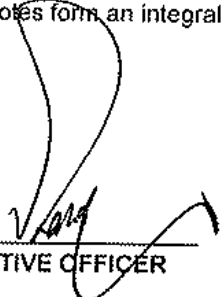
ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	2020 Rupees	2019 Rupees
LOSS AFTER TAXATION	(12,282,441,192)	(7,593,385,264)
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plan	(661,200,708)	1,428,803,226
Items that may be reclassified subsequently to profit or loss	-	-
Other comprehensive (loss) / income for the year	(661,200,708)	1,428,803,226
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(12,943,641,900)</u>	<u>(6,164,582,038)</u>

The annexed notes form an integral part of these financial statements. *Done*


CHIEF EXECUTIVE OFFICER

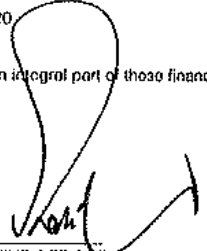

DIRECTOR


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ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	SHARE CAPITAL	CAPITAL RESERVES		ACCUMULATED LOSS	TOTAL RESERVES	TOTAL EQUITY
		DEPOSIT FOR SHARES	SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - NET OF DEFERRED INCOME TAX			
Rupees						
Balance as at 30 June 2018 - as previously reported	5,798,253,340	20,030,165,684	31,736,024,864	(42,652,648,754)	9,113,541,794	14,911,795,134
Impact of restatement (Note 2.20)	-	-	-	(2,940,578,348)	(2,940,578,348)	(2,940,578,348)
Balance as at 30 June 2018 - restated	5,798,253,340	20,030,165,684	31,736,024,864	(45,599,227,102)	6,166,963,446	11,965,216,786
Non-cash settlement against deposit for shares	-	220,604,412	-	-	220,604,412	220,604,412
Loss for the year	-	-	-	(7,593,385,264)	(7,593,385,264)	(7,593,385,264)
Other comprehensive income for the year	-	-	-	1,428,603,220	1,428,603,220	1,428,603,220
Total comprehensive loss for the year	-	-	-	(6,164,582,038)	(6,164,582,038)	(6,164,582,038)
Incremental depreciation transferred from surplus on revaluation of operating fixed assets to accumulated loss - net of deferred income tax	-	-	(1,200,412,719)	1,200,412,719	-	-
Transfer from surplus on revaluation of operating fixed assets to accumulated loss on disposal of assets	-	-	(649,008)	649,008	-	-
Balance as at 30 June 2019 - restated	5,798,253,340	20,250,770,096	30,534,963,137	(50,562,747,413)	222,885,820	6,021,239,160
Loss for the year	-	-	-	(12,282,441,102)	(12,282,441,102)	(12,282,441,102)
Other comprehensive loss for the year	-	-	-	(661,200,708)	(661,200,708)	(661,200,708)
Total comprehensive loss for the year	-	-	-	(12,943,641,900)	(12,943,641,900)	(12,943,641,900)
Transfer from surplus on revaluation of operating fixed assets to accumulated loss on disposal of assets	-	-	(153,839)	153,839	-	-
Incremental depreciation transferred from surplus on revaluation of operating fixed assets to accumulated loss - net of deferred income tax	-	-	(1,190,763,711)	1,190,763,711	-	-
Balance as at 30 June 2020	5,798,253,340	20,250,770,096	29,335,045,587	(62,305,471,763)	(12,720,656,080)	(8,922,402,740)

The annexed notes form an integral part of these financial statements. *Page 11*


 CHIEF EXECUTIVE OFFICER


 DIRECTOR

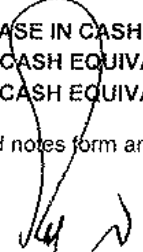
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ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	2020 Rupees	2019 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(10,251,163,748)	(5,954,460,811)
Adjustment for non-cash items:		
Depreciation	5,484,375,282	4,699,327,805
Loss of operating fixed assets due to theft	1,510,118	12,161,569
Gain on disposal of distribution equipment	(780,609)	-
Amortization of deferred credit	(1,531,254,386)	(1,432,070,184)
Provision against staff retirement benefits	5,673,117,721	4,695,815,532
Reversal of provision against slow moving / obsolete items	(13,866,843)	-
Profit on bank deposits	(270,965,736)	(56,130,129)
Exchange loss	11,293,004	68,569,530
Finance cost	1,360,895,751	1,588,076,336
	<u>463,160,554</u>	<u>3,621,289,648</u>
Working capital changes:		
Decrease / (increase) in current assets:		
Store, spares and loose tools	(238,702,340)	(198,865,917)
Trade debts	(31,690,170,898)	(23,158,245,975)
Advances	(110,023,779)	24,040,693
Recoverable from tax authorities	599,318,089	(2,248,269,682)
Receivable from Government of Pakistan	(2,609,783,624)	(247,812,114)
Other receivables	(258,252,405)	(1,102,678,582)
Increase in trade and other payables	49,908,252,285	36,896,867,533
	<u>15,600,637,328</u>	<u>9,965,035,956</u>
Cash generated from operations	16,063,797,882	13,586,325,604
Net increase in long term security deposits	488,526,612	476,988,316
Staff retirement benefits paid	(2,962,857,648)	(1,692,168,338)
Payment for fund contribution regarding pension obligation	(1,726,000,000)	(320,000,000)
Net increase in long term loans	(78,764,612)	(32,921,802)
Finance cost paid	(4,577,644)	(7,224,765)
Income tax paid	(2,667,836,052)	(1,886,626,031)
Net cash generated from operating activities	9,112,288,538	10,124,372,984
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on property, plant and equipment	(7,412,997,678)	(10,258,602,541)
Capital expenditure on intangible asset under development	(70,353,827)	-
Proceeds from sale of property, plant and equipment	3,360,000	2,363,058
Profit on bank deposits received	239,184,468	53,998,902
Net cash used in investing activities	(7,240,807,037)	(10,202,240,581)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term loans	-	1,479,978,009
Net cash from financing activities	-	1,479,978,009
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,871,481,501	1,402,110,412
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,332,892,482	1,930,782,070
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>5,204,373,983</u>	<u>3,332,892,482</u>

The annexed notes form an integral part of these financial statements.


CHIEF EXECUTIVE OFFICER


DIRECTOR

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ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. THE COMPANY AND ITS OPERATIONS

- 1.1 Islamabad Electric Supply Company Limited (the Company) is a public limited company incorporated in Pakistan, under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). 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 25 April 1998 and commenced commercial operations on 01 June 1998.
- 1.2 The Company is principally engaged in distribution and supply of electricity within defined geographical boundaries. The Company was granted a license on 02 November 2001 by the National Electric Power Regulatory Authority (NEPRA) for electricity distribution. The registered office of the Company is situated at IESCO Headquarters, Street No. 40, G-7/4, Islamabad while, the Company has various 132-KV grid stations along with other offices located at Islamabad, Rawalpindi, Jhelum, Attock and Chakwal.
- 1.3 a) The Company during the year ended 30 June 2020 incurred loss after taxation of Rupees 12,282.44 million (2019: Rupees 7,593.39 million), its accumulated loss as of this date is Rupees 62,306.47 million (2019: Rupees 50,562.75 million) resulting in negative equity amounting to Rupees 6,922.40 million as of 30 June 2020. As of that date the Company's current liabilities exceeded current assets by Rupees 25,013.00 million (2019: Rupees 12,654.16 million). Further, there is a long delay in recovery of receivables from Government of Azad Jammu and Kashmir and determination of tariff adjustments amounting to Rupees 100,045 million (2019: Rupees 75,751 million) and Rupees 43,016 million respectively as at 30 June 2020. These conditions indicate existence of material uncertainties as to Company's ability to continue as a going concern.
- b) Ministry of Energy, Government of Pakistan vide S.R.O. 660(I)/2019 dated 28th June 2019 has allowed an amount of Rupees 18,427 million as quarterly adjustment on account of Power Purchase Cost relating to 1st and 2nd quarters of financial year 2018-19, which was to be recovered in fifteen months. However, an amount of Rupees 10,116 million has been billed during the year and remaining amount of Rupees 8,311 million has to be billed in next 3 months after reporting period. Government of Pakistan notified vide S.R.O.1167(I)/2019 dated 30th September 2019 the adjustment in the approved tariff on account of annual indexation / adjustment of distribution margin and periodic adjustment for the 3rd and 4th quarters of financial year (FY) 2018-19 with immediate application of Rupees 1,460 million and 3,002 million respectively. However, an amount of Rupees 872 million in respect of annual indexation and Rupees 2,748 million in respect of periodic adjustments has been billed during the year and remaining amounts of Rupees 588 million and 254 million respectively has to be billed in the next 3 months after reporting period. Government of Pakistan notified vide S.R.O.1469(I)/2019 dated 29th November 2019 the adjustment in the approved tariff on account of periodic adjustment for 1st quarter of FY 2019-20 of Rupees 1,394 million. However, an amount of Rupees 724 million has been billed during the year and remaining amount of Rupees 670 million has to be billed in the next 5 months after reporting period. If these adjustments had been allowed in the respective years, the revenue for years ended 30 June 2019 and 30 June 2020 would have been increased by Rupees 21,429 million and Rupees 2,854 million respectively. Consequently, accumulated loss would have been reduced by Rupees 24,283 million.
- c) Moreover, NEPRA vide its notification No. NEPRA/R/ADG(Tariff)/TRF-100/XWDISCOS/31509-31511 dated 24th September 2020, after the reporting period, has intimated to the Federal Government for periodic adjustments for the 2nd and 3rd quarters of financial year 2019-20 amounting to Rupees 16,653 million. However, these periodic adjustments have been notified by the Ministry of Energy, Government of Pakistan on 19th October 2020 vide its notification No. S.R.O 1063(1)/2020.
- d) The Government of Pakistan, being shareholder of the Company, through Water and Power Development Authority extends support to maintain the Company's going concern status. The current mechanism of determining tariff is on the basis of minimum cost of generation. As the government determined tariff is always lower than the tariff determined by NEPRA, the difference between the actual cost of energy and the domestic charge ends up as a direct subsidy to the consumers by the Government, which is then supported by the Government through tariff

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differential subsidy. During the year tariff differential subsidy allowed, amounted to Rupees 23,400.27 million (2019: Rupees 16,964.94 million).

e) The management of the Company is confident to overcome existing temporary factors that are negatively affecting its bottom line results. Management believes that considering the mitigating factors set out in the preceding paragraphs, the going concern assumption is appropriate and has, as such, prepared these financial statements on a going concern basis.

1.4 Impact of COVID-19 on these financial statements

The pandemic of COVID-19 which rapidly spread all across the world has not only endangered human lives but has also adversely impacted the global economy. Government of Pakistan announced a temporary lockdown as a measure to reduce the spread of COVID-19. Lockdown impacted the purchasing power of general public. The Government of Pakistan announced a Prime Minister's Relief Package for Small and Medium Enterprises (SMEs) and a package for domestic consumers. Under the package for SMEs, the Government of Pakistan will bear relief allowed to commercial and industrial consumers. In this regard, the Company has Rupees 1,807 million receivables from Government of Pakistan at the reporting date. Under the relief package to domestic consumers the bills are collectible in three installments due to which the Company has booked deferred amount against the domestic consumers of Rupees 3,587 million. Apart from these, according to management's assessment there is no other significant accounting impact of these effects of COVID-19 in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

a) Statement of compliance

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

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

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

b) Accounting convention

These financial statements have been prepared under 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 land and distribution equipment, which are stated using the revaluation model.

c) Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. 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. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in the application of accounting policies are as follows:

Useful lives, patterns of economic benefits and impairments

Estimates with respect to residual values, useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairment on an annual

basis. Any change in the estimates in the future might affect the carrying amount of respective items of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

Provision for obsolescence of 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.

Income tax

In making the estimates for income tax currently payable by the Company, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgment. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Revenue from contracts with customers involving sale of goods

When recognizing revenue in relation to the sale of goods to customers, the key performance obligation of the Company is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Staff retirement benefits

The Company operates funded pension scheme, unfunded free electricity scheme and unfunded free medical facility scheme for all its employees along with entitlement for accumulated compensated absences which are encashed at the time of retirement upto maximum limit of 365 days. The calculation of the benefits requires assumptions to be made of future outcomes, the principal ones being in respect of increase in salary and the discount rates used to convert future cash flows to current values. The assumptions used for the plans are determined by independent actuary on annual basis. The amount of the expected return on plan assets is calculated using the expected rate of return for the year. Calculations are sensitive to changes in the underlying assumptions. The figure of staff retirement benefit liabilities primarily represents the increase in actuarial present value of the obligations for benefits earned on employee service during the year and the interest on the obligations in respect of employee service in previous years, net of the respected return on plan assets.

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.

d) Interpretations and amendments to published approved accounting standards that are effective in current year and are relevant to the Company

Following interpretations and amendments to published approved accounting standards are mandatory for the Company's accounting periods beginning on or after 01 July 2019:

- IFRS 9 (Amendments) 'Financial Instruments'
- Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement
- IFRIC 23 'Uncertainty over Income Tax Treatments'
- IASB's Annual Improvements to IFRSs: 2015 - 2017 Cycle

The amendments and interpretation listed above do not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

e) Standards and amendments to published approved accounting standards that are effective in current year but not relevant to the Company

There are other standards and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2019 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore, not detailed in these financial statements.

f) Amendments to published approved accounting standards that are not yet effective but relevant to the Company

Following amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2020 or later periods:

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 01 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing general purpose financial statements in accordance with IFRS.

On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework. The new Framework: re-introduces the terms stewardship and prudence; introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument; removes from the asset and liability definitions references to the expected flow of economic benefits—this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement; discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability; states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability; and discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements. The Framework is not an IFRS standard and does not override any standard, so nothing will change in the short term. The revised Framework will be used in future standard-setting decisions, but no changes will be made to current IFRS. Preparers might also use the Framework to assist them in developing accounting policies where an issue is not addressed by an IFRS. It is effective for annual periods beginning on or after 01 January 2020 for preparers that develop an accounting policy based on the Framework.

Interest Rate Benchmark Reform which amended IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

Classification of liabilities as current or non-current (Amendments to IAS 1 'Presentation of Financial Statements') effective for the annual period beginning on or after 1 January 2022. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity's right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets') effective for the annual period beginning on or after 1 January 2022 amends IAS 1 'Presentation of Financial Statements' by mainly adding paragraphs which clarify what comprise the cost of fulfilling a contract. Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16 'Property, Plant and Equipment') effective for the annual period beginning on or after 1 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc., are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2 'Inventories'. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

On 14 May 2020, IASB issued Annual Improvements to IFRSs: 2018 - 2020 Cycle, incorporating amendments to three IFRSs more specifically in IFRS 9 'Financial Instruments', relevant to the Company. The amendments clarify that an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf, when it applies the '10 percent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to de-recognize a financial liability. These amendments are effective for annual periods beginning on or after 01 January 2022.

The above amendments and improvements do not have a material impact on the Company's financial statements.

g) Standards and amendments to approved published accounting standards that are not yet effective and not considered relevant to the Company

There are other standards and amendments to approved published accounting standards that are mandatory for accounting periods beginning on or after 01 July 2020 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore, not detailed in these financial statements.

2.2 Staff retirement benefits

Defined benefit plans

The Company operates funded pension, unfunded post retirement free electricity, unfunded medical benefits and unfunded compensated absences schemes for all its permanent employees. The Company's obligations under these schemes are determined annually by a qualified actuary using Projected Unit Credit Actuarial Cost Method. Latest actuarial valuations have been carried on 30 June 2020. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Past service cost is recognized immediately in the statement of profit or loss.

Remeasurement of the net defined benefit liability (except for compensated absences), which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefits payments. Net interest expense and other expenses related to defined benefit plan is recognized in profit or loss. Remeasurement related to the compensated absences is recognized in the year of occurrence in the statement of profit or loss.

Employees' Provident Fund

For Employees' Provident Fund, the Company makes deduction from salaries of the employees and remits these amounts to the fund established by WAPDA. The provident fund related disclosure required by the Companies Act, 2017 is not shown in these financial statements as Employees' Provident Fund established by WAPDA includes the employees of other power distribution and generation companies and the figures related to the Company cannot be segregated from the whole Employees' Provident Fund.

2.3 Taxation

Current

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

Deferred

Deferred tax is accounted for using the liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.4 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

2.5 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the reporting date. Transactions in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are charged or credited to statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Pak Rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into Pak Rupees at exchange rates prevailing at the date when fair values are determined.

2.6 Provisions

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

2.7 Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for land both lease and freehold, buildings and distribution equipment, which are stated at their revalued amounts less subsequent accumulated depreciation and impairment losses, if any. Cost of property, plant and equipment consists of historical cost, borrowing cost pertaining to erection / construction period of qualifying assets and other directly attributable

cost of bringing the asset to working condition. Capital work-in-progress is stated at cost less any recognized impairment loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to statement of profit or loss during the period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings and distribution equipment, are recognized, net of deferred income tax, in other comprehensive income and accumulated in revaluation surplus in shareholders' equity. To the extent that increase reverses a decrease previously recognized in the statement of profit or loss, the increase is first recognized in the statement of profit or loss. Decreases that reverse previous increases of the same asset are first recognized in other comprehensive income to the extent of the remaining surplus attributable to the asset, all other decreases are charged to the statement of profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of profit or loss and depreciation based on the asset's original cost, net of deferred income tax, is reclassified from surplus on revaluation of operating fixed assets to accumulated loss.

Depreciation

Depreciation on property, plant and equipment is calculated by applying the straight-line method so as to write off the cost / depreciable amount of the asset over their estimated useful lives at the rates given in Note 3.1. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed of. Depreciation on operating fixed assets is charged to the statement of profit or loss except for depreciation provided on vehicles during the period of construction of operating fixed assets that is capitalized as part of the cost of operating fixed assets. The residual values and useful lives of assets are reviewed by the management, at each financial year end and adjusted if impact on depreciation is significant.

De-recognition

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

2.8 Intangible asset

Intangible assets, which are non-monetary assets without physical substance, are recognized at cost, which comprise purchase price, non-refundable purchase taxes and other directly attributable expenditure relating to their implementation and customization. After initial recognition an intangible asset is carried at cost less accumulated amortization and impairment losses, if any. Intangible asset under development is stated at cost less any recognized impairment loss.

2.9 Investments and other financial assets

a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in

which the investment is held. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income / (other expenses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Fair value through other comprehensive income (FVTOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses (and reversal of impairment losses), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is de-recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other income / (other expenses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other income / (other expenses) and impairment losses are presented as separate line item in the statement of profit or loss.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other income / (other expenses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value for financial instruments quoted in an active market, the fair value corresponds to a market price (level 1). For financial instruments that

are not quoted in an active market, the fair value is determined using valuation techniques including reference to recent arm's length market transactions or transactions involving financial instruments which are substantially the same (level 2), or discounted cash flow analysis including, to the greatest possible extent, assumptions consistent with observable market data (level 3).

Fair value through other comprehensive income (FVTOCI)

Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

Fair value through profit or loss

Changes in the fair value of equity investments at fair value through profit or loss are recognized in other income / (other expenses) in the statement of profit or loss as applicable.

Dividends from such investments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established.

2.10 Financial liabilities - classification and measurement

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in statement of profit or loss. Any gain or loss on de-recognition is also included in profit or loss.

2.11 Impairment of financial assets

The Company assesses on a forward looking basis the expected credit loss associated with its debt instruments carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade debts and other receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.12 De-recognition of financial assets and financial liabilities

a) Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such de-recognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

b) Financial liabilities

The Company derecognizes a financial liability (or a part of financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

2.13 Offsetting of financial instruments

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

2.14 Stores, spare parts 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 that have been incurred in bringing the inventories to their present locations and condition. 100% provision is made for inactive stores and spares over 3 years.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and estimated cost necessary to be incurred in order to make the sale.

2.15 Trade and other receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses. Trade receivables generally do not include amounts over due by 365 days except for receivables from Government. Securities and Exchange Commission of Pakistan (SECP) through S.R.O. 985 (I)/2019 dated 02 September 2019, deferred the applicability of the requirements contained in IFRS 9 with respect to application of Expected Credit Losses method till 30 June 2021 in respect of companies holding financial assets due from the Government of Pakistan. The aforementioned exemption is provided on the condition that such companies shall follow relevant requirements of IAS 39, in respect of above referred financial assets during the exemption period.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognized at amortized cost, less any allowance for expected credit losses.

2.16 Deferred credit

Amounts received from consumers and Government as contributions towards the cost of extension of electricity distribution network and of providing service connections are deferred and amortized 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. Amortization of deferred credit for the year is recognized as income in the statement of profit or loss.

2.17 Borrowings

Financing and borrowings are recognized initially at fair value and are subsequently stated at amortized cost. Any difference between the proceeds and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

2.18 Borrowing cost

Interest, mark-up and other charges on long term loans are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long term loans. All other interest, mark-up and other charges are recognized in statement of profit or loss.

2.19 Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value, which is normally the transaction cost.

2.20 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks on current and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in values.

2.21 Share capital

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax.

2.22 Revenue from contracts with customers

i) Revenue recognition

Sale of electricity

Revenue from the sale of electricity is recognized on supply of electricity to consumers at the rates determined by NEPRA and notified by the Government of Pakistan in official gazette from time to time.

Tariff differential subsidy

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

Rental and service income

Meter rentals are recognized on time proportion basis.

Rendering of services

Revenue from a contract to provide services is recognized over time as the services are rendered based on either a fixed price or hourly rate.

Interest

Interest income is recognized as interest accrues using the effective interest method. This is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Late payment surcharge

Surcharge on late payment is accounted for after the due date of payment has passed.

Fuel price adjustment

Fuel price adjustment is recognized on the basis of rates notified by the NEPRA on accrual basis.

Other revenue

Other revenue is recognized when it is received or when the right to receive payment is established.

ii) Contract assets

Contract assets arise when the Company performs its performance obligations by transferring goods to a customer before the customer pays its consideration or before payment is due. Contract assets are treated as financial assets for impairment purposes.

iii) Contract liabilities

Contract liability is the obligation of the Company to transfer goods to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods, a contract liability is

recognized when the payment is made. Contract liabilities are recognized as revenue when the Company performs its performance obligations under the contract.

2.23 Derivative financial instruments

Derivatives are initially recognized at fair value. Any directly attributable transaction costs are recognized in the statement of profit or loss as incurred. They are subsequently remeasured at fair value on regular basis and at each reporting date as a minimum, with all their gains and losses, realized and unrealized, recognized in the statement of profit or loss.

2.24 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in statement of profit or loss except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

2.25 Government grants

Government grants are recognized when there is reasonable assurance that entity will comply with the conditions attached to it and grant will be received.

2.26 Contingent assets

Contingent assets are disclosed when the Company has a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognized until their realization becomes certain.

2.27 Contingent liabilities

Contingent liability is disclosed when the Company has a possible obligation as a result of past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent liabilities are not recognized, only disclosed, unless the possibility of a future outflow of resources is considered remote. In the event that the outflow of resources associated with a contingent liability is assessed as probable, and if the size of the outflow can be reliably estimated, a provision is recognized in the financial statements.

2.28 Prior period errors

i) During financial year 2015-16, CPPA issued credit notes, which were booked by the Company, subsequently in 2017-18. Further, as per practice, CPPA issued 13th advice related to financial year 2015-16 which included the impact of credit notes already issued during 2015-16 and the Company was required to book net impact only. However, the Company recorded an amount of Rupees 2,288.89 million which was already booked through already issued credit notes, resulting in understatement of cost of electricity and payable to CPPA.

ii) The Company did not record supplemental charges pertaining to financial year 2015-16 amounting to Rupees 531.67 million resulting in understatement of cost of electricity and payable to CPPA.

iii) The Company did not record PEPCO management fee pertaining to financial year 2015 to 2018 amounting to Rupees 126.02 million resulting in understatement of administrative expenses and trade and other payables.

Now these errors have been rectified and the effect of this restatement has been accounted for retrospectively in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated.

30 June 2019			30 June 2018		
As previously reported	Adjustment	Restatement	As previously reported	Adjustment	Restated

----- Rupees -----

Effect on statement of financial position

Accumulated loss	47,616,169,065	2,946,578,348	50,562,747,413	42,652,648,754	2,946,578,348	45,599,227,102
Trade and other payables	(138,137,046,637)	(2,946,578,348)	(141,083,624,985)	(104,511,050,738)	(2,946,578,348)	(107,457,629,086)

iv) During the year ended 30 June 2018, the Company received debit note from CPPA against tariff rationalization surcharge and subsidy from Government of Pakistan. The Company recorded net amount against tariff rationalization surcharge resulting in overstatement of receivable from Government of Pakistan and trade and other payables amounting to Rupees 1,479.37 million.

Now this error has been rectified and the effect of this restatement has been accounted for retrospectively in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated.

30 June 2019			30 June 2018		
As previously reported	Adjustment	Restatement	As previously reported	Adjustment	Restated

----- Rupees -----

Effect on statement of financial position

Trade and other payables	(138,137,046,637)	1,479,364,074	(136,657,682,563)	(104,511,050,738)	1,479,364,074	(103,031,686,664)
Receivable from Government of Pakistan	6,328,113,489	(1,479,364,074)	4,848,749,415	(104,511,050,738)	(1,479,364,074)	4,380,332,889

23

100%

3.1.1 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 equipment as at 30 June 2016 were performed by F.K.S Building Services, independent valuers not related to the Company. Fair valuation of land was performed on 30 June 2014 by the same valuer. 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 labor 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 assessment 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, carrying values would have been as follows:

	NOTE	2020 Rupees	2019 Rupees
Freehold land		206,714,260	206,714,260
Leasehold land		56,887,269	56,887,269
Buildings on freehold and leasehold land		3,489,081,370	3,059,683,723
Distribution equipment		52,740,307,711	46,848,900,722

3.1.2 Depreciation charge for the year has been allocated as follows:

Administrative expenses	27	130,618,556	84,992,218
Distribution costs	28	5,219,164,421	4,529,343,369
Customer service costs	29	134,592,305	84,992,218
Capital work-in-progress	3.2.4	3,973,749	5,629,478
		<u>5,488,349,031</u>	<u>4,704,957,283</u>

3.1.3 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 buildings on the land. Later on, the Company assumed the ownership of the land, building and grid station, currently having carrying value of Rupees 232.77 million as at 30 June 2020 (2019: Rupees 234.438 million) and recognized these assets in its books of account, during the year ended 30 June 2009.

On 24 November 2010, National Electric Power Regulatory Authority (NEPRA) granted a license to BTPL for distribution of electricity to licensed locations. The Company considers the territory granted under distribution license 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 (IHC) to challenge NEPRA's decision of granting license to BTPL. In the meantime, BTPL approached Ministry of Water and Power (MoWP), Government of Pakistan 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 IHC 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 IHC against the decision of NEPRA to grant distribution license to BTPL, which was filed on 01 September 2012. During the year on 12 October 2019 Court allowed impleading of Privatization Commission of Pakistan as a necessary party to the case at the request of Attorney General. Subsequent to the year end on 20 October 2020, in the light of the orders issued by IHC dated 25 June 2020, 01 July 2020 and 29 July 2020 NEPRA cancelled the distribution license of BTPL with effect from 16 October 2020. Further NEPRA directed the Company to initiate the process of handing / taking over of entire electrical distribution system / network of BTPL and enter into an O&M agreement with BTPL in terms of the NEPRA (Supply of Electric Power) Regulations 2015 for smooth transition of distribution services from BTPL to the Company.

3.1.4 (i) On 01 March 2019, the Company entered into an Authorization and Interest agreement with Power Holding Limited (PHL) and Meezan Bank Limited (MBL), in which Company authorized PHL to carry out "Certain Actions" in relation to Relevant Transaction Assets representing freehold land at Rawalpindi, Islamabad, Jhelum and Taxila, having combined area of 853 kanal and 19 marla amounting to Rupees 7,215.64 million. Certain Actions include selling the Relevant Transaction Assets to MBL and creating a security interest over the same for the purpose of enabling PHL to raise financing through the sukuk issue. In addition to this agreement, PHL entered into an Asset Purchase Agreement with MBL for selling the Relevant Transaction Assets to MBL which include the land of the Company and of other distribution and generation companies for a total purchase price of Rupees 200,000 million against which sukuk certificates will be issued by PHL for a period of ten years. However, the Company holds the title of the Relevant Transaction Assets as title agent.

- (ii) On 20 May 2020, the Company entered into an Authorization and Interest agreement with Power Holding Limited (PHL) and Meezan Bank Limited (MBL), in which Company authorized PHL to carry out "Certain Actions" in relation to Relevant Transaction Assets representing freehold land at Rawalpindi, Islamabad, Jhelum and Taxila, having combined area of 2,666 kanal and 15 marla amounting to Rupees 3,990.41 million. Certain Actions include selling the Relevant Transaction Assets to MBL and creating a security interest over the same for the purpose of enabling PHL to raise financing through the sukuk issue. In addition to this agreement, PHL entered into an Asset Purchase Agreement with MBL for selling the Relevant Transaction Assets to MBL which include the land of the Company and of other distribution and generation companies for a total purchase price of Rupees 200,000 million against which sukuk certificates will be issued by PHL for a period of ten years. However, the Company holds the title of the Relevant Transaction Assets as title agent.

3.1.5 Lands amounting to Rupees 17,713 million (2019: Rupees 17,713 million) are under the possession of the Company but the Company does not have the title of the lands amounting to Rupees 11,971 million (2019: Rupees 11,971 million), out of which, lands amounting to Rupees 8,995 million (2019: Rupees 8,995 million) are under the title of WAPDA.

3.1.6 During the year the Company purchased vehicles amounting to Rupees 4.34 million from PEPCO, however, legal titles were not transferred in the name of the Company.

	NOTE	2020 Rupees	2019 Rupees
3.2 Capital work-in-progress			
Civil works		192,254,990	272,816,499
Distribution equipment		3,214,950,870	6,074,448,663
Distribution equipment - deposit		3,709,940,970	3,951,895,918
	3.2.1	6,924,891,840	10,026,344,581
	3.2.2	7,117,146,830	10,299,161,080
Capital stores	3.2.3	3,446,408,462	2,904,413,899
Advances to suppliers		27,247,435	33,902,002
		10,590,802,727	13,237,476,981

3.2.1 Breakup of distribution equipment is as follows:

Material		4,531,599,987	5,196,910,305
Labour		532,055,828	493,776,239
Overheads:			
Borrowing costs	3.2.1.1	-	276,839,242
Other charges		884,102,732	1,295,240,404
		884,102,732	1,572,079,646
Contract work		977,133,293	2,763,578,391
		6,924,891,840	10,026,344,581

3.2.1.1 These represent borrowing costs incurred specifically to finance the construction of grid station projects. The capitalization rate used was Nil (2019: 15%) per annum.

	NOTE	2020 Rupees	2019 Rupees
3.2.2 Movement in civil works and distribution equipment			
Balance as at 01 July		10,299,161,080	8,111,793,452
Add: Additions during the year		6,769,901,551	9,726,002,436
		17,069,062,631	17,837,795,888
Less: Transferred to operating fixed assets during the year	3.1		
- Building on freehold land		(457,716,751)	(226,737,872)
- Building on leasehold land		(8,577,000)	-
- Distribution equipment		(9,485,622,050)	(7,311,896,936)
		(9,951,915,801)	(7,538,634,808)
Balance as at 30 June		7,117,146,830	10,299,161,080

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

3.2.4 Depreciation capitalized related to capital work-in-progress was Rupees 3.97 million (2019: Rupees 5.63 million) as given in Note 3.1.2.

4 INTANGIBLE ASSET UNDER DEVELOPMENT

This represents expenditure incurred for Enterprise Resource Planning (ERP) system, which is in the implementation phase.

	NOTE	2020 Rupees	2019 Rupees
5 LONG TERM LOANS			
Considered good - secured			
To employees			
- BPS 16 and above		116,637,247	86,113,978
- BPS 1-15		121,308,972	93,067,629
		237,946,219	159,181,607
Less: Current portion shown under current assets	8	(46,441,077)	(37,120,736)
		191,505,142	122,060,871

5.1 These represent long term loans given to employees for purchase / construction of houses, plots, cars, motor cycles and bicycles. House building and plot loans are repayable in 10 years, car and motor-cycle loans in 5 years and bicycle loans in 4 years. These loans are repayable in equally monthly installments. Loans are secured by a mortgage of immovable property and hypothecation of vehicles. As per Company's policy, for employees of BPS 16 and above interest is applicable equal to the profit rate applied on 'General Provident Fund' which is 12% (2019: 14.35%) per annum. Loan to employees have not been discounted as required by IFRS 9 "Financial Instruments" as its effect is immaterial.

	NOTE	2020 Rupees	2019 Rupees
6 STORES, SPARES AND LOOSE TOOLS			
Stores, spares and loose tools		1,545,138,572	1,306,436,232
Provision against slow moving / obsolete items	6.1	(135,830,855)	(149,697,698)
		1,409,307,717	1,156,738,534

6.1 Provision against slow moving / obsolete items

Balance at the beginning of the year	149,697,698	149,697,698
Reversal for the year	(13,866,843)	-
Balance at the end of the year	135,830,855	149,697,698

7 TRADE DEBTS

Considered good	7.1, 7.2	128,660,358,568	96,970,187,670
Considered doubtful		565,070,232	565,070,232
		129,225,428,800	97,535,257,902
Less: Allowance for expected credit losses	7.4	(565,070,232)	(565,070,232)
		128,660,358,568	96,970,187,670

7.1 These include an amount of Rupees 100,045 million (2019: Rupees 75,751 million), receivable from the Government of Azad Jammu and Kashmir (GoAJK), representing the differential of the amount billed to GoAJK on tariff notified by Government of Pakistan (GoP) 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 Rupees 2.32 per unit which was increased to Rupees 2.59 per unit subsequently. However, the Company billed electricity supplied to GoAJK, on the basis of tariffs notified by the GoP from time to time. The GoAJK has been settling its dues at a tariff of Rupees 2.59 per unit and contesting the applicability of tariff approved by NEPRA and notified by the GoP by claiming that AJK does not fall under notified tariff.

In the year ended 30 June 2019, Ministry of Energy (Power Division) submitted a summary regarding cash and non-cash settlement for power sector @ Rupees 3/KWH subsidy announced by the Prime Minister for the Industrial Support Package and GoAJK. ECC of the Cabinet in its meeting held on 19 June 2019, considered the summary and approved that adjustment of payable Industrial Support Package and GoAJK subsidy was to be made through memorandum authorization by Finance Division pursuant to which receivable from GoAJK amounting to Rupees 80,580 million net of charges amounting to Rupees 12,352 million would be settled in cash, non-cash adjustment against re-lent loan and equity.

Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans till 30 June 2018.

Finance Division through memorandum authorization No. F.1(5)CF-1/2008-09/1289 dated 26 September 2019 intimated that receivable from GoAJK of three DISCO's for the period from 2007 to June 2019 of Rupees 111,889.023 million are payable by the Finance Division. Further pursuant to the above referred ECC's decision, Finance Division has approved the adjustment of GoAJK claims upto the extent of Rupees 66,989.505 million against equity of equivalent amount injected during June 2013 of Rupees 342 billion for clearance of circular debt. Further, claims of AJK subsidy beyond 30 June 2019 were to be dealt in accordance with the agreement with GoAJK. Accordingly, the management is confident that the remaining amount will be recovered in near future.

- 7.2 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 18.
- 7.3 Trade debts include the amount receivable from domestic consumers up to 300 units, in respect of Prime Minister's Relief Package for deferred payment of electricity bill due to COVID-19 pandemic. As per the directions by Government of Pakistan, the bills are collectable in the form of three installments. Trade debts include the deferred amount against the consumers, who have opted for the installments. The said amount accumulates to a total of Rupee 3,587 million. Late Payment Surcharge (LPS) will not be levied in case of non-payment by such consumers. In addition to this, no mark-up will be charged on the deferred amount.

7.4 Allowance for expected credit losses

	NOTE	2020 Rupees	2019 Rupees
Balance as at 01 July		565,070,232	565,070,232
Expected credit loss for the year		-	-
Balance as at 30 June		<u>565,070,232</u>	<u>565,070,232</u>

7.5 As at 30 June, ageing analysis of these trade debts is as follows:

Not past due yet		9,368,030,000	3,121,250,751
Due upto 2 months		8,968,000,000	9,429,708,223
2 to 3 months		181,980,000	35,002,264
3 to 6 months		165,360,000	47,243,369
Deferred arrears (COVID-19 3 to 6 months)		3,587,440,000	-
6 months to 1 year		81,510,000	44,602,877
1 year to 3 years		91,698,800	74,618,136
3 years and above		70,000	70,184,862
Balances due from Government		106,330,690,000	84,426,296,175
Deferred arrears (1 year to 3 years)		<u>450,650,000</u>	<u>286,351,245</u>
		129,225,428,800	97,535,257,902
Less: Allowance for expected credit losses		<u>565,070,232</u>	<u>565,070,232</u>
		<u>128,660,358,568</u>	<u>96,970,187,670</u>

8 ADVANCES

Considered good

Suppliers		318,872,863	220,212,234
Employees against operating expenses		71,348,098	59,984,948
Current portion of long term loans	5	<u>46,441,077</u>	<u>37,120,736</u>
		<u>436,662,038</u>	<u>317,317,918</u>

9 RECEIVABLE FROM GOVERNMENT OF PAKISTAN

	NOTE	2020 Rupees	2019 Restated Rupees
Balance as at 01 July	9.1	4,848,749,415	4,380,332,889
Tariff differential subsidy recognized during the year	9.2	23,400,270,652	16,964,938,061
Adjusted against tariff rationalization surcharge and credit notes received from CPPA(G)		<u>(22,597,483,214)</u>	<u>(16,496,521,535)</u>
		5,651,536,853	4,848,749,415
Prime Minister's relief package for Small and Medium Enterprises	9.3	<u>1,806,996,186</u>	-
Balance as at 30 June		<u>7,458,533,039</u>	<u>4,848,749,415</u>

- 9.1 This includes subsidy recognized of Rupees 2,814.65 million in previous financial years 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.

In previous years, MoWP vide its letter No. PF-05(15-FPA)/2012, directed the Company to include these claims in future tariff petition to be filed with NEPRA.

- 9.2 This represents tariff differential subsidy receivable from Government of Pakistan (GoP) as a difference between rates determined by NEPRA under different tariff determinations and rates notified by the GoP which are charged to the consumers.
- 9.3 This relief was allowed under the Prime Minister's Relief Package to Small and Medium Enterprises (SMEs). This relief was given to commercial and industrial consumers based upon the electricity consumption from May 2019 to July 2019. Maximum relief allowed to commercial consumers and industrial consumers was upto Rupees 100,000 and Rupees 450,000 upto 3 months (i.e. October 2020), provided that the connected load of commercial consumers and industrial consumers is upto 5KW and 70KW respectively.

10 SECURITY DEPOSITS

These include deposit related to a court case titled "Ball Bibi vs "IESCO" in which a woman filed case against the Company before Civil Judge, Rawalpindi regarding compensation of sudden death of her son due to electric shock. The Company filed a civil revision before Lahore High Court, Rawalpindi Bench, Rawalpindi and the Court vide order dated 03 February 2015 remanded back the case to lower court and further instructed to submit bank guarantee. The Company submitted a bank guarantee of Rupees 40 million. The case was again decided against the Company by additional district and session judge on 31 January 2017 and reduced the claim amount to Rupees 33.65 million.

The Company filed a civil revision before Lahore High Court, Rawalpindi Bench, Rawalpindi, who granted stay order and directed to submit Rupees 16.82 million with registrar Lahore High Court and to furnish bank guarantee of the remaining amount of Rupees 16.82 million. Subsequent to the year end Civil Judge, Rawalpindi through order dated 20 June 2020 directed to attach the Company's bank account to the extent of Rupees 2.12 million as claimed by Ball Bibi. Further an amount of Rupees 12.72 million has been paid to Ball Bibi. The payment and interest are disclosed as "Compensation" in administrative expenses.

	NOTE	2020 Rupees	2019 Rupees
11 OTHER RECEIVABLES			
Unsecured, considered good			
Receivable from related parties:			
- Free electricity and other transactions	11.1	1,766,400,540	1,648,437,832
- Pensions	11.1	1,555,444,144	1,474,285,474
- Materials supplied	11.1	44,825,745	16,713,038
- Water and Power Development Authority - against workers welfare fund		286,783,031	248,991,887
		3,653,453,460	3,388,428,231
Receivable from Trust Investment Bank Limited	11.2	30,790,759	30,790,759
Interest accrued on bank deposits		40,397,114	8,615,846
Others		55,356,358	62,129,182
		<u>3,779,997,691</u>	<u>3,489,964,018</u>

11.1 This represents the net amount receivable from following related parties on account of material supplied, free electricity provided and pension paid to the retired employees of these companies residing within the Company's territorial jurisdiction:

	Free electricity		Pension		Material supplied	
	2020 Rupees	2019 Rupees	2020 Rupees	2019 Rupees	2020 Rupees	2019 Rupees
Water and Power Development Authority	542,099,296	542,099,295	1,084,616,080	1,062,488,159	-	-
Water and Power Development Authority - electricity	186,440,444	148,674,572	-	-	-	-
National Transmission and Despatch Company Limited	998,339,335	923,608,041	339,663,616	338,754,051	-	-
Quetta Electric Supply Company Limited	14,570,667	12,663,693	31,536,487	27,251,092	-	-
Northern Power Generation Company Limited (GENCO-III)	8,145,263	7,480,121	23,465,721	23,126,475	-	-
Central Power Generation Company Limited (GENCO-II)	6,085,224	5,410,234	20,678,521	12,644,472	-	-
Tribal Areas Electric Supply Company Limited	6,294,643	5,350,435	3,038,757	2,227,898	520,240	520,240
Jamshoro Power Company Limited (GENCO-I)	2,030,409	1,824,453	3,583,180	1,544,993	-	-
Lakhta Power Generation Company Limited (GENCO- V)	1,404,756	1,325,993	1,026,661	601,776	-	-
Pakistan Electric Power Company (Private) Limited	990,503	-	20,513,295	20,513,295	-	-
Multan Electric Power Company Limited	-	-	3,870,925	2,668,089	3,200,000	3,200,000
Hyderabad Electric Supply Company Limited	-	-	21,540,163	10,345,519	39,270	39,270
Sukkur Electric Power Company Limited	-	-	1,667,829	828,933	212,750	212,750
Power Information Technology Company (Private) Limited	-	-	-	2,047,623	-	-
GENCO Holding Company Limited	-	-	243,099	243,099	-	-
Faisalabad Electric Supply Company Limited	-	-	-	-	6,895,289	12,740,778
Gujranwala Electric Power Company Limited	-	-	-	-	33,958,196	-
	1,768,400,540	1,648,437,832	1,555,444,144	1,474,285,474	44,825,745	16,713,036

The maximum aggregate amount due from associated undertakings at the end of any month during the year was as follows:

Water and Power Development Authority	542,099,296	956,027,619	1,084,616,080	1,062,488,159	-	-
Water and Power Development Authority - electricity	204,527,532	-	-	-	-	-
National Transmission and Despatch Company Limited	998,339,335	923,608,041	383,103,948	316,440,653	-	-
Quetta Electric Supply Company Limited	14,570,667	12,663,693	34,260,987	28,706,344	-	-
Northern Power Generation Company Limited (GENCO-III)	8,145,263	7,480,121	27,388,276	24,789,537	-	-
Central Power Generation Company Limited (GENCO-II)	6,085,224	5,410,234	20,678,521	15,018,540	-	-
Tribal Areas Electric Supply Company Limited	6,294,643	5,350,435	4,519,751	2,227,898	-	-
Jamshoro Power Company Limited (GENCO-I)	2,030,409	1,824,453	3,627,150	1,746,536	520,240	27,875,000
Lakhta Power Generation Company Limited (GENCO- V)	1,404,756	1,325,993	1,058,601	601,776	-	-
Pakistan Electric Power Company (Private) Limited	990,503	-	20,513,295	22,788,207	-	-
Multan Electric Power Company Limited	-	-	30,009,598	21,937,032	3,200,000	4,221,720
Hyderabad Electric Supply Company Limited	-	-	25,647,077	18,062,701	39,270	39,270
Power Information Technology Company (Private) Limited	-	-	1,697,974	1,823,119	7,768,750	212,750
GENCO Holding Company Limited	-	-	2,047,623	2,047,623	-	-
Faisalabad Electric Supply Company Limited	-	-	243,099	243,099	-	-
Gujranwala Electric Power Company Limited	-	-	-	27,438,266	12,740,778	12,740,778
	-	-	-	37,717,076	33,958,196	37,400,000

- 11.2 These represent investment made in the Term deposit receipts (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 Rupees 2.15 million in cash, and for the remaining principal amount of Rupees 96.68 million and accumulated interest thereon amounting to Rupees 10.29 million, TIBL transferred the possession of certain properties in the name of the Company representing various lands and buildings.

Further, under another separate agreement dated 04 July 2014, it was agreed that if the Company would sell or transfer 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, then 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 the year 2015, the Company was able to obtain the legal transfer of only one property in its name, having current market value of Rupees 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 30 June 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 the Company and TIBL. The Company has filed a reference with National Accountability Bureau (NAB).

During the year 2017, another property having value of Rupees 49 million was transferred in the name of the Company. Matter for the remaining settlement is pending with NAB.

An amount of Rupees 30.79 million representing the principal amount of investment not recovered from TIBL so far is being carried as receivable from TIBL 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. Provision has not been recognized based on management's view that the amount will be fully recovered.

	NOTE	2020 Rupees	2019 Rupees
12 RECOVERABLE FROM TAX AUTHORITIES			
Sales tax		-	218,864,930
Other receivables from tax authorities	12.1	21,161,640,050	21,542,093,209
Advance income tax		1,508,228,947	871,668,339
		<u>22,669,868,997</u>	<u>22,632,626,478</u>

- 12.1 These include amounts recovered by the taxation authorities, alleging that the Company, in the current or prior years, has either failed to recover sales tax from various customers or have adjusted incorrect input tax in its returns related to subsidy provided by the GoP to the company. 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 a favorable outcome of these pending cases and accordingly, a provision has not been recorded in the financial statements against these balances.

	NOTE	2020 Rupees	2019 Rupees
13 CASH AND BANK BALANCES			
Cash			
In hand:		24,791	9,227
At banks in:			
- Deposit accounts	13.1 & 13.2	3,359,277,579	1,741,936,663
- Deposit work / capital contribution accounts	13.1	323,564,957	166,900,587
- Current accounts		1,521,506,656	1,424,045,995
		5,204,349,192	3,332,883,255
		<u>5,204,373,983</u>	<u>3,332,892,482</u>

- 13.1 These carry mark-up ranging from 4% to 11.25% per annum (2019: 7% to 11.25% per annum).

- 13.2 These include an amount of Rupees 2,025 million (2019: Rupees 1,095 million) kept in separate bank accounts relating to customers' and employees' security deposits.

14 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

2020	2019		2020 Rupees	2019 Rupees
---Number of shares---				
1,000	1,000	Ordinary shares of Rupees 10 each, issued for consideration in cash	10,000	10,000
579,824,334	579,824,334	Ordinary shares of Rupees 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>

- 14.1 The President of Pakistan, WAPDA and the IESCO Employees Trust Fund, respectively hold 1,000 (2019: 1,000), 510,245,414 (2019: 510,245,414) and 69,578,920 (2019: 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.

15 DEPOSIT FOR SHARES

This represents credit of Rupees 20,250,770,096 (2019: Rupees 20,250,770,096) received by the Company in financial year 2014 from Central Power Purchase Agency (Guarantee) Limited (CPPA-G) in pursuance of letter No. F.1(5)-CF-1/2012-13/1017 dated 02 July 2013 from Ministry of Finance as GoP investment against circular debt of Rupees 341 billion. Hence this was treated as GoP equity investment in the Company.

	2020 Rupees	2019 Rupees
16 SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - NET OF DEFERRED INCOME TAX		
Opening balance	30,534,963,137	31,736,024,864
Transferred from surplus on revaluation of operating fixed assets to accumulated loss on disposal of assets	(153,839)	(649,008)
	30,534,809,298	31,735,375,856
Transferred to accumulated loss in respect of incremental depreciation charged during the year	(1,689,808,044)	(1,690,722,140)
Related deferred income tax liability	490,044,333	490,309,421
	(1,199,763,711)	(1,200,412,719)
	<u>29,335,045,587</u>	<u>30,534,963,137</u>

- 16.1 This represents surplus resulting from revaluation of freehold land and leasehold land carried out on 30 June 2014 and building and distribution equipment carried out on 30 June 2016 by Messers FKS Building services, an independent valuer enrolled on panel of the State Bank of Pakistan.

	NOTE	2020 Rupees	2019 Rupees
17 LONG TERM LOANS			
From Government of Pakistan			
Asian Development Bank - Tranche I	17.1	920,027,451	920,027,451
Asian Development Bank - Tranche II	17.2	1,422,445,365	1,422,445,365
International Bank for Reconstruction and Development	17.3	1,813,122,986	1,813,122,986
Asian Development Bank - Tranche III	17.4	2,240,254,225	2,240,254,225
Earthquake Reconstruction and Rehabilitation Authority	17.5	292,151,263	280,858,259
Asian Development Bank - Tranche IV	17.6	1,933,887,407	1,933,887,407
		8,621,888,697	8,610,595,693
Current portion shown under current liabilities		(800,836,838)	(800,551,177)
Overdue portion shown under current liabilities		(1,555,460,089)	(757,020,000)
		(2,356,296,927)	(1,557,571,177)
		<u>6,265,591,770</u>	<u>7,053,024,516</u>

- 17.1 This represents re-lent portion 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 \$ 30.05 million has been allocated to the Company vide 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 (2019: US \$ 23.31 million) up to the year end. The loan carries interest at 17% per annum 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 \$ 23.31 million via letter No. 5654 from ADB dated 17 July 2013.

The loan is repayable in 26 semi-annual installments, excluding a grace period of 2 years, ending on 15 August 2023 with first repayment due on 15 February 2011. No repayment was made till 30 June 2018. However, ECC of the Cabinet in its meeting held on 10 June 2019, decided that receivable from GoAJK will be settled in cash, non-cash adjustment against re-lent loan and injection of equity.

Further, Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans. As a result, the Company adjusted over due principal and mark-up outstanding till 30 June 2018 amounting to Rupees 1,136.77 million and Rupees 1,728.67 million respectively against receivable from GoAJK.

The Company has withheld the principal repayments along with related interest accrued up to 30 June 2020, aggregating to Rupees 334.56 million and Rupees 1,405.78 million respectively. However, the principal amount due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

- 17.2 This represents re-lent portion of the total term finance facility obtained by the GoP from ADB for power distribution and enhancement projects. Out of the total finance facility of US \$ 172.30 million, an amount of US \$ 19.56 million has been allocated to the Company vide ADB letter dated 26 March 2018, against which the Company has utilized US \$ 18.33 million (2019: US \$ 18.33 million) up to the year end. The loan carries interest at 15% per annum 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 34 semi-annual installments, excluding a grace period of 3 years, ending on 01 December 2030, with a first repayment due on 01 June 2014. No repayment was made till 30 June 2018. However, ECC of the Cabinet in its meeting held on 10 June 2019, decided that receivable from GoAJK will be settled in cash, non-cash adjustment against re-lent loan and injection of equity.

Further, Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans. As a result, the Company adjusted over due principal and mark-up amounting to Rupees 418.669 million and Rupees 1,064.201 million respectively against receivable from GoAJK.

The Company has withheld the principal repayments along with related interest accrued up to 30 June 2020, aggregating to Rupees 234.20 million and Rupees 684.95 million respectively. However, the principal amount due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

- 17.3 This represents re-lent portion 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 \$ 40.974 million (2019: US \$ 40.974 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 the Company to a figure of US \$ 40.98 via the letter from World Bank dated 16 July 2015 and this closes the total loan from the World Bank.

The loan is repayable in 26 semi-annual installments, excluding a grace period of 2 years, ending on 15 March 2024 with first repayment due on 15 September 2011. No repayment was made till 30 June 2018. However, ECC of the Cabinet in its meeting held on 10 June 2019, decided that receivable from GoAJK will be settled in cash, non-cash adjustment against re-lent loan and injection of equity.

Further, Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans. As a result, the Company adjusted over due principal and mark-up outstanding amounting to Rupees 1,874.765 million and Rupees 3,445.091 million respectively against receivable from GoAJK.

The Company has withheld the principal repayments along with related interest accrued up to 30 June 2020, aggregating to Rupees 604.37 million and Rupees 2,306.21 million respectively. However, the principal amount due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

- 17.4 This represents re-lent portion 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 \$ 20.221 million (2019: US \$ 20.221 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. No repayment was made till 30 June 2018. However, ECC of the Cabinet in its meeting held on 10 June 2019, decided that receivable from GoAJK will be settled in cash, non-cash adjustment against re-lent loan and injection of equity.

Further, Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans. As a result, the Company adjusted over due principal and mark-up amounting to Rupees 35.626 million and Rupees 474.227 million respectively against receivable from GoAJK.

The Company has withheld the principal repayments along with related interest accrued up to 30 June 2020, aggregating to Rupees 219.22 million and Rupees 693.84 million respectively. However, the principal amount due and is due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

- 17.5 This represents re-lent portion 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. upto 15 December 2025 and thereafter 2% interest 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 2016. No payment on this loan has yet been made. No repayment was made till 30 June 2018. However, ECC of the Cabinet in its meeting held on 10 June 2019, decided that receivable from GoAJK will be settled in cash, non-cash adjustment against re-lent loan and injection of equity.

Further, Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans. As a result, the Company adjusted over due principal and mark-up amounting to Rupees 5.635 million and Rupees 14.857 million respectively against receivable from GoAJK.

The Company has withheld the principal repayments along with related interest accrued up to 30 June 2020, aggregating to Rupees 18.07 million and Rupees 14.21 million respectively. However, the principal amount due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

- 17.6 This represents re-lent portion 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 \$ 17.810 million has been allocated to the Company vide ADB letter dated 23 February 2017, against which the Company has utilized US \$ 16.06 million (2019: US \$ 16.06 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 01 December 2038, with a first repayment due on 01 June 2018. No repayment was made till 30 June 2018. However, ECC of the Cabinet in its meeting held on 10 June 2019, decided that receivable from GoAJK will be settled in cash, non-cash adjustment against re-lent loan and injection of equity.

Further, Finance Division vide its letter No. F.1(14)CF-1/2015-16/1290 dated 26 September 2019, allowed adjustment of GoAJK receivables amounting to Rupees 10,285.945 million against foreign re-lent loans. As a result, the Company adjusted over due principal and mark-up amounting to Rupees Nil and Rupees 87.223 million respectively against receivable from GoAJK.

The Company has withheld the principal repayments along with related interest accrued up to 30 June 2020, aggregating to Rupees 145.04 million and Rupees 584.18 million respectively. However, the principal amount which has fallen due for repayment within next 12 months of the reporting date, has been transferred to the current portion.

18 LONG TERM SECURITY DEPOSITS

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

19 STAFF RETIREMENT BENEFITS

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

19.1 The amounts recognized in the statement of financial position

	Present value of defined benefit obligations		Fair value of plan assets		Changes in the present value of defined benefit obligations:	
	2020	2019	2020	2019	2020	2019
Balance at the beginning of the year	38,308,394,130	35,769,888,650	3,413,771,340	-	2,700,639,062	1,727,324,129
	(2,408,145,748)	(520,770,567)	-	-	1,540,788,534	1,540,788,534
	35,900,248,382	35,249,088,283	3,413,771,340	-	1,789,317,041	1,696,888,232
Balance at the end of the year	41,708,180,678	41,187,410,111	-	-	-	-
	(2,408,145,748)	(520,770,567)	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
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	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994,930	40,666,639,544	-	-	-	-
	39,299,994					

19.4 Amounts recognized in the statement of profit or loss against defined benefit obligations are:

Current service cost	705,570,159	575,238,504	48,787,309	55,374,506	40,908,406	40,908,406	273,319,169	214,778,055	1,088,585,043	988,297,571
Interest cost	4,250,182,370	3,131,448,778	332,446,504	375,681,769	181,275,722	181,275,722	-	-	4,783,907,599	3,708,517,961
Interest income on plan assets	(159,374,918)	(157,023,896)	(17,529,069)	(10,471,701)	(53,615,388)	(53,615,388)	-	-	(159,374,918)	(1,892,188,338)
Actuarial losses / (gain) on obligation	283,304,319	(328,118,879)	349,427,534	(767,139,107)	17,988,855	17,988,855	-	-	(1,728,906,000)	(320,000,000)
Contributions made	(1,728,300,000)	(330,000,000)	-	-	-	-	-	-	-	-
Balance at the end of the year	35,900,248,382	35,249,088,283	3,413,771,340	2,700,639,062	2,700,639,062	1,727,324,129	1,540,788,534	1,540,788,534	1,789,317,041	1,696,888,232
Actuarial gain / (loss) on obligations	(293,807,592)	328,118,879	(349,427,534)	767,139,107	(17,988,855)	(17,988,855)	-	-	(661,200,971)	1,428,803,226
Actuarial gain / (loss) on assets	263	-	-	-	-	-	-	-	263	-
Actuarial gain / (loss) recognized	(293,807,329)	328,118,879	(349,427,534)	767,139,107	(17,988,855)	(17,988,855)	-	-	(661,200,708)	1,428,803,226

19.5 The principal actuarial assumptions at the reporting date were as follows

Discount rate	8.50%	12.4%	8.50%	12.4%	8.50%	12.4%	8.50%	12.35%	11.35%	11.35%
Future salary increase	7.50%	11.4%	-	-	-	-	-	-	-	-
Indexation rate	5%	4.3%	-	-	-	-	-	-	-	-
Future medical cost increase	-	-	-	-	-	-	-	-	-	-
Exposure inflation rate	-	-	-	-	-	-	-	-	-	-
Electricity inflation rate	-	-	-	-	-	-	-	-	-	-
Expected change in the statement of profit or loss for the next financial year (Rupees)	-	-	-	-	-	-	-	-	-	-

19.6 Risks associated with defined benefit plans

Discount rate risk

The plan exposes the Company to the risk of fall in discount rate. A fall in discount rate will result in an increase in the liability of defined benefit scheme.

Investment risks:

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives

Longevity risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk:

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal and mortality risk:

The risk of actual withdrawals and mortality varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

19.7 Sensitivity analysis

The calculations of the defined benefit obligations is sensitive to the significant actuarial assumptions set out in note 19.5. 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	Compensated absences
	Rupees			
Current liability	38,308,604,130	3,413,771,340	1,727,324,129	1,789,317,041
Discount rate +1%	33,220,815,825	3,012,490,766	1,518,004,575	1,613,857,435
Discount rate -1%	43,568,482,211	3,793,849,673	1,938,664,650	1,961,474,475
Salary increase +1%	42,921,562,953	-	1,941,191,003	1,968,631,743
Salary decrease -1%	33,501,226,949	-	1,518,131,116	1,610,845,951
Pension increase rate +1%	40,683,737,587	-	-	-
Pension decrease rate -1%	36,561,731,782	-	-	-
Medical inflation rate increase +1%	-	3,580,022,005	-	-
Medical inflation rate decrease -1%	-	3,311,358,200	-	-
Electricity rate +1%	-	-	1,810,403,768	-
Electricity rate -1%	-	-	1,667,563,363	-
Duration of scheme (years)	9.49	9.49	9.49	9.49

The above sensitivity analysis 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.

20 DEFERRED INCOME TAX LIABILITY

This comprises of following:

Taxable temporary differences

Accelerated tax depreciation	9,437,265,787	8,606,275,382
Surplus on revaluation of operating fixed assets - net of deferred income tax	4,747,114,766	5,237,277,010
	14,184,370,553	13,843,552,392

Deductible temporary differences

Staff retirement benefits	(12,421,532,559)	(11,944,348,932)
Unused tax losses	(53,890,687,587)	(46,096,503,708)
Provision against slow moving / obsolete items	(39,390,948)	(43,412,332)
Allowance for expected credit losses	(163,870,367)	(163,870,367)
	(66,515,481,461)	(58,248,135,339)
	(52,331,110,908)	(44,404,582,947)
Deferred income tax asset not recognized	52,331,110,908	44,404,582,947
	-	-

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 Rupees 52,331.11 million (2019: Rupees 44,404.58 million).

The total deferred tax asset for unused tax losses on 30 June 2020 will expire on 30 June 2026.

		2020 Rupees	2019 Rupees
21	DEFERRED CREDIT		
	Balance at the beginning of the year	40,916,290,978	37,645,419,344
	Additions during the year	2,833,834,362	3,270,871,634
		<u>43,750,125,340</u>	<u>40,916,290,978</u>
	Accumulated amortization		
	Balance at the beginning of the year	(13,918,753,312)	(12,486,683,128)
	For the year	(1,531,254,386)	(1,432,070,184)
		<u>(15,450,007,698)</u>	<u>(13,918,753,312)</u>
	Balance at the end of the year	<u>28,300,117,642</u>	<u>26,997,537,666</u>

21.1 This represents the capital contributions received from consumers and the Government against which assets are constructed by the Company.

		2020	2019
	NOTE	Rupees	Restated Rupees
22	TRADE AND OTHER PAYABLES		
Creditors:			
Associated undertaking - Central Power Purchase Agency (Guarantee) Limited	22.1	146,509,920,176	105,877,495,766
Others	22.2	1,318,420,867	773,736,267
		147,828,341,043	106,651,232,033
Other payables:			
Receipts against deposit works	22.3	9,866,116,067	9,689,043,685
Advances from customers		1,020,424,888	747,211,274
Workers' Profit Participation Fund (WPPF)	22.4	1,179,422,289	1,179,422,289
Due to related parties on account of:			
Free electricity	22.5	1,436,721,415	1,397,489,567
Pension	22.5	424,689,130	479,007,046
Materials purchased	22.5	95,457,662	31,832,442
Use of system charges	22.6	1,436,168,821	822,799,983
		3,393,035,028	2,731,129,038
Capital contributions awaiting connections		378,438,249	477,494,100
Accrued liabilities		753,261,578	643,392,067
Sales tax		569,496,241	-
Retention money - contractors / suppliers		243,814,524	284,184,104
Government surcharges payable:			
- Realized			
Equalization surcharge	22.7	1,639,347,665	1,669,139,661
Inter disco tariff realization surcharge		2,024,875,771	-
Electricity duty		1,406,278,635	1,275,142,886
Neelum Jhelum surcharge		2,174,633,260	2,108,311,840
TV License fee		96,471,024	67,589,019
Financing cost	22.8	3,934,535,639	3,232,906,191
Withholding income tax		373,165,898	373,731,575
		11,649,508,092	8,726,821,192
- Unrealized			
Equalization surcharge	22.7	208,391,580	178,689,557
Electricity duty		42,970,293	72,412,008
Neelum Jhelum surcharge		1,466,290,388	1,260,443,004
TV license fee		71,064,749	49,750,497
Tariff rationalization surcharge	22.8	4,421,551,906	4,378,178,631
Financing cost	22.8	3,472,409,896	2,572,716,642
Income tax		67,388,624	110,531,935
Advance income tax		10,093,202	7,133,345
Steel millers income tax		459,213	-
		9,760,619,859	8,629,855,619
Others		83,730,418	92,004,950
		186,726,208,274	139,651,790,351

22.1 During the year, CPPA(G) issued certain debit notes to all DISCOs including the Company to make alignments in certain account heads related to CPPA(G) payables, Tariff Rationalization Surcharge (TRS) and Finance Cost (FC) surcharge. Accordingly, the Company made adjustment to TRS payable and FC surcharge payable to CPPA(G) account.

22.2 This represents payable to various suppliers on account of materials purchased.

22.3 These represent amounts received directly by the Company for electrification of villages, colonies and other deposit works, mainly provided through Government funding against which the related works / jobs have not been completed.

22.4 The Company has withheld payment of its contribution towards Workers' Profit Participation Fund (WPPF) amounting to Rupees 1,179 million, being Company's liability on account of WPPF till 30 June 2014. PEPCO has forwarded its recommendation to MoWP 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.

22.5 This represents the net amount payable to related parties on account of material purchased, free electricity and pension received by the retired employees of the Company residing within the territorial jurisdiction of associated companies

	Free electricity		Pension		Material purchased	
	2020 Rupees	2019 Rupees	2020 Rupees	2019 Rupees	2020 Rupees	2019 Rupees
Lahore Electric Supply Company Limited	897,554,130	897,307,924	8,852,042	3,063,247	35,827,662	2,433,800
Peshawar Electric Supply Company Limited	303,026,055	271,709,835	152,357,023	237,687,459	17,798,642	17,798,642
Multan Electric Power Company Limited	79,114,334	78,203,643	-	-	-	-
Faisalabad Electric Supply Company Limited	128,214,913	122,278,912	104,289,850	99,555,858	5,727,472	11,600,000
Gujranwala Electric Power Company Limited	22,340,946	21,504,840	159,190,215	138,700,482	36,103,886	-
Hyderabad Electric Supply Company Limited	3,421,234	2,895,834	-	-	-	-
Sukkur Electric Power Company Limited	3,049,743	2,522,644	-	-	-	-
Pakistan Electric Power Company (Private) Limited	-	1,065,935	-	-	-	-
	<u>1,436,721,415</u>	<u>1,397,489,567</u>	<u>424,689,130</u>	<u>479,007,046</u>	<u>95,457,662</u>	<u>31,832,442</u>

- 22.6 This represents amounts payable to NTDC on account of use of system charges.
- 22.7 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.
- 22.8 Financing cost surcharge has been notified by GoP vide SRO.569 (1) / 2015 dated 10 June 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 CPA(G) for the payment of the financing cost of various loans obtained to discharge liabilities of power producers against the sovereign guarantees of the GoP.
- 22.9 Tariff rationalization surcharge has been notified by GoP vide SRO. 569 (1) / 2015 dated 10 June 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.
- 23 **ACCRUED MARK-UP**
It represents accrued markup on long term foreign relent loans and includes Rupees 5,025.39 (2010: Rupees 3,515.09) million overdue portion. Further, it also includes markup amounting to Rupees 3,315.76 million calculated on overdue portion of principal outstanding.

24 CONTINGENCIES AND COMMITMENTS

24.1 Tax and other contingencies

- 24.1.1 The Additional Commissioner Inland Revenue (ACIR) 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 Rupees 716 million. The Company filed an appeal with the Commissioner Inland Revenue which was decided against the Company. The Company filed an appeal before the Appellate Tribunal Inland Revenue (ATIR) and ATIR decided the case against the Company. The Company filed reference before Islamabad High Court (IHC) against decision of ATIR which is pending adjudication.
- 24.1.2 The Deputy Commissioner Inland Revenue (DCIR) issued various orders u/s 124/161/205 of the Income Tax Ordinance, 2001 for the tax year from 2007 to 2012, raising tax demand of Rupees 2,122 million by treating the Company as taxpayer in default on certain revenue and capital expenditure. CIR and ATIR both upheld the order in original. The Company filed reference before Islamabad High Court (IHC) which is pending adjudication.
- 24.1.3 The Deputy Commissioner Inland Revenue (DCIR) issued order u/s 161/205 of the Income Tax Ordinance, 2001 for the tax year 2013 raised an income tax demand of Rupees 304.5 million by treating the Company as taxpayer in default on certain revenue and capital expenditures. The Company appealed before the Commissioner Inland Revenue (CIR) which was unsuccessful. The Company preferred an appeal before ATIR which is pending adjudication.
- 24.1.4 The Deputy Commissioner Inland Revenue (DCIR) issued order under section 161/205/235 of the Income Tax Ordinance, 2001 for the tax year 2014 raising an income tax demand of Rupees 1,152 million by treating the Company as tax payer in default for short collection of advance tax on electricity consumption from its consumers. CIR upheld the order, however, ATIR remanded back the case for reconsideration. FTO has reassessed the case and reduced tax demand to Rupees 998 million against which the Company has filed appeal before ATIR, which is pending adjudication. The Company has also filed reference before Islamabad High Court (IHC) against earlier decision of ATIR. The case is pending before IHC.
- 24.1.5 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 sale tax demand of Rupees 1,269 million including default surcharge and penalty. The 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 the Company, 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 28 October 2015, granted sales tax adjustment of Rupees 1,269 million on monthly sales tax return. Federal Board of Revenue (FBR) filed petition in Islamabad High Court (IHC) against the decision of ATIR. IHC decided the case against the Company, vide order No. 265/2011 dated 21 March 2016, declaring the supplies as taxable. The Company filed review petition in Supreme Court of Pakistan. The Supreme Court of Pakistan through its order dated 27 October 2020 directed the law officers of Federal Government to apprise the matter of sales tax demand of Rupees 1,269 million with the concerned, Ministry of Water and Power and Ministry of Finance and obtain clear directives as to the fate of the sales tax demand.

- 24.1.6 Officer inland Revenue (OIR) passed the Order-in-Original No of 04/2011 dated 30 October 2011 raising sales tax demand of Rupees 1,706 million plus default surcharge and penalty thereon for the tax period from July 2007 to June 2008 on account of electricity supplies in AJK, supplies of free electricity to employees and other distribution companies, sales of scrap, demand notices 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 Appellate Tribunal Inland Revenue (ATIR), which is pending adjudication.
- 24.1.7 Officer inland revenue passed Order-in-Original No.13/2012 dated 03 September 2012 raising sales tax demand of Rupees 2,454 million plus default surcharge and penalty chargeable thereon for the tax period July 2008 to June 2009 on account of supplies of free electricity to employees and other distribution companies, sales of scrap, demand notices 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. 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 for reconsideration.
- 24.1.8 Officer inland Revenue passed an Order-in-Original No.02/2013 dated 14 October 2013 raising sales tax demand of Rupees 7,784 million plus default surcharge and penalty chargeable thereon for the tax period from July 2009 to June 2012 on account of free supply of electricity to employees and distribution companies, sale of scrap, demand notice 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 Rupees 1,224 million on account of unrealized sales tax and Rupees 6,504 million on account of sales tax on subsidy and sales tax on demand notices. Further, the ATIR remanded back the case of sales tax on free electricity to employees and distribution companies for re-consideration. The matter of sales tax on sale of scrap of Rupees 416 million has been decided against the Company against which the Company filed reference before IHC.

- 24.1.9 Officer Inland Revenue issued an Order-in-Original No. 21/2012 dated 24 April 2012 raising sales tax demand of Rupees 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, the ATIR had declared the supply of electricity to AJK as exempt, vide order No. 65/18/2011 dated 07 September 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 21 March 2016, declaring the supplies as taxable. The Company has filed the reference before the Supreme Court of Pakistan, which is still pending.
- 24.1.10 Officer Inland Revenue passed an Order-in-Original No.55/2014 dated 14 May 2014 raising sales tax demand of Rupees 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 notices 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. 328/IB/2014 dated 27 January 2016 whereby tax demand to the extent of Rupees 6,998 million on the matter of sales tax on demand notices, supply of electricity to AJK and subsidy from GoP has been deleted. The matter of sales tax amounting to Rupees 1,547 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 Rupees 56 million has not been confirmed by ATIR. The Company filed reference against demand of sales tax on scrap before IHC which is pending adjudication.
- 24.1.11 The ACIR passed an Order-in-Original No. 57/2014 dated 29 May 2014 raising sales tax demand of Rupees 212 million plus default surcharge and penalty chargeable thereon for the tax periods from 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. The Company has preferred an appeal before ATIR which is pending adjudication.
- 24.1.12 The ACIR passed an Order-in-Original No. 14/2015 dated 28 January 2015 raising sales tax demand of Rupees 312 million plus default surcharge and penalty chargeable thereon for the tax period from 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 Rupees 182 million vide Order in Remand No. 05/14 of 2015. The Company has preferred an appeal before ATIR which is pending adjudication.
- 24.1.13 The ACIR passed an Order-in-Original No. 06/2016 dated 01 January 2016 raising sales tax demand of Rupees 1,042 million plus default surcharge and penalty chargeable thereon for the tax periods from 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. 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.
- 24.1.14 DCIR passed an Order-in-Original No. 11/2016 dated 11 February 2016 raising sales tax demand of Rupees 1,948 million plus default surcharge and penalty chargeable thereon for the tax periods from 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 was dismissed. The Company preferred an appeal before ATIR. ATIR vide order-in-Appeal No. STA No. 442/IB/2016 dated 2 May 2017 remanded back the case to the original adjudicating authority. The matter is pending adjudication.
- 24.1.15 The DCIR passed an Order-in-Original No. 149/2017 dated 22 May 2017 raising tax demand of Rupees 223 million plus default surcharge and penalty chargeable thereon for the tax periods from July 2015 to January 2017 on account of sales tax withheld based on the review of the sales tax returns for the period July 2015 to January 2017. CIR upheld the Order-in-Original. The Company has filed an appeal with ATIR which is pending adjudication.
- 24.1.16 The DCIR passed an Order-in-Original No. 09/2017 dated 12 May 2017 raising tax demand of Rupees 1,802 million plus default surcharge and penalty chargeable thereon for the tax period from July 2015 to June 2016 on account of short payment of sales tax based on 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. CIR upheld the Order-in-Original. The Company has filed an appeal with ATIR. ATIR vide order No. STA No. 523/IB/2017 dated 8 July 2019 has decided the case in favor of the Company.
- 24.1.17 The DCIR passed an Order-in-Original No. 05/2017 dated 24 February 2017 raising tax demand of Rupees 1,728 million plus default surcharge and penalty chargeable thereon for the tax period from July 2014 to June 2015 on account of short payment of sales tax based on 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. CIR upheld the Order-in-Original. The Company has filed an appeal with ATIR which is pending adjudication.
- 24.1.18 The DCIR passed an Order-in-Original No. 17-25/2017 dated 02 February 2018 raising tax demand of Rupees 586 million plus default surcharge and penalty chargeable thereon for the tax periods July 2016 to June 2017 on account of short payment of sales tax based on 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. CIR upheld the Order-in-Original. The Company has filed an appeal with ATIR which is pending adjudication.
- 24.1.19 The DCIR passed an Order-in-Original No. 04/2017 dated 14 February 2017 raising tax demand of Rupees 4,817 million plus default surcharge and penalty chargeable thereon for the period from July 2014 to June 2015 on account of non-payment of sales tax on supply of free electricity to other distribution company's 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. CIR upheld the Order-in-Original. An appeal against the order has been filed with ATIR. ATIR vide its order No. STA No. 353/IB/2017 dated 10 July 2019 has deleted that demand.
- 24.1.20 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 Rupees 2,403 million. 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. Being aggrieved, the Company filed an appeal before the CIR (Appeal) against the order. CIR (Appeal) passed a partial judgement on certain issues. The Company has filed an appeal against the appellate order of CIR before Appellate Tribunal Inland Revenue Islamabad. Whereas, the main appeal is pending adjudication before the ATIR.
- 24.1.21 DCIR has issued order u/s 122(5A) of the Income Tax Ordinance, 2001 raising tax demand of Rupees 551 million vide order No. 8/75(u-1) dated 28 April 2016. The assessment of the Company was amended by disallowing subsidy amounting to Rupees 11,239 million and business losses from tax year 2010 to 2014 amounting to Rupees 72,868 million. CIR(A) upheld the Order-in-Original. The Company filed an appeal before ATIR which is pending adjudication.

- 24.1.22 The DCIR passed Order-in-Original No. 07/2018 dated 30 June 2018 raising demand for Rupees 534 million alleging that the Company has claimed input tax related to items which were not used for business purpose and input tax cannot be adjusted. The Company filed an appeal before CIR (A). The CIR (A) vide Order in Appeal No. 117/2019 dated 28 January 2019 decided case against the Company. The Company has filed an appeal before the ATIR which is pending adjudication.
- 24.1.23 The DCIR passed Order-in-Original No. 4/2018 dated 26 June 2018 raising demand of Rupees 639 million alleging that the Company has wrongly treated supplies to AJK and others as zero rated. The Company has filed an appeal before CIR (A). The CIR (A) vide order in appeal No. ST-25/2018 dated 12 September 2019 reduced the demand to Rupees 346 million. The case is pending at ATIR level.
- 24.1.24 DCIR issued order u/s 4B of the Income Tax Ordinance, 2001 raising demand of Rupees 35 million vide order No. 35402680 dated 7 August 2018. Being aggrieved the Company filed an appeal before CIR(A) against the order. CIR(A) vide order in Appeal No. 137/2018 dated 13 September 2018 upheld the order of DCIR. The Company filed appeal before ATIR which is pending adjudication.
- 24.1.25 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 favor of the Company.
- 24.1.26 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.
- 24.2 Books of account of the Company are not in agreement with the records of Central Power Purchasing Agency (Guarantee) Limited (CPPA) in respect of amount payable to CPPA(G). There is a net difference of Rupees 5,453.07 million between the amount confirmed by CPPA(G) and the amount recorded in the books of the Company as at 30 June 2020. Reconciliation of this difference reveals that there are certain charges levied by CPPA(G) which the management does not acknowledge, unless both the parties do not resolve these differences the amount of liability recognized in the books of the Company cannot be adjusted.

Claims not acknowledged are as follows:

	NOTE	2020 Rupees	2019 Rupees
Interest on syndicated loans	24.2.1	(3,063,750,488)	(3,509,678,488)
Supplemental charges of CPPA	24.2.2	6,864,324,906	7,395,993,557
Advertisement charges - net	24.2.3	465,724,753	465,724,753
O&M Cost of PEPCO	24.2.4	413,326,849	539,349,839
Short cash remittance as per CPPA		(277,296,968)	28,777,624
Use of system charges	24.2.5	(19,258,835)	790,491,082
Others	24.2.6	1,069,999,140	2,486,737,531
		<u>5,453,071,356</u>	<u>8,197,395,688</u>

- 24.2.1 Federal Government, through Power Holding Limited (PHL) injected money from time to time through borrowings from commercial banks. PHL planned to re-lend the loan to DISCO's through multi-party agreement between lenders, DISCOs and PHL 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 (MoWP) on 14 May 2012, whereby, a bilateral agreement was proposed to be signed between each DISCO and PHL 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. 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.
- The World Bank, being the lender of the Company, and NEPRA being the power sector regulator also raised certain concerns on the structure of the transaction which was forwarded to MoWP vide letter No. 1970-73 dated 07 September 2012. Pending resolution of matters raised by the World Bank and NEPRA, the relending agreement between PHL and the Company was not finalized. Further during year 2016, Pakistan Electric Power Company (Private) Limited vide its letter No. 235-39, dated 21 January 2016, directed the Company to book the debit / credit notes issued by CPPA(G) 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 PHL is finalized, which is still pending. Accordingly, the Company has not accounted for mark-up due to non-availability of terms and conditions of the loan and finalization of re-lending agreement between the Company and PHL. 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 loan / markup cost was not recorded in its books. The management also obtained an independent legal opinion dated 17 October 2015 from a law firm which concurred with the management point of view of not recording the liability and related markup in its books.
- 24.2.2 This represents supplementary charges invoiced by CPPA(G) to the Company on account of allocation of late payment charges. During year 2016, the matter was discussed in para 18.10 of tariff determination by NEPRA communicated through letter No. NEPRA/TRF-336/ESCO-2015 dated 18 September 2017. 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. However, matter of invoices raised prior to the year ended 30 June 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.
- 24.2.3 CPPA(G) charged Rupees 465.72 million (2019: Rupees 465.72 million) to the Company as its share in advertisement carried out by Pakistan Electric Power Company (Private) Limited. The management of the Company asserts that these amounts will not be payable to CPPA(G) 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(G).
- 24.2.4 The amount was debited by the CPPA(G) 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.

24.2.5 The Company has not recorded this amount as CPPA(G) has not provided relevant details / calculations for this adjustment.

24.2.6 These represents debit notes / credit notes issued to the Company by CPPA(G) 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.

24.3 Commitments

24.3.1 Inland letters of credit as at 30 June 2020 amounted to Rupees 767 million (2019: Rupees 393 million).

	NOTE	2020 Rupees	2019 Rupees
25 SALE OF ELECTRICITY			
Gross sales		157,316,394,489	158,167,774,792
Sales tax		(23,580,979,998)	(29,241,046,759)
		<u>133,735,414,491</u>	<u>128,926,728,033</u>

25.1 This includes unbilled revenue of Rupees 7,232 million (2019: Rupees 7,349,003 million).

26 COST OF ELECTRICITY

Central Power Purchasing Agency (Guarantee) Limited

Cost of electricity	26.1	142,656,262,079	130,194,895,311
Supplementary charges	26.2	4,188,359,567	2,721,445,656
		<u>146,844,621,646</u>	<u>132,916,340,967</u>

26.1 This represents tariff charged by Central Power Purchasing Agency (Guarantee) Limited as determined by National Electric Power Regulatory Authority (NEPRA) and notified by the Government of Pakistan in the Gazette of Pakistan.

26.2 As per para 43 of tariff determination by NEPRA communicated through letter No. NEPRA/TRF-336/IESCO-2015/ dated 29 February 2016, late payment charges recovered from consumers on utility bills shall be off set against the late payment invoices raised by CPPA(G) to the Company in determination of its consumer end tariff pertaining to financial years 2015-16 to 2019-2020.

	NOTE	2020 Rupees	2019 Rupees
27 ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	27.1	5,960,995,876	6,064,779,567
Transportation		105,687,306	128,832,387
Depreciation	3.1.2	130,618,556	84,992,218
Market operation fee - CPPA(G)		36,905,054	36,816,380
Electricity bill collection charges		124,134,406	133,218,710
Office supplies and other expenses		108,170,577	59,068,005
Legal and professional charges		300,079,139	139,483,668
Repairs and maintenance		4,918,789	4,457,706
Power, light and water charges		16,298,950	18,238,080
Postage and telephone		70,385,495	74,015,679
Insurance expense		49,495,380	28,839,027
NEPRA fee and charges		36,563,211	36,107,438
Advertising and publicity		11,846,976	17,282,971
Auditor's remuneration		2,000,000	1,725,000
Compensation	10	14,842,333	-
Miscellaneous expenses		35,797,396	17,947,439
		<u>7,016,750,452</u>	<u>6,846,601,855</u>

27.1 This includes a sum of Rupees 4,079 million (2019: Rupees 4,059 million) in respect of staff retirement benefits.

	NOTE	2020 Rupees	2019 Rupees
28 DISTRIBUTION COSTS			
Salaries, wages and other benefits	28.1	7,412,750,029	7,091,204,720
Depreciation	3.1.2	5,219,164,421	4,529,343,369
Loss of operating fixed assets due to theft	3.1	1,510,118	12,161,569
Repairs and maintenance		1,373,378,633	1,070,892,333
Transportation		525,373,760	496,099,220
Office supplies and other expenses		18,160,286	16,070,465
Rent, rates and taxes		36,567,351	36,550,337
Legal and professional charges		15,436	70,639
Power, light and water charges		41,201,493	29,794,884
Postage and telephone		22,844,343	20,851,551
Advertising and publicity		193,330	108,690
Miscellaneous expenses		65,144,326	58,828,344
		<u>14,716,403,526</u>	<u>13,362,076,301</u>
28.1	This includes a sum of Rupees 741 million (2019: Rupees 589 million) in respect of staff retirement benefits.		
29 CUSTOMER SERVICES COSTS			
Salaries, wages and other benefits	29.1	540,592,148	549,085,974
Transportation		29,386,454	28,009,542
Electricity bill collection charges		213,774,367	60,584,196
Depreciation	3.1.2	134,592,305	84,892,218
Office supplies and other expenses		4,038,665	3,714,744
Rent, rates and taxes		1,819,216	2,081,236
Power, light and water charges		4,169,942	3,292,155
Postage and telephone		2,307,468	2,308,347
Repairs and maintenance		1,518,608	1,520,864
Advertising and publicity		-	4,560
Miscellaneous expenses		4,634,676	4,296,562
		<u>936,833,849</u>	<u>739,890,398</u>
29.1	This includes a sum of Rupees 59.84 million (2019: Rupees 47.63 million) in respect of staff retirement benefits.		
30 OTHER INCOME			
Income from financial assets			
Profit on bank deposits		270,965,736	56,130,129
Late payment surcharge		1,036,411,989	1,498,658,115
		<u>1,307,377,725</u>	<u>1,554,788,244</u>
Income from non-financial assets			
Sale of scrap		76,376,137	71,664,479
Gain on disposal of distribution equipment		780,609	-
Vetting and processing fee		91,474,259	61,963,318
Income from rest houses		1,240,899	1,404,740
Reversal of provision against slow moving / obsolete items		13,868,843	-
Operating revenue		222,245,260	308,323,826
		<u>405,984,007</u>	<u>443,356,363</u>
Others			
Public lighting		16,034,401	14,843,143
Commission on collection of electricity duty and PTV license fee		51,934,148	50,905,805
Liquidated damages		77,845,894	39,878,465
Meter / service rent		30,380,793	20,889,742
Reconnection fees		4,445,853	3,692,163
Miscellaneous		74,692,040	106,004,373
		<u>255,333,219</u>	<u>245,213,691</u>
		<u>1,968,694,951</u>	<u>2,243,358,299</u>
31 FINANCE COST			
Interest on long term loans		1,356,318,107	1,580,850,953
Bank charges		4,577,644	7,225,383
Exchange loss		11,293,804	68,569,530
		<u>1,372,189,755</u>	<u>1,656,645,866</u>
32 TAXATION			
Current			
- Current year		2,031,277,444	1,638,924,453
Deferred			
		<u>2,031,277,444</u>	<u>1,638,924,453</u>

- 32.1 The provision for minimum taxation is calculated @ 1.5% (2019: 1.25%) of the Company's gross revenue and other income under the provisions of the Income Tax Ordinance, 2001.
- 32.2 The relationship between tax expense and accounting profit has not been presented in these financial statements as taxable income and tax liability are based on minimum tax payable on turnover for the year.

33 RECONCILIATION OF MOVEMENT OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Long term loans	
	2020 Rupees	2019 Rupees
Balance as at 01 July	8,610,585,683	10,533,519,155
Proceeds from long term loans	-	1,479,978,009
Non-cash settlement	-	(3,471,471,001)
Exchange loss	11,293,004	68,569,530
Balance as at 30 June	8,621,888,697	8,610,595,693

34 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements in respect of remuneration including certain benefits to the Chief Executive Officer, Directors and Executives of the Company are given below:

	Chief Executive Officer		Executives	
	2020	2019	2020	2019
	Rupees			
Managerial remuneration and allowances	6,831,166	4,735,200	53,538,385	118,081,608
Bonus	-	172,820	-	5,728,680
	6,831,166	4,908,020	53,538,385	123,810,288
Number of persons	1	1	16	44

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

The aggregate amount charged in the financial statements for the year as fee to directors is Rupees 8,309,000 (2019: Rupees 5,880,000) 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: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department under policies approved by the Board of Directors. The Company's finance department evaluates and hedges financial risks. 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, liquidity risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

a) Market risk

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 is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to long term loans. The Company's exposure to currency risk was as follows:

	2020	2019
Long term loans - USD	1,738,472	1,738,472
Accrued mark-up	84,556	70,528
Net exposure	1,823,028	1,809,000
The following significant exchange rates were applied during the year:		
Rupees per USD		
Average rate	158.26	135.96
Reporting date rate	168.05	160.05

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on loss after taxation for the year would have been Rupees 15.32 million (2019: Rupees 14.48 million) respectively lower / higher, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

ii) 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 instruments traded in the market. The Company is not exposed to commodity price risk.

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.

The Company's interest rate risk arises from long term loans and bank balances in deposit accounts. Financial instruments at variable rates expose the Company to cash flow interest rate risk. Financial instruments at fixed rate expose the Company to fair value interest rate risk.

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	2020 Rupees	2019 Rupees
Fixed rate instruments		
Financial liabilities		
Long term loans	8,621,888,697	8,610,595,693
Variable rate instruments		
Financial assets		
Deposit accounts	3,682,842,536	1,908,837,260

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

If interest rate at the year end date, fluctuates by 1% higher / lower with all other variables held constant, loss before taxation for the year would have been Rupees 36.83 million (2019: Rupees 19.09 million) lower / higher, mainly as a result of higher / lower interest on floating rate financial instruments. This analysis is prepared assuming the amounts of financial instruments outstanding at reporting date were outstanding for the whole year.

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

	2020 Rupees	2019 Rupees
Long term loans	237,946,219	159,181,607
Trade debts	128,660,358,568	96,970,187,670
Security deposits	73,736,230	73,736,230
Other receivables	3,770,997,691	3,488,964,018
Bank balances	5,204,349,192	3,332,883,255
	<u>137,956,387,900</u>	<u>104,025,952,780</u>

The credit quality of financial assets 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:

	Rating			2020	2019
	Short term	Long term	Agency	Rupees	Rupees
Public Sector Banks					
National Bank of Pakistan	A-1+	AAA	PACRA	1,308,203,083	1,223,184,413
Sindh Bank Limited	A-1	A+	VIS	779,163	810,295
The Bank of Khyber	A-1	A	PACRA	(296,524)	327,621
The Bank of Punjab	A-1+	AA	PACRA	42,824,124	393,204,199
Specialized Banks					
SME Bank Limited	B	CCC	PACRA	501,083	(230,990)
Zarai Taraqati Bank Limited	A-1+	AAA	VIS	1,574,652	2,671,737
Private Sector Banks					
Allied Bank Limited	A-1+	AAA	PACRA	1,048,627,624	96,343,226
Askari Bank Limited	A-1+	AA+	PACRA	600,580,892	446,398,832
Bank Alfalah Limited	A-1+	AA+	PACRA	49,738,606	18,793,835
Faysal Bank Limited	A-1+	AA	PACRA	(5,080,048)	418,647
Habib Bank Limited	A-1+	AAA	VIS	98,765,808	40,839,084
Habib Metropolitan Bank Limited	A-1+	AA+	PACRA	(5,104,393)	-
JS Bank Limited	A-1+	AA-	PACRA	(4,775,797)	-
MCB Bank Limited	A-1+	AAA	PACRA	1,579,912,094	823,618,857
MCB Islamic Bank Limited	A-1	A	PACRA	-	651,666
Silkbank Limited	A-2	A-	VIS	(388,623)	331,317
Sonari Bank Limited	A-1+	AA-	PACRA	4,646,901	581,259
Standard Chartered Bank (Pakistan) Limited	A-1+	AAA	PACRA	-	2,803,519
United Bank Limited	A-1+	AAA	VIS	205,357,131	176,030,684
Other institutions	N/A	N/A	N/A	281,392,637	106,105,054
				<u>5,204,348,192</u>	<u>3,332,883,255</u>

The Company's exposure to credit risk and expected credit losses related to financial assets is disclosed in relevant notes to the financial statements.

Due to the Company's long standing business relationships with these counter parties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the 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. For this purpose financial support is available to the Company from Federal Government.

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual cash flows	Less than one year	One to five years	More than five years
	Rupees				
Non-derivative financial liabilities:					
2020					
Long term loans	8,621,888,697	8,621,888,697	2,358,298,927	3,451,080,288	2,814,511,482
Long term security deposits	6,533,606,741	6,533,606,741	-	-	6,533,606,741
Trade and other payables	152,302,182,589	152,302,182,589	152,302,182,589	-	-
Accrued mark-up	5,689,221,268	5,689,221,268	5,689,221,268	-	-
	173,146,899,295	173,146,899,295	160,347,700,784	3,451,080,288	9,348,118,223
2019					
Long term loans	8,610,595,893	8,610,595,893	800,551,177	3,449,647,312	3,603,377,204
Long term security deposits	6,045,080,129	6,045,080,129	-	-	6,045,080,129
Trade and other payables	110,201,942,192	110,201,942,192	110,201,942,192	-	-
Accrued mark-up	4,332,903,161	4,332,903,161	4,332,903,161	-	-
	129,190,521,175	129,190,521,175	115,335,396,530	3,449,647,312	9,648,457,333

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at 30 June. The rates of mark-up have been disclosed in Note 17 to these financial statements.

35.2 Financial Instruments by categories

As at 30 June

Assets as per statement of financial position

	2020 Rupees	2019 Rupees
	At amortized cost	
Long term loans	237,946,219	159,181,607
Trade debts	128,680,358,568	98,970,187,670
Long term deposits	73,736,230	73,736,230
Other receivables	3,779,897,691	3,488,964,018
Cash and bank balances	5,204,373,983	3,332,892,482
	137,956,412,691	104,025,962,007

Liabilities as per statement of financial position

	Rupees	Rupees
Long term loans	8,621,888,697	8,610,595,693
Long term security deposits	6,533,606,741	6,045,080,129
Trade and other payables	152,302,182,589	110,201,942,192
Accrued mark-up	5,689,221,268	4,332,903,161
	173,148,899,295	129,190,521,175

35.3 Offsetting financial assets and liabilities

As on reporting date, recognized financial instruments are not subject to offsetting as there are no enforceable master netting arrangements and similar agreements.

35.4 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern. The Company is not exposed to any external capital requirement. As public interest entity, financial support is available to the Company from Federal Government and WAPDA in the form of delayed settlement of CPPA(G) against electricity purchase, tariff revision and subsidy on purchases.

36 RECOGNIZED FAIR VALUE MEASUREMENTS - FINANCIAL INSTRUMENTS

Fair value hierarchy

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts. Judgments and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company classifies its financial instruments into the following three levels. However, as at the reporting date, the Company has no such type of financial instruments which are required to be grouped into these levels. These levels are explained as under:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

37 RECOGNIZED FAIR VALUE MEASUREMENTS - NON FINANCIAL ASSETS

(i) Fair value hierarchy

The judgments and estimates made in determining the fair values of the non-financial assets that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its non-financial assets into the following three levels.

At 30 June 2020	Level 1 Rupees	Level 2 Rupees	Level 3 Rupees	Total Rupees
Freehold land	-	13,119,841,459	-	13,119,841,459
Leasehold land	-	4,824,460,000	-	4,824,460,000
Buildings on freehold land	-	3,778,045,635	-	3,778,045,635
Buildings on leasehold land	-	362,948,560	-	362,948,560
Distribution equipment	-	68,457,756,149	-	68,457,756,149
	-	90,543,051,803	-	90,543,051,803

At 30 June 2019	Level 1 Rupees	Level 2 Rupees	Level 3 Rupees	Total Rupees
Freehold land	-	13,119,841,459	-	13,119,841,459
Leasehold land	-	4,824,460,000	-	4,824,460,000
Buildings on freehold land	-	3,418,400,754	-	3,418,400,754
Buildings on leasehold land	-	364,574,374	-	364,574,374
Distribution equipment	-	64,185,185,215	-	64,185,185,215
	-	85,912,461,802	-	85,912,461,802

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. Further, there was no transfer in and out of level 3 measurements.

(ii) Valuation techniques used to determine level 2 fair values

The Company obtains independent valuations for its land, buildings and distribution equipment after regular intervals. The management updates the assessment of the fair value of each property, taking into account the most recent independent valuations. The management determines a property's value within a range of reasonable fair value estimates. The best evidence of fair value of land is current prices in an active market for similar lands. The best evidence of fair value of buildings is to calculate fair depreciated market value by applying an appropriate annual rate of depreciation on the new construction / replacement value of the same building. The best evidence of fair value of distribution equipment is to calculate fair depreciated market value by applying an appropriate annual rate of depreciation on the replacement value / new purchase of the distribution equipment.

38 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise Government of Pakistan, associated companies / undertakings, other related parties and key management personnel. The Company in the normal course of business carries out transactions with various related parties. Detail of transactions with related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

		2020 Rupees	2019 Rupees
Name of related party	Nature of transactions		
Associated companies / undertakings			
National Electric Power Regulatory Authority	Fee	36,563,211	36,107,438
National Transmission and Despatch Company Limited	Use of system charges	(3,881,819,505)	(4,654,320,239)
	Settlement against use of system charges	3,268,453,069	3,901,246,896
	Free supply of electricity provided to employees of associated company	48,858,260	61,737,218
	Free supply of electricity received by employees of the Company from associated company	(572,196)	(26,227,217)
	Pension paid to employees of associated company	227,132,720	195,536,041
	Pension received by employees of the Company from associated company	(196,223,155)	(88,103,096)
	Services provided by the Company	28,444,120	26,323,313
Central Power Purchasing Agency (Guarantee) Limited	Purchase of electricity	(147,832,801,741)	(128,976,307,883)
	GST	(11,869,672,792)	(13,057,995,582)
	Management fee	(127,148,942)	(78,882,615)
	tariff rationalization surcharge	-	(676,088,997)
	Payment	119,511,887,209	114,052,350,175
	Cash adjustment	(35,265,695)	-
	Debit note received from CTPA on account of TDS	(5,449,532,541)	(2,448,914,036)
Northern Power Generation Company Limited	Free supply of electricity provided to employees of associated company	740,803	685,651
	Free supply of electricity received by employees of the Company from associated company	(75,081)	(33,190)
	Pension paid to employees of associated company	32,440,110	23,958,007
	Pension received by employees of the Company from associated company	(31,100,864)	(24,655,150)
Water and Power Development Authority	Free supply of electricity provided to employees of associated company	37,765,674	-
	Pension paid to employees of associated company	22,127,821	40,008,639
	Payment received by employees of associated company	-	(22,056,813)
Faisalabad Electric Supply Company Limited	Free supply of electricity provided to employees of associated company	3,470,792	3,396,812
	Free supply of electricity received by employees of the Company from associated company	(8,290,907)	(8,981,569)
	Pension paid to employees of associated company	30,795,621	48,173,623
	Pension received by employees of the Company from associated company	(35,529,613)	(86,465,676)
	Sale of material	5,872,627	-
	Purchase of material	(5,845,489)	-
	Services provided by the Company	316,905	610,050
	Services received by the Company	(432,791)	(160,470)
	-	-	-
Peshawar Electric Supply Company Limited	Free supply of electricity provided to employees of associated company	11,426,531	9,232,777
	Free supply of electricity received by employees of the Company from associated company	(12,513,041)	(24,856,192)
	Pension paid to employees of associated company	240,627,602	174,489,171
	Pension received by employees of the Company from associated company	(155,297,166)	(248,067,838)
	Services provided by the Company	301,147	815,182
	Services received by the Company	(509,857)	(381,082)
Gujranwala Electric Power Company Limited	Free supply of electricity provided to employees of associated company	5,258,248	4,744,765
	Free supply of electricity received by employees of the Company from associated company	(6,100,403)	(6,742,602)
	Pension paid to employees of associated company	28,273,116	31,464,337
	Pension received by employees of the Company from associated company	(48,782,849)	(65,841,070)
	Services provided by the Company	590,939	231,351
	Services received by the Company	(254,000)	(302,564)
	Sale of material	33,958,196	-
	Purchase of material	(36,193,886)	-
Quetta Electric Supply Company Limited	Free supply of electricity provided to employees of associated company	2,016,421	1,795,837
	Free supply of electricity received by employees of the Company from associated company	(119,616)	(26,963)
	Pension paid to employees of associated company	15,600,922	15,933,539
	Pension received by employees of the Company from associated company	(12,375,527)	(4,372,845)
	Services provided by the Company	22,643	12,175
	Services received by the Company	(12,467)	(18,600)
Central Power Generation Company Limited	Free supply of electricity provided to employees of associated company	790,179	670,875
	Free supply of electricity received by employees of the Company from associated company	(115,150)	(165,717)
	Pension paid to employees of associated company	21,348,832	16,333,204
	Pension received by employees of the Company from associated company	(13,314,783)	(18,687,272)
Hyderabad Electric Supply Company Limited	Free supply of electricity provided to employees of associated company	721,292	768,671
	Free supply of electricity received by employees of the Company from associated company	(1,233,371)	(995,560)
	Pension paid to employees of associated company	12,281,776	9,989,396
	Pension received by employees of the Company from associated company	(1,687,132)	(12,700,736)
	Services received by the company	(13,321)	-
Lahore Power Generation Company Limited	Free supply of electricity provided to employees of associated company	80,024	91,641
	Free supply of electricity received by employees of the Company from associated company	(1,261)	(2,123)
	Pension paid to employees of associated company	1,161,729	947,796
	Pension received by employees of the Company from associated company	(736,844)	835,113

		2020 Rupees	2019 Rupees
Name of related party	Nature of transactions		
Tribal Areas Electric Supply Company Limited	Free supply of electricity provided to employees of associated company	944,207	690,035
	Free supply of electricity received by employees of the Company from associated company	-	-
	Pension paid to employees of associated company	3,394,810	2,491,558
	Pension received by employees of the Company from associated company	(2,583,951)	(1,053,662)
Jamshoro Power Company Limited	Free supply of electricity provided to employees of associated company	217,019	179,345
	Free supply of electricity received by employees of the Company from associated company	(11,063)	(9,830)
	Pension paid to employees of associated company	3,651,016	2,274,016
	Pension received by employees of the Company from associated companies	(1,612,821)	(1,902,345)
Sukkur Electric Power Company Limited	Free supply of electricity provided to employees of associated company	255,321	126,375
	Free supply of electricity received by employees of the Company from associated company	(782,420)	(270,782)
	Pension paid to employees of associated company	1,106,549	959,804
	Pension received by employees of the Company from associated companies	(267,853)	(1,718,841)
Lahore Electric Supply Company Limited	Free supply of electricity provided to employees of associated company	8,293,520	5,848,779
	Free supply of electricity received by employees of the Company from associated company	(6,642,466)	(8,795,079)
	Pension paid to employees of associated company	32,086,537	27,094,980
	Pension received by employees of the Company from associated companies	(37,875,332)	31,348,972
	Purchase of material	33,393,862	-
	Services provided by the Company	222,508	1,178,706
	Services received by the Company	(119,628)	(41,822)
Multan Electric Power Company Limited	Free supply of electricity provided to employees of associated company	2,562,558	2,862,404
	Free supply of electricity received by employees of the Company from associated company	(3,411,362)	(3,243,418)
	Pension paid to employees of associated company	23,776,458	14,978,859
	Pension received by employees of the Company from associated company	(22,573,627)	(18,637,680)
	Services provided by the Company	271,645	105,039
	Services received by the Company	(333,933)	(300,192)
Pakistan Electric Power Company (Private) Limited	Free supply of electricity provided to employees of associated company	2,058,561	1,356,501
	Services received by the Company	(2,123)	(43,681)
	Pension received by employees of the Company from associated company	-	(2,274,512)
Power Information Technology Company (Private) Limited	Pension paid to employees of associated company	-	76,116
	Pension received by employees of the Company from associated company	(2,047,623)	-
Gonoo Holding Company Limited	Pension paid to employees of associated company	-	164,613
38.1	The Company and the above mentioned companies / undertakings are under common control of GoP with the Ministry of Water and Power. While Government of Pakistan is the sovereign authority over all these companies / undertakings		
38.2	(Detail of compensation to key management personnel comprising of Chief Executive Officer, directors and executives is disclosed in Note 34.		

39 NUMBER OF EMPLOYEES

The number of total employees at the year end were 12,918 (2019: 11,179), whereas the average number of employees during the year were 13,058 (2019: 12,350).

40 PROVIDENT FUND

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

41 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 11,236,420,862 (2019: 10,789,046,374) units of electricity to its consumers during the year.

42 BENAZIR EMPLOYEE STOCK OPTION SCHEME

On 14 August 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.

43 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purpose of comparison and better presentation. Restatement due to rectification of prior period error described in the note 2.26. No other significant reclassification / rearrangements of corresponding figures have been made except the following:

Particulars	From	TO	Rupees
Receivable from related parties on account of materials supplied	Advances - suppliers	Other receivables	16,713,038
Use of system charges	Other receivables	Trade and other payables - other payables	213,126,926
Use of system charges	Trade and other payables - CPPA(G)	Trade and other payables - other payables	609,673,057
Due to related parties on account pension paid	Other receivables	Trade and other payables	165,597,486
Receivable from Trust Investment Bank Limited	Receivable from Trust Investment Bank Limited	Other receivables	30,790,759
Interest accrued on bank deposits	Interest accrued on bank deposits	Other receivables	8,615,846
Due to related parties on account of materials purchased	Trade and other payables - Others	Trade and other payables - due to related parties	31,832,442
Post retirement benefits	Administrative expenses	Distribution costs	589,364,968
Post retirement benefits	Administrative expenses	Customer services costs	47,626,156

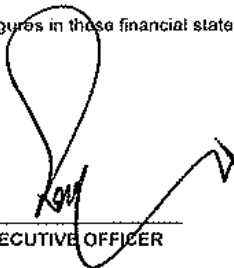
44 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 22 - 20 by the Board of Directors of the Company.

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

Raise

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CHIEF EXECUTIVE OFFICER


DIRECTOR