

## INDEPENDENT AUDITOR'S REPORT

To the members of Faisalabad Electric Supply Company Limited

Report on the Audit of Financial Statements

### Qualified Opinion

We have audited the annexed financial statements of **Faisalabad Electric Supply Company Limited** (the Company), which comprise the statement of financial position as at **30 June 2018**, 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 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 effects of the matter described in the **Basis for Qualified Opinion** section of our report, statement of financial position, statement of profit or loss and other 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 2018 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

### Basis for Qualified Opinion

As discussed in note 3.4 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 land, buildings and distribution equipment was carried out and resulting surplus was recognized as at 30 June 2013. In our view, the revaluation should be updated as of 30 June 2018 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 reserve 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 Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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### **Emphasis of Matter**

We draw attention to the contents of:

- i) note 24.1.1.1 of the financial statements which describes that the Company has not recorded the supplementary charges amounting to Rs. 6,822 million (2017: Rs. 6,719 million) which have been invoiced by CPPA to the Company on account of allocation of late payment charges to oil and gas companies. However, NEPRA has disallowed CPPA to invoice such amount to distribution companies as part of tariff and accordingly, the Company has not acknowledged this amount as its liability. Further, notes 24.1.1.2, 24.1.2 and 24.1.3, which describe various other contingencies, the ultimate outcome of which cannot presently be determined, and hence, pending the resolution thereof, no provision for the same has been made in these financial statements. Our opinion is not modified in respect of above matters.
- ii) note 25.1 where it has been explained that the Company has used the tariff relating to financial year 2014-15 notified vide GoP notifications SRO 570(I)/2015 dated 10 June 2015 till the 21 March 2018 as the Company's multiyear tariff was notified by the GoP on 22 March 2018.

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

Management is responsible for the other information. The other information comprises of the Directors' report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we will 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 identified above 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.

When we read the Directors' report, if we conclude that there is a material misstatement therein, we are required to communicate the matters to Board of Directors. We have nothing to report in this regard.

### **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.

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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 except for the possible effects of matter described in **Basis for Qualified Opinion** section of our report:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of other 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) 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 auditors' report is Naseem Akbar.



Chartered Accountants

Lahore: 26 February 2019

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

		2018	2017 (Restated)	As at 1 July 2016 (Restated)
	Note	Rupees		
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	4	94,451,032,772	90,340,388,120	85,569,432,875
Intangible assets	5	153,979,563	112,122,135	-
Long-term loans	6	124,719,556	91,874,613	107,138,141
Long-term deposits		2,795,165	2,551,165	2,321,915
		<u>94,732,527,057</u>	<u>90,546,936,033</u>	<u>85,678,892,931</u>
<b>Current assets</b>				
Stores, spares and loose tools	7	2,709,681,081	2,915,774,603	995,825,281
Trade debts	8	18,378,733,724	13,153,825,481	9,335,703,636
Current portion of long-term loans	6	31,932,503	56,080,099	50,519,854
Short-term advances	9	23,159,400	57,996,030	52,780,163
Interest accrued		60,620,106	90,199,023	21,023,720
Other receivables	10	13,287,891,546	19,662,263,282	45,161,182,496
Tax refunds due from the Government	11	8,513,573,767	7,994,129,008	7,966,205,211
Receivable from the Government of Pakistan	12	2,806,427,483	-	-
Short-term investments	13	11,200,000,000	4,970,000,000	5,000,000,000
Cash and bank balances	14	5,904,567,841	7,094,601,316	2,795,104,061
		<u>62,916,587,451</u>	<u>55,994,868,842</u>	<u>71,378,344,422</u>
<b>TOTAL ASSETS</b>		<u>157,649,114,508</u>	<u>146,541,804,875</u>	<u>157,057,237,353</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Share capital and reserves</b>				
<b>Share capital</b>				
<b>Authorized share capital</b>				
5,000,000,000 (2017: 5,000,000,000) ordinary shares of Rupees 10/- each		<u>50,000,000,000</u>	<u>50,000,000,000</u>	<u>50,000,000,000</u>
<b>Issued, subscribed and paid-up capital</b>	15	10,000	10,000	10,000
<b>Capital reserve</b>				
Revaluation surplus on property, plant and equipment	17	26,775,240,952	27,272,418,974	27,591,499,820
<b>Revenue reserve</b>				
Accumulated loss		<u>(66,588,000,276)</u> <u>(39,812,749,324)</u>	<u>(18,404,376,982)</u> 8,868,051,992	<u>(258,147,808)</u> 27,333,362,012
<b>Deposit for shares</b>	16	19,411,172,270	20,244,758,340	20,244,758,340
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	18	4,561,229,855	4,035,327,177	2,510,877,433
Long-term security deposits	19	7,082,383,461	5,948,744,106	5,153,440,140
<b>Deferred liabilities</b>				
Staff retirement benefits	20	69,196,939,795	53,531,549,443	47,717,680,105
Deferred taxation - net	21	-	-	-
Deferred credit	22	34,321,978,053	31,621,519,828	27,936,560,880
		<u>115,162,531,164</u>	<u>95,137,140,554</u>	<u>83,318,558,558</u>
<b>Current liabilities</b>				
Trade and other payables	23	60,709,177,898	21,326,179,656	25,289,169,837
Interest accrued on loans and borrowings		1,525,338,182	745,392,291	555,597,449
Current portion of interest-bearing loans and borrowing	18	653,644,318	220,282,042	315,791,157
		<u>62,888,160,398</u>	<u>22,291,853,989</u>	<u>26,160,558,443</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	24	-	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>157,649,114,508</u>	<u>146,541,804,875</u>	<u>157,057,237,353</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED  
STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 30 JUNE 2018

		2018	2017 (Restated)
	Note	-----Rupees-----	
Sale of electricity - net	25	116,391,973,408	96,447,395,173
Tariff differential subsidy	12	<u>20,132,058,251</u>	<u>13,756,204,780</u>
		<b>136,524,031,659</b>	<b>110,203,599,953</b>
Cost of electricity	26	<u>155,042,442,309</u>	<u>110,041,130,006</u>
<b>Gross (loss) / profit</b>		<b>(18,518,410,650)</b>	<b>162,469,947</b>
Amortization of deferred credit	22	<u>1,338,916,821</u>	<u>1,258,327,190</u>
		<b>(17,179,493,829)</b>	<b>1,420,797,137</b>
Distribution costs	27	<u>16,086,341,945</u>	<u>13,627,708,546</u>
Administrative expenses	28	<u>2,435,849,791</u>	<u>2,120,009,284</u>
Customer services costs	29	<u>1,680,324,761</u>	<u>1,470,781,751</u>
Provision for doubtful debts		<u>43,188,003</u>	<u>67,928,134</u>
		<b>20,245,704,500</b>	<b>17,286,427,715</b>
Other income	30	<u>2,912,671,989</u>	<u>2,162,979,772</u>
<b>Operating loss</b>		<b>(34,512,526,340)</b>	<b>(13,702,650,806)</b>
Finance costs	31	<u>146,971,138</u>	<u>150,138,225</u>
<b>Loss before taxation</b>		<b>(34,659,497,478)</b>	<b>(13,852,789,031)</b>
Taxation	32	<u>5,111,564,457</u>	<u>2,097,097,484</u>
<b>Loss for the year</b>		<b><u>(39,771,061,935)</u></b>	<b><u>(15,949,886,515)</u></b>

The annexed notes from 1 to 44 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
Note	-----Rupees-----	
		(Restated)
Loss for the year	(39,771,061,935)	(15,949,886,515)
<b>Other comprehensive loss:</b>		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
- Actuarial loss relating to defined benefit plans	20.4 (12,921,151,906)	(4,086,496,775)
- Related deferred tax	21.1 3,876,345,572	1,266,814,000
	(9,044,806,334)	(2,819,682,775)
- Transfer of incremental depreciation relating to surplus on revaluation of property, plant and equipment	17 890,485,880	890,485,880
- Related deferred tax	(258,240,905)	(267,145,764)
	632,244,975	623,340,116
	<u>(8,412,561,359)</u>	<u>(2,196,342,659)</u>
<b>Total comprehensive loss for the year</b>	<u><b>(48,183,623,294)</b></u>	<u><b>(18,146,229,174)</b></u>

The annexed notes from 1 to 44 form an integral part of these financial statements.

  
 CHIEF EXECUTIVE

  
 DIRECTOR

**FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Share capital	Capital reserve	Revenue reserve	Total equity (Restated)
	Issued, subscribed and paid up	Revaluation surplus on property, plant and equipment	Accumulated profit / (loss)	
Note				
	10,000	-	1,920,232,569	1,920,242,569
Balance as at 01 July 2016 - as previously reported	-	27,591,499,820	-	27,591,499,820
Impact of changes in accounting policy - net of tax	-	-	(2,178,380,377)	(2,178,380,377)
Impact of retrospective adjustment of employees' benefits	10,000	27,591,499,820	(258,147,808)	27,333,362,012
Balance as at 01 July 2016 - restated	-	-	(15,949,886,515)	(15,949,886,515)
Loss for the year	-	-	(2,819,682,775)	(2,819,682,775)
Other comprehensive loss	-	-	(18,769,569,290)	(18,769,569,290)
Total comprehensive loss for the year	-	-	(18,769,569,290)	(18,769,569,290)
Transfer of incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of tax	-	(623,340,116)	623,340,116	-
Effect of change in tax rate on deferred tax of revaluation surplus	-	304,259,270	-	304,259,270
Balance as at 30 June 2017 - restated	10,000	27,272,418,974	(18,404,376,982)	8,868,051,992
Loss for the year	-	-	(39,771,061,935)	(39,771,061,935)
Other comprehensive loss	-	-	(9,044,806,334)	(9,044,806,334)
Total comprehensive loss for the year	-	-	(48,815,868,269)	(48,815,868,269)
Transfer of incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of tax	-	(632,244,975)	632,244,975	-
Effect of change in tax rate on deferred tax of revaluation surplus	-	135,066,953	-	135,066,953
Balance as at 30 June 2018	10,000	26,775,240,952	(66,588,000,276)	(39,812,749,324)

Rupees-----

The annexed notes from 1 to 44 form an integral part of these financial statements.

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 -----Rupees-----	2017  (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	33	10,811,260,770	8,952,457,371
Long-term security deposits received		1,133,639,355	795,303,966
Receipts against deposit works / service connections		4,039,375,046	4,943,286,138
Long-term deposits provided		(244,000)	(229,250)
Employee benefits paid		(4,000,505,819)	(3,420,112,214)
Long-term loans (given) / recovered		(8,697,347)	9,703,283
Finance cost paid		-	(192,836,234)
Tax paid		(1,156,866,457)	(536,659,715)
<b>Net cash generated from operating activities</b>		<b>10,817,961,548</b>	<b>10,550,913,345</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure incurred		(7,446,070,510)	(7,930,727,897)
Capital expenditure incurred on intangible assets		(71,072,504)	(140,152,669)
Profit on bank deposits and short-term investments		779,883,037	360,523,847
<b>Net cash used in investing activities</b>		<b>(6,737,259,977)</b>	<b>(7,710,356,719)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Re-payment of long-term loans		-	(236,610,891)
Receipt of long-term loans		959,264,954	1,665,551,520
<b>Net cash generated from financing activities</b>		<b>959,264,954</b>	<b>1,428,940,629</b>
<b>Net increase in cash and cash equivalents</b>		<b>5,039,966,525</b>	<b>4,269,497,255</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>12,064,601,316</b>	<b>7,795,104,061</b>
<b>Cash and cash equivalents at the end of the year</b>	34	<b>17,104,567,841</b>	<b>12,064,601,316</b>

The annexed notes from 1 to 44 form an integral part of these financial statements.

  
 CHIEF EXECUTIVE

  
 DIRECTOR



**FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. CORPORATE AND GENERAL INFORMATION**

**1.1 Legal status and operations**

**1.1.1** Faisalabad Electric Supply Company Limited (FESCO or "the Company") is a public limited company incorporated on March 21, 1998 under the provisions of the Companies Ordinance 1984 (repealed with the enactment of Companies Act, 2017). The Company was established to take over all the properties, rights, assets, obligations and liabilities of Faisalabad Area Electricity Board (FAEB) owned by Pakistan Water and Power Development Authority (WAPDA) and such other assets and liabilities as agreed. The principal activity of the Company is distribution and supply of electricity to public within defined geographical territory. The Company distributes and supplies electricity under a Distribution License granted by National Electric Power Regulatory Authority (NEPRA) pursuant to the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (NEPRA Act) and Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2018.

**1.1.2** The Company took over certain properties, assets, rights, obligations and liabilities relating to distribution of electricity from WAPDA under Business Transfer Agreement (BTA) dated June 29, 1998. The details of assets, liabilities and related matters as provided under clause 1.1 of the BTA have been finalized with WAPDA through a Supplementary Business Transfer Agreement (SBTA).

**1.1.3** Council of Common Interest (CCI) in its meeting held on 12 September 1993 approved the privatization of Thermal Power Generation Units (GENCOs) and power distribution companies (DISCOs) in a phased program. Cabinet Committee on Privatization (CCOP) in its meeting held on 17 February 2009 approved privatization of certain GENCOs and DISCOs, this decision was ratified by Federal Cabinet in its meeting, held on 06 January 2010. President and Prime Minister of Pakistan also approved privatization of GENCOs and DISCOs including the Company during a presentation given to them by Ministry of Privatization on 22 November 2010. Decision of President and Prime Minister has also been subsequently ratified by the Council of Common Interest (CCI) during its meeting held on 28 April 2011. Since October 2013, the CCOP approved the 68 Public Sector Enterprises (PSEs) for inclusion in the privatization program. FESCO has been approved by Cabinet Committee on Privatization (CCOP) for early implementation. The Privatization Commission (PC) on behalf of the Government of Pakistan (GoP) invited Expression of Interest (EOI) from prospective private sector strategic partner(s) to acquire the seventy-four percent (74%) shareholding in FESCO, currently owned by the GoP, together with management control on November 02, 2015. However, protests against privatization were started by the opposition parties and by labour unions. In order to give the union a chance to perform, the GoP has reconsidered the privatization mode of the power sector by shifting it from strategic sale to divestment through capital markets. CCOP in its meeting held on 14 July 2016 considered proposals regarding divestment of Power Sector Entities and PC to initiate process for listing of shares FESCO on the stock exchange through Initial Public Offering (IPO). It was also decided that GoP would retain the control of FESCO as well as management. The PC in its meeting held on 02 October 2017, had discussion on volume of circular debt and nature of losses being accrued in GENCOs and DISCOs and decided that the PC would seek approval of the government to privatize FESCO as strategic sale. The matter is now with the GoP.

**1.1.4** Geographical service area of FESCO comprises Faisalabad, Sargodha, Mianwali, Khushab, Jhang, Bhakker, T.T Singh and Chiniot districts. The registered office of the Company is situated at West Canal Road, Abdullahpur, Faisalabad. There are 25 Revenue Offices, 25 Divisions and 25 Other Offices (Finance Directorate, Regional Stores, Civil Works, Project Development Constructions etc.) which are located at the above geographical area.

**1.2 Summary of significant events and transactions in the current reporting period**

The Company's financial position and performance was particularly affected by the following events and transactions during the reporting period:

- a) During the year, the GoP notified the consumer tariff as determined by the NEPRA, effective from 22 March 2018 against multiyear tariff petition filed by the Company. (Note 25.1).
- b) Rs. 541 million has been incurred on the augmentation of 6 grid stations during the year. Further, 2 new transmission lines of 132KV amounted Rs. 1,071 million and transformers aggregated to Rs. 566 million have been transferred to operating fixed assets. (Note 4.1).
- c) Payment against foreign relent loans was suspended in pursuant to the advice of the Pakistan Electric Power Company Limited (PEPCO). (Note 18.1.5).
- d) The accounting policy for surplus on revaluation of operating fixed assets was changed during the year. Consequently, amounts reported in the prior years have been restated. (Note 3.3).

**2. BASIS OF PREPARATION**

**2.1 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 as applicable in Pakistan comprise of:

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

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

**2.2 Basis of measurement**

These financial statements have been prepared under historical cost convention, except for freehold land, building and distribution equipment measured at revalued amounts and certain employee benefits at present value.

**2.3 Functional and presentation currency**

The financial statements are prepared in Pak Rupees which is the functional and presentation currency of the Company.

**2.4 Significant accounting estimates and judgments**

The preparation of financial statements in conformity with the approved accounting standards requires 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, including expectation of future events that are believed to be reasonable under the circumstances.

These estimates / judgments and associated assumptions are reviewed on an ongoing basis. A revision to the accounting estimates is recognized in the period in which the estimates are revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

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

**2.4.1 Useful lives, residual values and depreciation method of operating fixed assets – (Note 3.4)**

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

The Company measures certain items of property, plant and equipment (as disclosed in note 4.1) at revalued amounts, with changes in fair value recognized in other comprehensive income and presented as a separate component of equity.

**2.4.2 Useful lives, residual values and amortization method of intangible assets – (Note 3.5)**

The Company assesses at each reporting date whether there is any indication that intangible assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in statement of profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

**2.4.3 Provision for doubtful debts – (Note 3.9)**

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

**2.4.4 Staff Retirement Benefits – (Note 3.11)**

Staff retirement benefits are provided to regular employees of the Company. Calculation of provision for staff retirement benefits requires assumptions to be made of the future outcomes, the principle ones being in respect of increase in remuneration, discount rate, average working life, inflation rate etc. used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

**2.4.5 Taxation – (Note 3.18)**

The Company takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Company's views differ from the views taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

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

**2.4.6 Provisions – (Note 3.16)**

The assessment of provisions inherently involves the exercise of significant judgment as the outcome of the future events cannot be predicted with certainty. The Company, based on the availability of the latest information, estimates the values of contingent assets and liabilities which may differ on the occurrence / non-occurrence of uncertain future events. Based on the expected outcomes and lawyers' judgments, appropriate disclosure or provision is made in the financial statements.

**2.4.7 Impairment – (Note 3.6)**

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated and impairment losses are recognized in the statement of profit or loss. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in statement of profit or loss.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years for which financial information is presented in these financial statements, except as stated in note 3.3 below.

**3.1 Standards, amendments and interpretations to approved accounting standards that are effective in current year**

The Company has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

**Standard or Interpretation**

IAS 7 Statement of Cash Flows - Disclosure Initiative - (Amendment)

IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

**3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

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

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 2: Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	01 January 2018
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	01 January 2018
IFRS 9 – Financial Instruments	01 July 2018
IFRS 9 – Prepayment Features with Negative Compensation – (Amendments)	01 January 2019
IFRS 10 – Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 15 – Revenue from Contracts with Customers	01 July 2018
IFRS 16 – Leases	01 January 2019
IAS 19 – Plan Amendment, Curtailment or Settlement – (Amendments)	01 January 2019
IAS 28 – Long-term Interests in Associates and Joint Ventures – (Amendments)	01 January 2019
IAS 40 – Investment Property: Transfers of Investment Property – (Amendments)	01 January 2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	01 January 2018
IFRIC 23 – Uncertainty over Income Tax Treatments	01 January 2019

The management is in the process of assessing the impact of changes laid down by these standards on its financial statements

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016 and December 2017. Such improvements are generally effective for accounting periods beginning on or after 01 January 2018 and 01 January 2019 respectively. The Company expects that such improvements to the standards will not have any impact on the Company's financial statements in the period of initial application

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after 1 January 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

Standard	IASB effective date (Annual periods beginning on or after)
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 17 – Insurance Contracts	01 January 2021

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**3.3 Change in accounting policy of revaluation surplus on property, plant and equipment**

The Companies Act, 2017 has introduced changes to the accounting and reporting standards applicable to the non-listed companies, which have been applied for the first time in these financial statements. The changes in the accounting and reporting standards have impacted the Company's accounting policy relating to the revaluation surplus on property, plant and equipment. Resultantly, the Company has changed its accounting policy for the revaluation surplus on property, plant and equipment, in accordance with requirements of the accounting and reporting standards as applicable in Pakistan under the Companies Act, 2017. Previously, the Company's accounting policy for surplus on revaluation of property, plant and equipment was in accordance with the provisions of section 235 of the repealed Companies Ordinance, 1984. Further, the revaluation surplus on property, plant and equipment was shown as a separate item below equity, in accordance with the presentation requirement of the repealed Companies Ordinance, 1984.

The Companies Act, 2017 has not retained the above mentioned specific accounting and presentation requirements of revaluation surplus on property, plant and equipment. Consequently, this impacted the Company's accounting policy for revaluation surplus on property, plant and equipment, and now the related accounting and presentation requirements set out in IAS 16 - Property, Plant and Equipment are being followed by the Company. The new accounting policy is explained under note 3.4 (b) below. Further, the revaluation surplus on property, plant and equipment is now presented in the statement of financial position and statement of changes in equity as a capital reserve i.e. part of equity.

In these financial statements, the above explained change in accounting policy has been accounted for retrospectively, with the restatement of the comparative information and the Company has presented its statement of financial position as at the beginning of the earliest comparative period i.e., July 01, 2016, and related notes in accordance with requirement of IAS 1 — Presentation of Financial Statements (Revised) (IAS 1). Had the accounting policy not been changed, the surplus on revaluation of property, plant and equipment would have been shown as a separate line item (below equity in the statement of financial position) amounting to Rs. 27,272 million and Rs. 27,591 million for the year ended 30 June 2017 and 2016 respectively.

The effect of change in accounting policy on financial statements is summarized below:

	As at 1 July 2016		
	As previously reported on 30 June 2016	Adjustments Increase / (Decrease)	As restated on 01 July 2016
	-----Rupees-----		
<b>Effect on statement of financial position:</b>			
Revaluation surplus on property, plant and equipment (below equity)	27,591,499,820	(27,591,499,820)	-
Share capital and reserves	-	27,591,499,820	27,591,499,820
<b>Effect on statement of changes in equity:</b>			
Capital reserves	-	27,591,499,820	27,591,499,820
	As at 30 June 2017		
	As previously reported on 30 June 2017	Adjustments Increase / (Decrease)	As restated on 30 June 2017 (Restated)
	-----Rupees-----		
<b>Effect on statement of financial position:</b>			
Revaluation surplus on property, plant and equipment (below equity)	27,272,418,974	(27,272,418,974)	-
Share capital and reserves	-	27,272,418,974	27,272,418,974
<b>Effect on statement of changes in equity:</b>			
Capital reserves	-	27,272,418,974	27,272,418,974

There was no cash flow impact as a result of the retrospective application of change in accounting policy.

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### 3.4 Property Plant and equipment

#### a) Operating fixed assets

##### Initial measurement

All items of operating fixed assets are initially recorded at cost.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the assets to a working condition for their intended use. Major renewals and improvements are capitalized. Minor replacement, repairs and maintenance are charged to statement of profit or loss.

##### Subsequent measurement

Items of operating fixed assets other than land, buildings and distribution equipment are stated at cost less accumulated depreciation and accumulated impairment losses, (if any).

Land, buildings and distribution equipment are measured at the revalued amount less accumulated depreciation and impairment loss (if any).

##### Depreciation

Depreciation is charged to statement of profit or loss on the straight-line method so as to write off the cost of an asset over its estimated useful life at the rates given in note 4.1. Depreciation on assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

Depreciation provided on construction equipment and vehicles during the period of construction of fixed assets is capitalized as part of the cost of fixed assets.

##### Disposal

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognized.

#### b) Revaluation surplus on property, plant and equipment

Any revaluation increase arising on the revaluation of land, buildings and distribution equipment is recognised in other comprehensive income and presented as a separate component of equity as "Revaluation surplus on property, plant and equipment", except to the extent that it reverses a revaluation decrease for the same asset previously recognised in statement of profit or loss, in which case the increase is credited to statement of profit or loss to the extent of the decrease previously charged. Any decrease in carrying amount arising on the revaluation of land, buildings and distribution equipment is charged to statement of profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus on property, plant and equipment relating to a previous revaluation of that asset. The revaluation reserve is not available for distribution to the Company's shareholders. The surplus on revaluation buildings and distribution equipment to the extent of incremental depreciation charged (net of deferred tax) is transferred to accumulated profit / loss. A revaluation surplus is recorded in other comprehensive income (OCI) and credited to the asset revaluation surplus in equity. However, the increase is recorded in the statement of profit or loss to the extent it reverses a revaluation deficit of the same asset previously. A decrease as a result of revaluation is recognised in the statement of profit or loss however, a decrease is recorded in statement of other comprehensive income to the extent of any credit balance entry in revaluation surplus in respect of same assets.

Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

During the year, the Company changed its accounting policy in respect of the accounting and presentation of revaluation surplus on property, plant and equipment. Previously, the Company's accounting policy was in accordance with the provisions of repealed Companies Ordinance, 1984. Those provisions and resultant previous policy of the company was not in alignment with the accounting treatment and presentation of revaluation surplus as prescribed in the IFRSs. However, the Companies Act, 2017 has not specified any accounting treatment for revaluation surplus, accordingly the Company has changed the accounting policy and is now following the IFRSs prescribed accounting treatment and presentation of revaluation surplus. The detailed information and impact of this change in policy is provided in note 3.3.

#### c) Capital work in progress

Capital work-in-progress is stated at cost on applicable overheads less impairment (if any).

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**3.5 Intangible assets**

**Measurement**

Expenditure incurred to acquire computer software are capitalized as intangible assets and stated at cost less accumulated amortization and any identified impairment loss, if any. Intangible assets are amortized using the straight line method over a period of five years.

Amortization on additions to intangible assets is charged from the month in which an asset is acquired or capitalized while no amortization is charged for the month in which the asset is disposed off.

**3.6 Impairment of non-financial assets other than store, spares and loose tools**

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

**3.7 Borrowing Cost**

Borrowing costs incurred on financing of a qualifying asset are capitalized up to the commissioning of the related asset acquired. All other borrowing costs are charged to the statement of profit or loss.

**3.8 Stores and spares and loose tools**

**Measurement**

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 location and condition.

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

**Impairment**

At each reporting date, stores and spares and loose tools are assessed for impairment. If stores and spares and loose tools is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the distribution costs in the statement of profit or loss.

**3.9 Trade debts**

**Measurement**

These are stated at original invoice value, less the provision for impairment, if any.

**Impairment**

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the statement of profit or loss. Bad debts are written-off in the statement of profit or loss on identification.

**Judgments and estimates**

The allowance for doubtful debts of the Company is based on the ageing analysis and management's continuous evaluation of the recoverability of the outstanding receivables. In assessing the ultimate realisation of these receivables, management considers, among other factors, the creditworthiness and the past collection history of customers. Provision for doubtful debts is made according to the policy approved by the Board of Directors of the Company as follows:

<b>Category of trade debts:</b>	<b>Policy</b>
For Government Arrears	No provision would be made
For Private Arrears	Provision equivalent to arrears, exceeding one year and deferred amounts would be made.

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**3.10 Cash and cash equivalents**

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

**3.11 Staff retirement benefits**

The Company provides unfunded pension, post-retirement medical, free electricity benefits and compensated absences to all its regular employees. Obligations for these benefits are determined on the basis of an actuarial valuation carried out by using the Projected Unit Credit Method as required by IAS-19, "Employee benefits".

Actuarial gains and losses are recognised in the other comprehensive income in the period in which they occur. Past-service costs are recognised immediately in the statement of profit or loss. The latest actuarial valuation of the plan was carried out as at 30 June 2018 by SIR CONSULTANTS.

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

**Other long term benefits**

The Company's employees are also entitled for accumulated compensated absences, which are encashed at the time of retirement up to a maximum limit of 365 days. Provisions are made annually to cover the obligation and are charged to statement of profit or loss currently. Actuarial gains and losses regarding compensated absences are recognized in the year of occurrence.

**3.12 Deferred credit**

Amounts received from consumers and the Government as contributions towards the cost of extension of the electricity distribution network, and for providing service connections, is deferred and amortized over the estimated useful lives of related assets. Amortization of deferred credit commences upon completion of related work which is taken to the statement of profit or loss each year corresponding to the depreciation charge of relevant asset for the year.

**3.13 Trade and other payables**

Trade payables are obligations under normal short-term credit terms. These are measured at the undiscounted amount of cash to be paid.

**3.14 Revenue recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and revenue can be measured reliably. The specific accounting policies are:

- a) **Electricity sale**  
Revenue related to electricity sales is recognized at the rates determined by NEPRA and notified by the Government of Pakistan, from time to time.
- b) **Tariff differential subsidy**  
Tariff differential subsidy is recognized in the relevant period on the basis of rates notified by Government of Pakistan (GoP) on accrual basis.
- c) **Rental and service income**  
Meter rentals are recognized on time proportionate basis.
- d) **Interest on bank deposits**  
Interest on bank deposits is recognized on time proportionate basis.
- e) **Sale of scrap**  
Revenue from sale of scrap is recognized on dispatch of goods.



**f) Amortization of deferred credit**

Deferred credit against consumers' contributions is released to statement of profit and loss over the expected useful life of assets underlying the contribution.

**g) Late payment surcharge**

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

**h) Fuel price adjustment**

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

**i) Gain on installation of new connections**

Gain/ loss on installation of new connections / deposit works is recognized up to 10% of variation between receipts against deposit works and actual expenditures incurred on the project.

**j) Profit on investment**

Profit on investments is recognized on the basis of effective yield.

**k) Service charges on collection of PTV fee and electricity duty**

Service charges on collection of PTV fee and electricity duty is recognized on the basis of actual billing collections from consumers.

**l) Miscellaneous income**

All other miscellaneous income is recognized on actual receipts basis.

**3.15 Borrowings**

**Measurement**

Loans are measured at amortised cost using the effective interest method.

**Interest**

Interest expense is recognised on the basis of the effective interest method and is included in finance costs. The borrowing cost on qualifying assets is included in the cost of the related assets.

**3.16 Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as finance cost in the statement of profit or loss.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

As the actual outflows can differ from estimates made for provisions due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are reviewed at each reporting date and adjusted to take account of such changes. Any adjustments to the amount of previously recognised provision is recognised in the statement of profit or loss unless the provision was originally recognised as part of cost of an asset.

**3.17 Contingent liabilities**

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

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**3.18 Income tax**

Income tax comprises of current tax and deferred tax.

Income tax expense is recognised 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 (if any), in which case the tax amounts are recognized directly in other comprehensive income or equity.

**Current tax**

Current tax is the expected tax payable on the taxable income for the year; calculated using rates enacted or substantively enacted by the end of the reporting period. The calculation of current tax takes into account tax credit and tax rebates, if any, and is inclusive of any adjustment to income tax payable or recoverable in respect of previous years.

**Deferred tax**

A deferred tax liability is recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and the carryforward of unused tax losses.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the reporting date.

**Judgment and estimates**

Significant judgment is required in determining the income tax expenses and corresponding provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Further, the carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. If required, carrying amount of deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits to allow the benefit of part or all of that recognised deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

**Off-setting**

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and they relate to income taxes levied by the same tax authority.

**3.19 Financial instruments**

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

**a) Financial assets****Classification and subsequent measurement**

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

**i Fair value through profit or loss**

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

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

**ii Held to maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity, when the Company has the positive intention and ability to hold these assets to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment, if any.

**iii Loans and receivables**

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

**iv Available for sale**

Available-for-sale financial assets are non-derivatives that are either designated in this category, or not classified in any of the other categories. These are included in non-current assets, unless management intends to dispose them off within twelve months of the date of the statement of financial position.

After initial measurement, available for sale financial investments are measured at fair value, with unrealized gains or losses recognized as other comprehensive income, until the investment is derecognized, at which time the cumulative gain or loss is recognized in income for the year.

The Company does not recognize any asset as available for sale in its financial statements, at the end of the year.

**Impairment of financial assets other than trade debts**

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

**b) Financial liabilities****Initial recognition and measurement**

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

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

**Subsequent measurement**

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

**i Fair value through profit or loss**

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

**ii Other financial liabilities**

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

**c) Offsetting of financial assets and financial liabilities**

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

**3.20 Foreign currency transactions**

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pakistan Rupees at the rate of exchange prevailing on the reporting date and exchange differences, if any, are charged in the statement of profit or loss.

4. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets  
Capital work-in-progress

Note  
2018  
2017  
Rupees

81,742,425,126	79,642,071,361
12,708,607,646	10,898,316,759
94,451,032,772	90,540,388,120

4.1 Operating fixed assets - owned

WRITTEN  
DOWN VALUE

Description	Note	COST / REVALUED AMOUNT		Rate %	ACCUMULATED DEPRECIATION		Transfers	WRITTEN DOWN VALUE	
		As at 01 July	Transfers		As at 30 June	For the year		As at 30 June	As at 30 June

2018	(4.1.1)	12,750,002,284	-	-	316,392,496	43,653,941	-	360,046,437	12,750,002,284
Freehold land		2,149,840,701	139,137,071	2	20,129,400,735	2,534,466,661	(147,298,188)	22,516,509,198	1,928,931,335
Building on freehold land		71,337,732,190	3,596,884,790	3.5	5,328,483,435	657,460,335	(262,344,398)	5,723,599,372	52,008,279,240
Feeders (up to 11 kv)		18,658,193,188	2,259,819,883	3.5	664,613,396	39,037,488	-	703,650,884	14,549,102,703
Grids and equipment		864,511,364	1,601,617	10	397,287,141	60,867,433	(229,253)	457,925,321	162,462,097
Vehicles		717,968,837	83,801,095	10-33.33	26,836,177,203	3,335,425,858	(409,871,849)	29,761,731,212	343,647,467
Furniture, fixtures and office equipment		106,478,248,564	6,091,244,456		23,728,468,840	3,159,772,652	52,064,289	26,836,177,203	81,742,425,126

2017

Freehold land		12,750,002,284	-	-	279,991,971	36,400,525	-	316,392,496	12,750,002,284
Building on freehold land		1,790,044,277	359,796,424	2	17,799,356,118	2,382,107,776	52,063,159	20,129,400,735	1,833,448,205
Feeders (up to 11 kv)		66,685,569,364	4,804,044,344	3.5	4,679,582,450	648,900,985	-	5,328,483,435	51,208,331,455
Grids and equipment		18,514,966,394	143,196,794	3.5	624,554,596	39,968,800	-	664,513,396	13,329,709,753
Vehicles		864,511,364	-	10	344,883,705	52,404,565	1,130	397,287,141	199,897,968
Furniture, fixtures and office equipment		553,608,320	164,361,647	10-33.33	23,728,468,840	3,159,772,652	52,064,289	26,836,177,203	320,681,696

4.1.1 As explained in note 1.1, the property and rights in the above assets were transferred to the Company on 29 June 1999 by WAPDA in accordance with terms and conditions of Business Transfer Agreement between WAPDA and the Company. Title of land valuing Rs. 9,952 million is in the name of WAPDA and title of land valuing of Rs. 4,454 million has neither been transferred in the name of WAPDA nor in the name of Company.

4.1.2 Had there been no revaluation, the cost, accumulated depreciation and book value of revalued assets would have been as follows:

4.1.2.1 The accumulated depreciation of Grid and equipment under cost model for year 2016 and 2017 were less charged amounting to Rs. 220,615,581 and Rs. 31,456,020 respectively. However, this has no impact on these financial statements and has now been rectified.

Description	2018		2017	
	Cost	Accumulated depreciation	Net Book Value	Accumulated depreciation (Restated)
Land - freehold	622,474,784	-	622,474,784	-
Building on freehold land	2,469,574,328	616,509,794	1,853,064,534	2,330,437,257
Feeders (up to 11 kv)	56,200,395,903	19,323,551,290	36,876,844,613	59,013,339,655
Grids and equipment	13,051,442,835	4,466,202,098	8,585,240,737	11,436,933,948
	72,343,887,850	24,408,263,182	47,937,624,668	67,403,185,844

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

Description	2018		2017	
	Cost	Accumulated depreciation	Net Book Value	Accumulated depreciation (Restated)
Distribution costs	3,241,243,247	-	3,241,243,247	-
Administrative expenses	64,779,991	-	64,779,991	-
Customer services costs	740,562	-	740,562	-
Included in capital work-in-progress	28,527,358	-	28,527,358	-
	3,335,425,858	-	3,335,425,858	-

4.1.4 Building on free hold land, Feeders (up to 11 kv) and Grids and equipment were revalued at 30 June 2013 by an independent valuer M/s FKS Building services and resulted in a surplus of Rs. 31,606 million over the written down value of Rs. 40,710 million

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4.2	Capital work in progress	Note	2018 -----Rupees-----	2017
	Civil works		112,266,647	66,017,450
	Distribution equipment	(4.2.1)	11,963,314,116	9,111,570,829
		(4.2.2)	12,075,580,763	9,177,588,279
	Cost of implementation of Enterprise Resource Planning		8,768,770	-
	Mobilization advance to suppliers / contractors		4,777,274	556,049,902
	Capital stores	(4.2.3)	619,480,839	964,678,578
			<u>12,708,607,646</u>	<u>10,698,316,759</u>

4.2.1 Breakup of distribution equipment is as follows:

	Material		7,347,140,069	5,075,196,793
	Overheads		1,134,593,040	949,919,878
	Contract		2,146,217,965	759,439,268
	Other	(4.2.1.1)	702,388,289	1,944,383,814
	Borrowing costs	(4.2.1.2)	632,974,753	382,631,076
			<u>11,963,314,116</u>	<u>9,111,570,829</u>

4.2.1.1 These includes various turnkey projects awarded for construction of 132 KV Grid Station at various locations of Faisalabad region.

4.2.1.2 This represents borrowing costs incurred specifically to finance the construction of grid station projects.

4.2.2 Movement in capital work-in-progress during the year:

	Balance at the beginning of the year		9,177,588,278	6,621,429,498
	Additions during the year		6,352,781,007	4,881,470,648
	Transfers to operating fixed assets during the year:			
	- Building on freehold land		(139,639,319)	(359,796,424)
	- Feeders, grids and equipment		(3,315,149,203)	(1,965,515,444)
			<u>(3,454,788,522)</u>	<u>(2,325,311,868)</u>
	Balance at the end of the year		<u>12,075,580,763</u>	<u>9,177,588,278</u>

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

5. INTANGIBLE ASSETS

Reconciliation of the carrying amounts at the beginning and end of the year is as follows:

Balance as at 01 July

	Cost		140,152,669	-
	Accumulated amortization		(28,030,534)	-
			<u>112,122,135</u>	-

Movement during the year

	Additions		71,072,504	140,152,669
	Amortization charge for the year		(29,215,076)	(28,030,534)
			<u>41,857,428</u>	<u>112,122,135</u>

Balance as at 30 June

	Cost		211,225,173	140,152,669
	Accumulated amortization		(57,245,610)	(28,030,534)
			<u>153,979,563</u>	<u>112,122,135</u>

Amortization rate (%)

20%                      20%

5.1 Amortization charge for the year has been allocated to administrative expenses.

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		2018	2017
		-----Rupees-----	
<b>6.</b>	<b>LONG-TERM LOANS</b>		
	Note		
	<b>Secured, considered good:</b>		
	To employees		
	House building / purchase of plot	152,136,378	144,751,397
	Vehicles / motor cycles	4,515,681	3,203,315
	(6.1)	<u>156,652,059</u>	<u>147,954,712</u>
	Less: current portion of long term loans shown under current assets	<u>(31,932,503)</u>	<u>(56,080,099)</u>
		<u><u>124,719,556</u></u>	<u><u>91,874,613</u></u>
6.1	House building / purchase of plot loans are repayable in 5 years (2017: 5 years) and car and motor-cycle loans in 3 years (2017: 3 years). As per the Company's policy, the rate of mark-up charged on these loans ranges from 11.30% to 14% (2017: 11.30% to 14%) per annum, which is the same rate as that payable on employees balances in the General Provident Fund. Loans are secured by a mortgage of immovable property and hypothecation of vehicles.		
<b>7.</b>	<b>STORES, SPARES AND LOOSE TOOLS</b>		
	Stores, spares and loose tools	2,759,445,807	2,931,947,919
	Provision for slow moving / obsolete items	(7.1) & (7.2) <u>(49,764,726)</u>	<u>(16,173,316)</u>
		<u><u>2,709,681,081</u></u>	<u><u>2,915,774,603</u></u>
7.1	<b>Movement in provision during the year is as follows:</b>		
	Balance at the beginning of the year	16,173,316	10,575,228
	Provision of slow moving / obsolete items	(28) <u>33,591,410</u>	<u>5,598,088</u>
	Balance at the end of the year	<u><u>49,764,726</u></u>	<u><u>16,173,316</u></u>
7.2	During the year, a fire broke out in Nishatabad Warehouse resulted in the damage of certain store and spares items. The Company constituted the evaluation committee to estimate the damage. The Committee submitted its draft report in June 2018, on the basis of which a provision amounted to Rs. 29 million has been recognized against potential loss.		
<b>8.</b>	<b>TRADE DEBTS</b>		
	Considered good		
	- from Government	290,225,337	186,390,876
	- from private consumers	(8.1) <u>21,702,667,324</u>	<u>17,733,594,518</u>
		<u>21,992,892,661</u>	<u>17,919,985,394</u>
	Considered doubtful - from private consumers	<u>771,241,768</u>	<u>728,053,767</u>
		<u>22,764,134,429</u>	<u>18,648,039,161</u>
	Less: Taxes/surcharges due from energy debtors	(10.1) <u>(3,614,158,937)</u>	<u>(4,766,159,913)</u>
	Less: Provision for doubtful debts	(8.2) <u>(771,241,768)</u>	<u>(728,053,767)</u>
		<u><u>18,378,733,724</u></u>	<u><u>13,153,825,481</u></u>
8.1	These are secured to the extent of the consumers' security deposits against electricity connections, as disclosed in note 19.		

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		2018	2017
		-----Rupees-----	
8.2	<b>Movement in provision</b>		
	<b>for doubtful debts is as follows:</b>		
	Balance at the beginning of the year	728,053,767	660,125,633
	Provision made during the year	43,188,003	67,928,134
	Balance at the end of the year	<u>771,241,770</u>	<u>728,053,767</u>
9.	<b>SHORT-TERM ADVANCES</b>		
	<b>Considered good - unsecured</b>		
	- to suppliers	10,480,492	42,261,506
	- to employees against operating expenses	9,697,788	15,295,857
	- for sports	2,981,120	438,666
		<u>23,159,400</u>	<u>57,996,029</u>
10.	<b>OTHER RECEIVABLES</b>		<b>(Restated)</b>
	Due from energy debtors	(10.1) 6,381,862,293	5,752,626,988
	Receivables from suppliers against guarantee / warranty material	56,570,918	139,423,360
	<b>Unsecured, considered good:</b>		
	<b>From related parties</b>		
	Central Power Purchasing Agency	-	7,643,188,582
	Other related parties on account of:		
	- Free electricity	(10.2) 860,810,359	784,285,589
	- Pension	(10.3) 5,526,196,711	4,959,605,284
	- WAPDA welfare fund	439,174,393	365,824,131
		6,826,181,463	6,109,715,004
	Others	(10.5) 23,276,872	17,309,348
		<u>13,287,891,546</u>	<u>19,662,263,282</u>
10.1	<b>Due from energy debtors:</b>		
	General sales tax	5,376,614,849	4,763,690,782
	Income tax	125,393,014	105,425,984
	Tariff rationalization surcharge	(10.1.1) 414,926,330	443,825,278
	Finance cost surcharge	(10.1.2) 230,881,654	218,798,407
	Electricity duty	73,406,024	65,059,961
	Equalization surcharge	(10.1.3) 1,342,875	922,510
	Extra / Further sales tax	55,123,715	54,483,599
	PTV license fee	46,283,652	45,894,584
	Neelum Jhelum surcharge	57,890,180	54,525,884
		<u>6,381,862,293</u>	<u>5,752,626,989</u>

10.1.1 This represents Tariff Realization Surcharge receivable from the consumers pursuant to S.R.O 568(1)/2015, dated 10 June 2015 issued by the Power Division, Ministry of Energy, GoP. The amount of surcharge is to be kept in escrow account of CPPA-G for discharging of determined cost of power producers by the CPPA-G. During the year, GoP vide S.R.O 376(1)/2018, dated 22 March 2018 revised the tariff rationalization surcharge rates for categories of electricity consumers in the revised schedule of electricity tariff for the Company.

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- 10.1.2** This represents Financing Cost Surcharge receivable from the consumers pursuant to S.R.O 568(1)/2015, dated 10 June 2015 issued by the Power Division, Ministry of Energy, GoP. The amount of surcharge is to be kept in escrow account of CPPA-G for exclusive use of discharging the financing cost of various loans obtained to discharge liabilities of power producers against the sovereign guarantees of the GoP.
- 10.1.3** This represents Equalization Surcharge receivable from consumers pursuant to S.R.O 236(1)2011, dated 15 March 2011 issued by the Power Division Ministry of Energy, GoP.
- 10.2** This represents the net amount receivable from WAPDA and other related parties on account of free electricity provided to the employees of these companies residing within the Company's territorial jurisdiction as disclosed below:

Note	2018 -----Rupees-----	2017
National Transmission and Despatch Company Limited	245,191,507	216,402,497
Islamabad Electric Supply Company Limited	117,687,297	114,607,205
Peshawar Electric Supply Company Limited	60,157,560	58,547,083
Gujranwala Electric Power Company Limited	28,237,510	26,673,601
Quetta Electric Supply Company Limited	15,744,048	13,651,103
Hyderabad Electric Supply Company Limited	3,147,008	2,957,737
Tribal Area Electric Supply Company Limited	1,165,490	1,005,465
Northern Power Generation Company Limited	382,515,231	344,111,823
Central Power Generation Company Limited	4,378,193	3,921,863
Lakhra Power Generation Company Limited	1,805,717	1,630,182
Jamshoro Power Company Limited	780,798	777,030
	<u>860,810,359</u>	<u>784,285,589</u>

- 10.3** This represents the amount receivable from WAPDA and other related parties on account of pension paid to the retired employees of these companies residing within the Company's territorial jurisdiction as disclosed below:

			(Restated)
Water and Power Development Authority	(10.3.1)	4,430,681,582	4,072,359,691
National Transmission and Despatch Company Limited		413,356,188	288,324,887
Islamabad Electric Supply Company Limited		82,892,607	80,268,632
Peshawar Electric Supply Company Limited		-	3,833,443
Gujranwala Electric Power Company Limited		48,985,668	38,006,141
Quetta Electric Supply Company Limited		17,968,720	13,493,953
Hyderabad Electric Supply Company Limited		14,547,724	14,045,308
Tribal Area Electric Supply Company Limited		550,099	279,331
Sukkur Electric Power Company Limited		6,917,262	7,561,318
Multan Electric Power Company Limited		165,111,958	167,151,330
Lahore Electric Supply Company Limited		37,306,955	56,475,466
Northern Power Generation Company Limited		274,922,861	194,335,498
Central Power Generation Company Limited		27,153,167	19,626,585
Lakhra Power Generation Company Limited		1,227,207	1,264,292
Jamshoro Power Company Limited		4,574,713	2,579,409
		<u>5,526,196,711</u>	<u>4,959,605,284</u>



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10.3.1 This includes receivable from WAPDA amounting to Rs. 1,100 million (2017: Rs.1,100 million) on account of monthly pension payments to retired WAPDA employees who retired on or before 30 June 1998 (ex-WAPDA pensioners). The settlement of the receivable has been contested between the Company and PEPCO since 2009, and upon a request raised by PEPCO in the past, the Power Division, Ministry of Energy, GoP referred the matter to NEPRA. NEPRA in its tariff determination dated 10 March 2015 has decided that above amount is receivable from the WAPDA.

10.5 This includes an amount of Rs. 23 million (2017: Rs. 17 million) receivable against shortage and/or theft.

11. TAX REFUNDS DUE FROM THE GOVERNMENT	Note	2018 -----Rupees-----	2017
Sales tax		8,234,100,283	7,771,370,049
Income tax		<u>279,473,484</u>	<u>222,758,959</u>
		<u><u>8,513,573,767</u></u>	<u><u>7,994,129,008</u></u>

**12. RECEIVABLE FROM GOVERNMENT OF PAKISTAN**

Balance at the beginning of the year		-	-
Tariff Differential Subsidy recognized during the year	(12.1)	20,132,058,251	13,756,204,780
Adjusted against Tariff Rationalization Surcharge with CPPA - G	(12.2)	<u>(17,325,630,768)</u>	<u>(13,756,204,780)</u>
Balance at the end of the year		<u><u>2,806,427,483</u></u>	<u><u>-</u></u>

12.1 This represents Tariff Differential Subsidy receivable from 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.

12.2 This has been adjusted against receivable from GoP on account of tariff differential subsidy invoices as allowed by the Power Division Ministry of Energy, vide letter No SBC-15(32)/2012(I) dated 22 July 2015.

**13. SHORT-TERM INVESTMENTS**

**Held to maturity investments**

- Term Deposit Receipts (TDRs)	(13.1)	<u><u>11,200,000,000</u></u>	<u><u>4,970,000,000</u></u>
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13.1 These represent term deposits placed in local currency with different banks having maturity of three months (2017: three months) at rates ranging from 5.95% to 6.75% (2017: 6.0% to 6.50%) per annum.

13.2 Term deposit receipts Includes an amount of Rs. 7,900 million (2017: Rs. 4,270 million) relating to customers' security deposits.

**14. CASH AND BANK BALANCES**

Cash in transit	(14.1)	202,927,130	237,120,147
Current accounts		<u>1,458,165,724</u>	<u>885,154,888</u>
Deposit accounts	(14.2) & (14.3)	<u>4,243,474,987</u>	<u>5,972,326,281</u>
		<u><u>5,701,640,711</u></u>	<u><u>6,857,481,169</u></u>
		<u><u>5,904,567,841</u></u>	<u><u>7,094,601,316</u></u>

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- 14.1 This represents cash transmitted by the National Database and Registration Authority (NARDA) against collection of consumer bills but not yet received by the Company at reporting date.
- 14.2 These carry mark-up ranging from 4% to 6.65% (2017: 3% to 4%) per annum.
- 14.3 Included herein is an amount of Rs. 134 million (2017: Rs. 2,204.63 million) kept in separate bank accounts relating to customers' security deposits.

**15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

2018	2017	Note	2018	2017
--Number of shares--			-----Rupees-----	
Ordinary shares of Rs. 10 each, issued for consideration in cash				
<u>1,000</u>	<u>1,000</u>	(15.1)	<u>10,000</u>	<u>10,000</u>

- 15.1 These represent shares which are held by the Government of Pakistan (GoP) and its nominees.

**16. DEPOSIT FOR SHARES**

**(Restated)**

Transfer on account of clearance of circular debt	(16.1)	<u>19,411,172,270</u>	<u>20,244,758,340</u>
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- 16.1 The finance division of Government of Pakistan vide its letter No F.1(5) CF-1/2012-13/1017 dated July 2, 2013 had transferred Rs. 341.96 billion in PEPCO's account through State Bank of Pakistan on June 27, 2013 for settlement of power sector circular debt payable to Independent Power Producers (IPPs) and other entities. PEPCO on the basis of above letter allocated Rs. 20.24 billion to FESCO against which CPPA has issued a credit advice bearing no. PPA-199 FESCO dated 21 June 2013 to the Company being the adjustment on account of Government of Pakistan equity / investment against settlement of power sector circular debt. During 2016-17, Finance Division, GOP vide its letter No. F.1(4)-CF.1/2015-16/443 dated April 28, 2016 instructed PEPCO to adjust the Tariff Differential Subsidy (TDS) receivable of respective distribution companies against GOP Equity/Share deposit money. Accordingly CPPA-G had issued a credit note to the Company adjusting TDS receivable of Rs. 833 million against Government of Pakistan-Share Deposit Money.

**17. SURPLUS ON REVALUATION OF PROPERTY,  
PLANT AND EQUIPMENT - net of tax**

**(Restated)**

Balance at the beginning of the year		33,648,595,707	34,539,081,587
Transfer to accumulated profit in respect of incremental depreciation		<u>(890,485,880)</u>	<u>(890,485,880)</u>
		32,758,109,827	33,648,595,707
<b>Impact of deferred taxation</b>			
Deferred tax liability at the beginning of the year		<u>(6,376,176,733)</u>	<u>(6,947,581,767)</u>
Deferred tax liability on incremental depreciation charged during the year		258,240,905	267,145,764
Reduction in deferred tax liability	(17.1)	135,066,953	304,259,270
		<u>(5,982,868,875)</u>	<u>(6,376,176,733)</u>
Balance at the end of the year - net of tax		<u>26,775,240,952</u>	<u>27,272,418,974</u>

- 17.1 This reduction resulted from change in applicable rate from 30% to 29%.

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18. LOANS AND BORROWINGS - secured	Note	2018	2017
		-----Rupees-----	
From Government of Pakistan out of Asian Development Bank			
- Tranch I	(18.1.1)	832,226,142	832,226,140
- Tranch II	(18.1.2)	1,000,702,296	918,650,180
- Tranch III	(18.1.3)	1,970,538,397	1,197,197,281
- Tranch IV	(18.1.4)	1,411,407,338	1,307,535,618
	(18.1)	<u>5,214,874,173</u>	<u>4,255,609,219</u>
Less: Current portion shown under current liabilities		<u>(653,644,318)</u>	<u>(220,282,042)</u>
		<u>4,561,229,855</u>	<u>4,035,327,177</u>

**18.1 Asian Development Bank**

These loans have been granted by Asian Development Bank (ADB) to GoP which have been relent to the Company on account of Power Distribution Enhancement Investment Program. These loans have been secured against the guarantee provided by GoP. Salient features of the loans are as follows:

Loan	Loan Amount		Loan Availed		2018 Loan un-availed	
	US\$	PKR	US\$	PKR	US\$	PKR
	- Tranch I	17,654,000	1,526,820,410	17,654,000	1,526,820,410	-
- Tranch II	11,230,000	1,168,668,083	10,218,068	1,045,212,424	1,011,932	123,455,659
- Tranch III	24,110,000	2,631,370,209	18,693,346	1,970,538,398	5,416,654	660,831,811
- Tranch IV	15,860,000	1,700,000,992	13,494,478	1,411,407,339	2,365,522	288,593,654
	<u>68,854,000</u>	<u>7,026,859,694</u>	<u>60,059,892</u>	<u>5,953,978,570</u>	<u>8,794,108</u>	<u>1,072,881,124</u>

**18.1.1 Tranch I:**

The repayment of loan started in February 2011 and entire loan would be repaid in 26 equal half yearly installments. The Company shall pay interest at the rate of 17% (2017: 17%) per annum which includes Exchange Risk Component (ERC) at 6% (2017: 6%) per annum and commitment charges at the rate of 0.15% (2017: 0.15%) per annum on the un-disbursed amount of loan.

**18.1.2 Tranch II:**

The repayment of loan started in June 2014 and entire loan would be repaid in 34 equal half yearly installments. The Company shall pay interest at the rate of 15% (2017: 15%) per annum which includes Exchange Risk Component (ERC) at 6.8% (2017: 6.8%) per annum and commitment charges at the rate of 0.15% (2017: 0.15%) per annum on the un-disbursed amount of loan.

**18.1.3 Tranch III:**

The repayment of loan started in June 2018 and entire loan would be repaid in 40 equal half yearly installments. The Company shall pay interest at the rate of 15% (2017: 15%) per annum which includes Exchange Risk Component at 6.8% per annum and commitment charges at the rate of 0.15% (2017: 0.15%) per annum on the un-disbursed amount of loan.

**18.1.4 Tranch IV:**

The repayment of loan would start in June 2019 and entire loan would be repaid in 40 equal half yearly installments. The Company shall pay interest at the rate of 15% (2017: 15%) per annum which includes Exchange Risk Component at 6.8% per annum and commitment charges at the rate of 0.15% (2017: 0.15%) per annum on the un-disbursed amount of loan.

**18.1.5 Repayment of Loan**

PEPCO vide its letter no. DGCPCC/PEPCO/2152-63 dated February 20, 2017 directed the Company that the payment of debt service on account of Foreign Relent Loans may be withheld till the final decision on the matter that debt service by the WAPDA, GENCOs and DISCOs may be adjusted against their receivable from GoP. Resultantly, the Company did not make any payment in respect of Foreign Relent Loans. However, the Economic Affair Division, GoP in its letter vide 6-15(1)/DM/GF/2011 dated 02 October 2018 demanded repayment of principal along with mark up (including exchange risk fee) amounting to Rs. 339 million and Rs. 1,217 million respectively.

**19. LONG-TERM SECURITY DEPOSITS**

Long-term security deposits	(19.1)	<u>7,082,383,461</u>	<u>5,948,744,106</u>
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**19.1** These represent security deposits received from consumers at the time of installation of electricity connections and are refundable / adjustable on disconnection of electricity supply.

**20. STAFF RETIREMENT BENEFITS**

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

	Pension obligations - unfunded		Medical benefits		Free electricity		Compensated absences		Total	
	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)
Present value of defined benefit obligations	54,927,199,515	40,686,903,810	5,291,461,198	4,544,843,833	5,445,976,996	5,152,398,379	3,523,301,986	3,147,403,421	69,196,939,795	53,531,549,443
<b>20.2 Changes in the present value of defined benefit obligations:</b>										
Balance at the beginning of the year	40,686,903,810	37,947,414,339	4,544,843,833	2,798,772,940	5,152,398,379	4,228,284,137	3,147,403,421	2,743,208,689	53,531,549,443	47,717,680,105
Current service cost	1,366,016,078	518,560,481	89,720,066	53,356,008	87,466,531	54,802,531	97,894,069	79,638,373	1,641,096,744	706,357,393
Interest cost	3,613,118,429	3,289,420,004	405,353,312	239,508,466	470,714,058	374,462,032	275,990,382	237,295,658	4,765,186,181	4,140,686,160
Benefits paid during the year	(3,220,787,584)	(2,796,606,379)	(325,075,501)	(275,135,519)	(127,195,508)	(135,189,793)	(327,447,226)	(213,180,523)	(4,000,505,819)	(3,420,112,214)
Actuarial loss / (gain) on obligation	12,481,948,882	1,728,115,365	576,609,488	1,728,341,938	(137,406,464)	630,039,472	338,461,340	300,441,224	13,259,613,246	4,386,937,999
Balance at the end of the year	54,927,199,515	40,686,903,810	5,291,461,198	4,544,843,833	5,445,976,996	5,152,398,379	3,523,301,986	3,147,403,421	69,196,939,795	53,531,549,443

**20.3 Charge to statement of profit or loss**

Current service cost	1,366,016,078	518,560,481	89,720,066	53,356,008	87,466,531	54,802,531	97,894,069	79,638,373	1,641,096,744	706,357,393
Interest cost	3,613,118,429	3,289,420,004	405,353,312	239,508,466	470,714,058	374,462,032	275,990,382	237,295,658	4,765,186,181	4,140,686,160
Actuarial loss / (gain)	(20,411)	4,979,134,507	3,907,980,485	495,083,378	292,984,474	558,190,589	429,264,563	712,345,791	617,375,255	6,744,744,265
<b>20.4 Charge to other comprehensive income</b>										
Actuarial loss / (gain)	(20,411)	12,481,948,882	1,728,115,365	576,609,488	1,728,341,938	(137,406,464)	630,039,472	-	13,259,613,246	4,086,496,775

**20.4.1 Break-up of actuarial loss / (gain)**

Financial assumptions	2,987,257,105	(134,252,745)	254,719,345	365,193,181	(44,354,089)	758,101,429	387,142,934	2,089,931	3,424,472,545	991,135,796
Demographic assumptions	3,464,032,275	2,072,925,382	524,184,822	1,373,840,777	(44,354,089)	(133,432,123)	81,318,455	298,352,293	3,774,921,455	3,311,587,325
Experience adjustments	12,371,349,381	1,918,573,637	578,901,467	1,739,038,958	(89,308,176)	634,659,303	338,461,339	300,441,224	13,199,404,011	4,592,723,122

**20.5 Significant actuarial assumptions at the reporting date are:**

Discount rate for PVDBO (per annum)	10.00%	9.25%	10.00%	9.25%	10.00%	9.25%	10.00%	9.25%	10.00%	9.25%
Discount rate for profit or loss (per annum)	9.25%	9.00%	9.25%	9.00%	9.25%	9.00%	9.25%	9.00%	9.25%	9.00%
Salary increase rate (per annum) - Long term	9.00%	8.25%	9.00%	8.25%	9.00%	8.25%	9.00%	8.25%	9.00%	8.25%
Salary increase rate (per annum) - short term (1 year)	20.00%	8.25%	20.00%	8.25%	20.00%	8.25%	20.00%	8.25%	20.00%	8.25%
Pension indexation rate (per annum)	4.00%	3.25%	-	-	-	-	-	-	-	-
Medical Inflation rate (per annum) - facility	-	-	8.00%	7.25%	-	-	-	-	-	-
Medical Inflation rate (per annum) - allowance	-	-	3.00%	2.25%	-	-	-	-	-	-
Medical take-up rate of allowances - in service	-	-	50.00%	50.00%	-	-	-	-	-	-
Electricity Inflation rate (per annum)	-	-	-	-	9.00%	-	7.00%	-	-	-
Withdrawal rate	-	-	-	-	-	-	-	-	-	-
Mortality rate	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Annual medical claim (Rs/ per annum)	2001-2005	2001-2005	2001-2005	2001-2005	2001-2005	2001-2005	2001-2005	2001-2005	2001-2005	2001-2005
Normal retirement age (years)	60	60	60	60	60	60	60	60	60	60
Duration of scheme (years)	12.63	12.95	14.75	13.05	17.20	13.05	9.58	12.95		

20.6 Sensitivity analysis:

	Pension obligations - unfunded		Medical benefits		Free electricity		Compensated absences	
	%	Amount	%	Amount	%	Amount	%	Amount
<b>2018</b>								
<b>Effect of change in discount rate</b>								
1% increase	11.00%	48,729,333,391	11.00%	4,524,663,493	11.00%	4,630,584,769	11.00%	3,223,003,465
1% decrease	9.00%	62,604,315,171	9.00%	6,291,339,006	9.00%	6,503,508,857	9.00%	3,900,069,090
<b>Effect of change in salary increase rate</b>								
1% increase	10.00%	57,505,411,705	-	-	-	-	10.00%	3,896,992,674
1% decrease	8.00%	52,664,069,706	-	-	-	-	8.00%	3,220,307,794
<b>Effect of change pension indexation rate</b>								
1% increase	5.00%	60,042,288,585	-	-	-	-	-	-
1% decrease	3.00%	50,555,001,126	-	-	-	-	-	-
<b>Effect of change withdrawal rates</b>								
10% increase	-	54,903,914,665	-	5,287,383,559	-	-	-	-
10% decrease	-	54,950,618,481	-	5,295,563,243	-	-	-	-
<b>Effect of change mortality age</b>								
1 year mortality age set back	-	54,989,762,542	-	5,277,962,248	-	-	-	-
1 year mortality age set forward	-	54,967,752,141	-	5,304,872,298	-	-	-	-
<b>Effect of change in medical inflation rate</b>								
1% increase	-	-	9.00%	5,846,414,029	-	-	-	-
1% decrease	-	-	7.00%	4,822,558,953	-	-	-	-
<b>Effect of change in electricity indexation rate</b>								
1% increase	-	-	-	-	10.00%	6,221,746,753	-	-
1% decrease	-	-	-	-	8.00%	4,801,589,482	-	-

Continued.

## Sensitivity analysis:

	Pension obligations - unfunded		Medical benefits		Free electricity		Compensated absences	
	%	Amount	%	Amount	%	Amount	%	Amount
<b>2017</b>								
<b>Effect of change in discount rate</b>								
1% increase	10.25%	36,157,936,218	10.25%	4,014,224,377	10.25%	4,027,864,262	10.25%	2,852,456,041
1% decrease	8.25%	42,298,475,057	8.25%	5,026,921,950	8.25%	5,736,449,959	8.25%	3,502,719,214
<b>Effect of change in salary increase rate</b>								
1% increase	9.25%	41,227,470,742	-	-	-	-	9.25%	3,518,602,381
1% decrease	7.25%	37,015,244,418	-	-	-	-	7.25%	2,834,522,705
<b>Effect of change pension indexation rate</b>								
1% increase	4.25%	40,239,721,510	-	-	-	-	-	-
1% decrease	2.25%	37,897,770,430	-	-	-	-	-	-
<b>Effect of change withdrawal rates</b>								
10% increase	-	38,966,542,755	-	4,451,042,064	-	4,766,411,453	-	-
10% decrease	-	39,007,836,191	-	4,457,947,339	-	4,771,827,011	-	-
<b>Effect of change mortality age</b>								
1 year mortality age set back	-	39,042,700,828	-	4,500,729,464	-	4,766,466,737	-	-
1 year mortality age set forward	-	38,934,185,379	-	4,418,679,110	-	4,771,748,534	-	-
<b>Effect of change in medical inflation rate</b>								
1% increase	-	-	8.25%	5,026,921,950	-	-	-	-
1% decrease	-	-	6.25%	4,848,551,616	-	-	-	-

**20.7 Description of risks to the Company**

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

**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 Risk:**

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

21. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognized by the Company, and the movements thereon, during the current and prior reporting year:

	Note	2018 -----Rupees-----	2017 (Restated)
<b>Deferred tax liability on taxable temporary differences arising in respect of:</b>			
- Accelerated tax depreciation on fixed assets		9,053,841,194	8,826,827,428
- Surplus on revaluation of fixed assets		5,982,868,875	6,376,176,733
	(21.1)	<u>15,036,710,069</u>	<u>15,203,004,161</u>
<b>Deferred tax asset on deductible temporary differences arising in respect of:</b>			
- Intangible assets		(3,159,727)	-
- Provision for doubtful debts		(223,660,113)	(218,416,130)
- Provision for slow moving items		(14,431,771)	(4,851,995)
- Provision for staff retirement benefits		(20,067,112,541)	(16,059,464,833)
- Minimum tax carried forward		(1,139,178,537)	(526,024,214)
		<u>(21,447,542,689)</u>	<u>(16,808,757,172)</u>
		<u>(6,410,832,620)</u>	<u>(1,605,753,011)</u>
Unrecognized deferred tax asset	(21.2)	<u>6,410,832,620</u>	<u>1,605,753,011</u>
		<u>-</u>	<u>-</u>

21.1 Movement in deferred tax:

Balance at the beginning of the year		-	-
Recognized as deferred tax expense in statement of profit and loss:			
- Accelerated tax depreciation on fixed assets		227,013,766	98,759,587
- Surplus on revaluation of fixed assets		(258,240,905)	(267,145,764)
- Intangible assets		(3,159,727)	-
- Provision for doubtful debts		(5,243,983)	(13,777,184)
- Provision for slow moving items		(9,579,776)	(1,573,674)
- Provision for staff retirement benefits		(131,302,136)	(675,467,917)
- Minimum tax carried forward		(613,154,323)	(526,024,214)
- Deferred tax recognized as expense		<u>4,805,079,609</u>	<u>2,956,302,436</u>
		<u>4,011,412,525</u>	<u>1,571,073,270</u>
Recognized in surplus on revaluation of fixed assets:			
- Effect of change in tax rate		<u>(135,066,953)</u>	<u>(304,259,270)</u>
Recognized as deferred tax income in other comprehensive income:			
- Staff retirement benefits		<u>(3,876,345,572)</u>	<u>(1,266,814,000)</u>
Balance at year end		<u>-</u>	<u>-</u>

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21.2 The Company has recognized deferred tax asset on its deductible temporary differences and tax losses to the extent of available taxable temporary differences. Owing to uncertainty relating to future taxable profits, against which the Company can utilize its tax losses and tax credits, the Company has not recognized any deferred tax asset for tax losses amounting to Rs. 126,271 million (2017: 100,761 million) and minimum tax of Rs. 1,139 million (2017: Rs. 526 million). Expiry of aggregate tax losses and minimum tax carried forward is as follows:

<u>Expiry Tax Year</u>	<u>Nature</u>	<u>2017</u>	<u>2016</u>
-----Rupees-----			
2018	Business loss FY - 2012	13,181,898,932	13,181,898,932
2019	Business loss FY - 2013	30,090,938,977	30,090,938,977
2020	Business loss FY - 2014	18,534,116,972	18,534,116,972
2021	Business loss FY - 2015	15,059,765,364	15,059,765,364
2022	Business loss FY - 2016	23,894,077,810	23,894,077,810
2023	Business loss FY - 2017	25,510,047,523	-
		<u>126,270,845,578</u>	<u>100,760,798,055</u>
2023	Minimum tax	1,139,178,537	526,024,214
No Expiry	Depreciation loss	45,733,941,568	41,810,631,781
		<u>173,143,965,683</u>	<u>143,097,454,050</u>

<u>2018</u>	<u>2017</u>
-----Rupees-----	
<b>22. DEFERRED CREDIT</b>	<b>Note</b>
Contributions against connections installed / deposit works:	
Balance as at 01 July	35,952,205,419
Additions during the year	2,302,560,904
	<u>38,254,766,323</u>
<b>Amortization</b>	
Balance at the beginning of the year	11,882,676,012
For the year	1,338,916,821
	<u>13,221,592,833</u>
Receipts against deposit works and connections waiting account	(22.1) 9,288,804,563
Closing Balance for the year	<u>34,321,978,053</u>

22.1 This represents the capital contribution received from the consumers and Government against which assets are being / (to be) constructed by the Company.

**23. TRADE AND OTHER PAYABLES**

Creditors		752,283,121	1,501,651,000
<b>Other payables:</b>			
Provision for Workers' Profit Participation Fund	(23.1)	110,185,918	110,185,918
<b>Due to related parties:</b>			
Central Power Purchasing Agency	(23.2)	41,934,220,810	-
National Transmission and Despatch Company Limited	(23.3)	2,085,890,679	-
Due to other related parties on account of:			
- Free electricity	(23.4)	953,620,738	976,496,408
- Pension	(23.5)	51,216,978	-
		<u>1,004,837,716</u>	<u>976,496,408</u>
Billing related payables	(23.6)	14,035,960,708	16,938,108,956
Excess receipt against deposit work		239,525,116	271,387,982
Accrued liabilities		227,856,515	160,834,997
Excess of output over input		-	322,106,338
Withholding taxes payable		46,140,517	-
Retention from contractors		93,641,915	45,007,355
Others		178,634,883	1,000,400,703
		<u>60,709,177,898</u>	<u>21,326,179,657</u>



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23.1 The Company has held payment of its contribution towards Workers' Profit Participation Fund (WPPF) relating to profit for the years ended 30 June 2004 and 30 June 2005. The matter is pending for decision with the Economic Coordination Committee upon a recommendation submitted by WAPDA to exempt the corporatized entities under its umbrella from the requirements of the Companies Profit (Workers' Participation) Act, 1968. Further, the Company has not made provision against WPPF amounting to Rs. 2,839 million in respect of 2015 and no provision for current and prior year has been made since the Company has not earned profit.

23.2 This represents amount due to CPPA against purchase of electricity.

23.3 This represents amount payable to National Transmission and Despatch Company Limited against use of system charges.

**23.4 Due to related parties on account of free electricity - net**

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

Note	2018 -----Rupees-----	2017
Multan Electric Power Company Limited	82,732,041	87,533,755
Lahore Electric Supply Company Limited	641,535,824	653,151,265
Pakistan Electric Power Company Limited	136,201,767	136,369,687
Sukkur Electric Power Company Limited	255,861	208,661
Water and Power Development Authority	92,895,245	99,233,040
	<u>953,620,738</u>	<u>976,496,408</u>

**23.5 Due to related parties on account of pension - net**

This represents amounts payable to Peshawar Electric Supply Company Limited (PESCO) on account of pension paid to the retired employees of FESCO residing within the territorial jurisdiction of PESCO.

**23.6 Billing related payables**

Fuel price adjustment payable to consumers	-	2,812,466,237
Withholding tax	10,138,960	26,135,485
<b>Realized:</b>		
Equalization surcharge payable (23.6.1)	2,206,048,582	2,207,128,017
Electricity duty payable	132,709,586	110,382,767
TV License fee payable	99,301,621	87,352,511
Neelum Jhelum surcharge	132,725,836	114,849,844
Extra / further tax	-	23,281,489
Financing cost surcharge payable	1,076,600,981	1,009,488,207
Tariff realization surcharge payable	6,667,189,163	7,149,902,590
General sales tax	91,893,622	99,105,272
<b>Unrealized:</b>		
Financing cost surcharge payable	230,881,655	218,798,403
Tariff realization surcharge payable	414,926,330	443,825,280
Electricity duty	73,406,022	65,059,960
General sales tax	2,617,374,380	2,309,080,342
Income tax	122,123,555	105,425,981
TV license fee	46,283,649	45,894,580
Equalization surcharge payable	1,342,874	922,509
Extra / further tax	55,123,712	54,483,596
Neelum Jhelum surcharge (23.6.2)	57,890,180	54,525,886
	<u>14,035,960,708</u>	<u>16,938,108,956</u>

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- 23.6.1 Equalization surcharge was collected from consumers pursuant to S.R.O 236(1)2011, dated 15 March 2011 issued by the Ministry of Energy, GoP. The amount was collected from customers during the period from April 2011 to May 2012 but further collection was discontinued on account of a subsequent S.R.O 506(1)2012, dated 16 May 2012. Payment of this amount to the Federal Government is currently deferred as payment mechanism has not been conveyed to the Company by the GoP. The Company through letter no. 2283/FD/FESCO dated 30 May 2018 intimate the Power Division, Ministry of Energy to impart necessary guidelines for payment of the equalization surcharge. The Company expects that same will be accorded soon.
- 23.6.2 This represents the amount collected from the consumers pursuant to S.R.O 575(1)/2015, dated 10 June 2015 issued by the Ministry of Energy, GoP. The said surcharge was levied till 31 December 2015 and to be kept in the Escrow account of Neelum Jhelum Company for exclusive use for the Neelum Jhelum Hydro Power project. The said surcharge was extended till 30 June 2018 through S.R.O 376(1)/2018, dated 22 March 2018 issued by the Ministry of Energy, GoP.

**24. CONTINGENCIES AND COMMITMENTS**

24.1	Contingencies	Note	2018 -----Rupees-----	2017
24.1.1	Claims against the Company not acknowledged as debt are as follows:			
	Supplementary charges	(24.1.1.1)	6,821,915,107	6,719,272,285
	Interest on syndicated loan	(24.1.1.2)	2,134,233,077	3,621,233,411
	Loans not acknowledged as debt by the Company	(24.1.1.2)	-	25,556,572,532
			<u>8,956,148,184</u>	<u>35,897,078,228</u>

24.1.1.1 This represents supplementary charges invoiced by CPPA to the Company on account of allocation of late payment charges to oil and gas companies which have been accumulated over the years amounting to Rs. 6,822 million (2017: Rs. 6,719 million). However, NEPRA has disallowed CPPA to invoice such amount to distribution companies as part of tariff and accordingly, the Company has not acknowledged this amount as its liability.

24.1.1.2 In order to curb the circular debt in the country, the Federal Government, through Power Holding Private Limited (PHPL) has injected money from time to time through borrowings from commercial banks. The amount was ultimately transferred to Distribution Companies on the basis of outstanding payables towards Central Power Purchasing Agency (CPPA).

Originally, PHPL planned to re-lend the loan to DISCO's through multi-partite agreement between Lenders, DISCOs and PHPL with each DISCO jointly and severally liable in-case of default. The management of DISCOs objected to this arrangement and based on their observations the proposed mechanism of extending the loan was revised in a joint meeting held at the Ministry of Energy, GoP on 14 May 2012, whereby a bilateral agreement was proposed to be signed between each DISCO and PHPL with all DISCOs being severally liable. The Board of Directors of the Company accorded its approval in its 100th and 101st meeting subject to certain reservations. The draft of the relending agreement between the Company and PHPL was received on 13 August 2012. Subsequently, during a joint meeting held at LESCO Head Office on 27 August 2012, it was agreed among DISCOs that the relending agreement will be effective from the date it is signed by the respective DISCOs and the same was communicated to Ministry of Energy vide a letter issued by the LESCO Legal Director [# L-Dir/12150-53 dated 28 August 2012]. Upto 30 June 2017, CPPA has issued advices of loan amounting to Rs. 25,556 million representing the facility allocated to the Company by the Ministry.

During the year, CPPA-G reversed the aforesaid loan of Rs. 25,556 million but the related markup on loan was not reversed by CPPA-G and stood at Rs. 2,134 million. However, the aforesaid markup on loan was revised from time to time in pursuant to the requirements of S.R.O. 568 (I)2015 dated 10 June 2015 issued by the Ministry of Water and Power, which states that Financing Cost Surcharge being collected and deposited by the Company to CPPA-G should be adjusted by CPPA-G against the aforesaid markup.

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NEPRA being the power sector regulator have also raised certain concerns on the structure of the transaction which have been forwarded to the Ministry of Energy, GoP vide [letter No. 1970-73 dated 07 September 2012]. Pending resolution of matters raised by the NEPRA, the relending agreement between PHPL and the Company were not finalized. The Management of the Company believes that the Company's obligation under the arrangement will arise once the relending agreement between the Company and PHPL is finalized. Accordingly the markup on PHPL loans has not been recorded in these financial statements.

24.1.2 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 of the Company against such cases.

### 24.1.3 Taxation

#### 24.1.3.1 Income tax

##### **Short / Non-withholding of tax under section 161/162/205 of the Income Tax Ordinance, 2001;**

The tax authorities raised demand of Rs. 77 million, in respect of alleged non-payment of withholding tax on collection of PTV license fee, in respect of tax years 2007 to 2011 & 2014. The matter has been resolved in favor of the Company at the level of High Court. However, the tax department has filed an appeal before the Supreme Court of Pakistan, which is pending adjudication.

The tax authorities raised demand of Rs. 56 million, in respect of alleged non-payment of withholding tax on operation and maintenance expenses, in respect of tax year 2012. The matter has been resolved in favor of the Company by the Appellate Tribunal. However, the tax department has filed an appeal before the Lahore High Court, which is pending adjudication.

The tax authorities raised demand of Rs. 120 million, in respect of alleged non-payment of withholding tax on various payments, in respect of tax year 2012. The Company has filed an appeal before the Commissioner Appeals, which is pending adjudication.

##### **Amendment of assessment under section 122(5)/122(5A) of the Income Tax Ordinance, 2001;**

Tax authorities raised demand of Rs. 2,682 million, in respect of non payment of minimum tax on subsidy and alleged incorrect claim of tax credit under section 65B of the Ordinance, in respect of tax years 2014 and 2015. The Appellate Tribunal decided the issue of minimum tax in favor of the Company and remanded back the issue of tax credit. However, the officer again rejected the claim of tax credit. The Company has filed an appeal before the Commissioner Appeals on the tax credit issue, which is pending adjudication. The department has also filed reference application against the issue of minimum tax before the Lahore High Court, which is pending adjudication.

Tax authorities raised demand of Rs. 279 million, in respect of alleged wrong adjustment of brought forward losses against the other income, in respect of tax year 2009 and 2010. The matter has been resolved in favor of the Company by the Appellate Tribunal. However, the tax department has filed an appeal before the Lahore High Court, which is pending adjudication.

Tax authorities raised demand of Rs. 14 million, in respect of non payment of minimum tax on other income and alleged incorrect claim of tax credit under section 65B of the Ordinance, in respect of tax year 2011. The matter has been resolved in favor of the Company by the Appellate Tribunal. However, the tax department has filed an appeal before the Lahore High Court, which is pending adjudication.

Tax authorities raised demand of Rs. 2,442 million, in respect of various issues including non payment of minimum tax on subsidy, excess claim of purchases and other issues, in respect of tax year 2014. The Company has filed an appeal before the Commissioner Appeals, which is pending adjudication.

No provision has been recognised in these financial statements in respect of above notices and appeals as management is confident that the outcome of these appeals will be in favor of the Company.

24.1.3.2 Sales Tax

**Provincial Sales Tax:**

Tax authorities raised demand of Rs. 385 million, in respect of non charging of sales tax on various services performed by the Company in respect of tax periods from July 2014 to June 2016. The Company has filed an appeal before the Commissioner Appeals, which is pending adjudication.

Tax authorities raised demand of Rs. 138 million, in respect of non withholding of sales tax on various services received by the Company in respect of tax periods from July 2014 to June 2015. The Commissioner Appeals decided the case in favor of the Company on time limitation. The Appellate Tribunal upheld the order of the Commissioner Appeals. The tax department has filed reference application before the Lahore High Court, which is pending adjudication.

**Federal Sales Tax;**

The tax authorities raised a demand of Rs. 6,888 million and Rs. 6,767 million in respect of tax periods from Decmber 2008 to June 2009 and July 2009 to June 2010 respectively on non-charging and payment of sales tax on subsidy, non-utility operation, new connections awaiting installation / deferred, work in progress, repair, testing and inspection fee, reconnections, wrong input claim / adjustment against suspended registration and black listed parties. The Appellate Tribunal has decided the cases in favor of the Company. However, the tax authorities have filed references before the Lahore High Court, which are pending adjudication.

The tax authorities raised a demand of Rs. 3.8 million in respect of tax periods from August 2013 to October 2014 on non-charging and payment of extra tax on supply of electricity. The Commissioner Appeals has decided the case against the Company. The Company has filed an appeal before the Appellate Tribunal which is pending adjudication.

The tax authorities raised a demand of Rs. 6,721 million in respect of tax periods from July 2013 to June 2014 on suppression of sales, inadmissible input tax claimed, non-charging of sales tax on subsidy, new connection etc. The Company has filed an appeal before the Commissioner Appeals, which is pending adjudication.

No provision has been recognised in these financial statements in respect of above notices and appeals as management is confident that the outcome of these appeals will be in favor of the Company.

	Note	2018 -----Rupees-----	2017
<b>24.2 Commitments</b>			
24.2.1 Commitments in respect of capital expenditure		<u>771,270,772</u>	<u>1,128,044,187</u>
24.2.2 Commitments against inland letter of credit		<u>123,967,989</u>	<u>431,336,842</u>
24.2.3 Commitments against power distribution enhancement investment program:			
- Tranch I	(18.1)	-	-
- Tranch II	(18.1)	123,455,659	187,624,948
- Tranch III	(18.1)	660,831,811	1,329,202,015
- Tranch IV	(18.1)	288,593,654	349,165,126
		<u>1,072,881,124</u>	<u>1,865,992,089</u>
<b>25. SALE OF ELECTRICITY - NET</b>			
Gross sales		135,060,225,106	112,860,142,639
Sales tax		(18,668,251,698)	(16,412,747,466)
		<u>116,391,973,408</u>	<u>96,447,395,173</u>

25.1 The Company filed multiyear tariff petition for FY 2015-2016 to 2019-2020 for determination on 07 August 2015 which was determined by NEPRA on 31 December 2015. The Company filed "Motion for Leave for Review" vide letter no. 566-67 on 19 January 2016. NEPRA decided the Review Motion on 11 May 2016 and rejected the relief sought by the Company. The Company filed a writ petition in the Honorable Islamabad High Court (IHC) on 27 August 2016 against the decision of NEPRA. IHC decided the case on 12 July 2017 giving another opportunity of hearing to Federal Government as well as DISCOs. NEPRA re-determined the tariff on 18 September 2017 which is notified by the Ministry of Energy, GoP through S.R.O 376(I)/2018 dated 22 March 2018. Further, subsequent to the year end 30 June 2018, NEPRA vide its letter No. NEPRA/TRF-339/13632-13634 dated August 31, 2018 determined the tariff adjustment for the Company in the matter of request filed by FESCO regarding adjustment in the Tariff Components for the FY 2016-17 and 2017-18 under Multi Year Tariff (MYT) Regime. The said tariff included positive Prior Year Adjustments (PYA) of Rs. 37,017 Million pertaining to FY 2016-17 and 2017-18 has been notified by the Government vide SRO 03(1)/2019, dated January 01, 2019 with immediate effect, which as per the Company's policy as disclosed in note 3.14 (a) would be recognized subsequently, upon billing to consumers.

34.

26. COST OF ELECTRICITY

26.1 Electricity purchased during the year have been recognized according to invoices issued by Central Power Purchasing Agency (CPPA). The average rate for the year was Rs. 10.54 per.KWH (2017: Rs. 8.558 per KWH). This doesn't include the impact of adjustment as mentioned below in note 26.2.

26.2 This includes Rs. 608.7 million being the share of the Company in the late payment surcharge payable to the Independent Power Producers (IPPs).

	Note	2018 -----Rupees-----	2017 (Restated)
<b>27. DISTRIBUTION COSTS</b>			
Salaries, wages and other benefits	(27.1)	12,416,431,852	10,033,136,122
Depreciation	(4.1.3)	3,241,243,247	3,080,069,116
Repair and maintenance		265,602,640	278,881,910
Rent, rates and taxes		22,349,702	19,039,311
Postage and telephone		18,174,327	18,241,350
Power, light and water		22,663,914	20,296,304
Office supplies and other expenses		11,162,879	9,740,278
Travelling and conveyance		269,086,803	220,166,897
Professional fee		15,585,025	14,707,343
Transportation		196,689,341	182,871,706
Advertisement charges		16,680	363,080
Other charges		50,167,273	134,186,401
		<u>16,529,173,683</u>	<u>14,011,699,817</u>
<b>Less: Transfer to capital / deposit work-in-progress</b>		<u>(442,831,738)</u>	<u>(383,991,271)</u>
		<u><b>16,086,341,945</b></u>	<u><b>13,627,708,546</b></u>

27.1 This includes a sum of Rs. 4,190 million (2017: Rs. 3,116 million), Rs. 411 million (2017: Rs. 243 million), Rs. 469 million (2017: Rs. 339 million) and Rs. 604 million (2017: Rs. 527 million) in respect of pension, medical, free electricity and compensated absences benefits to employees, respectively.

28. ADMINISTRATIVE EXPENSES

Salaries, wages and other benefits	(28.1)	1,789,426,750	1,486,128,862
Directors' remuneration		4,911,500	2,950,000
Depreciation	(4.1.3)	64,779,991	52,379,032
Amortization	(5)	29,215,076	28,030,534
Repair and maintenance		98,719,505	54,197,207
Rent, rates and taxes		11,568	-
Power, light and water		21,718,650	23,401,535
Office supplies and other expenses		98,650,885	90,275,395
Travelling and conveyance		57,627,714	42,049,494
Professional fee		68,661,659	64,272,151
Auditors' remuneration	(28.2)	2,036,000	1,735,000
Transportation		45,431,090	49,595,071
Management fees		63,014,793	161,874,424
Postage and telephone		11,615,298	10,757,315
Bank charges		7,194,417	10,248,555
Insurance		10,938,604	-
Advertisement charges		15,471,325	-
Provision of slow moving items	(7.1)	33,591,410	5,598,088
Other charges		12,833,557	36,516,621
		<u>2,435,849,791</u>	<u>2,120,009,284</u>

28.1 This includes a sum of Rs. 483 million (2017: Rs. 330 million), Rs. 51 million (2017: Rs. 26 million), Rs. 55 million (2017: Rs. 36 million) and Rs. 69 million (2017: Rs. 56 million) in respect of pension, medical, free electricity and compensated absences benefits to employees, respectively.

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	Note	2018	2017
		-----Rupees-----	
<b>28.2 Auditors' remuneration</b>			(Restated)
Audit fee		1,450,000	1,235,000
Out of pocket expenses		500,000	500,000
Certifications		86,000	-
		<u>2,036,000</u>	<u>1,735,000</u>
<b>29. CUSTOMER SERVICES COSTS</b>			
Salaries, wages and other benefits	(29.1)	1,312,228,149	1,121,514,352
Depreciation	(4.1.3)	775,262	740,562
Electricity bills collection charges		318,991,660	301,949,804
Travelling and conveyance		30,180,507	26,004,096
Repair and maintenance		494,242	455,223
Rent, rates and taxes		2,286,508	3,375,573
Postage and telephone		2,364,731	2,376,316
Power, light and water		3,169,647	4,319,684
Office supplies and other expenses		6,450,769	5,242,117
Transportation		2,767,450	2,674,841
Other charges		615,836	2,129,183
		<u>1,680,324,761</u>	<u>1,470,781,751</u>
<b>29.1</b>	This includes a sum of Rs. 306 million (2017: Rs. 206 million), Rs. 33 million (2017: Rs. 16 million), Rs. 35 million (2017: Rs. 22 million) and Rs. 39 million (2017: Rs. 35 million) in respect of pension, medical, free electricity and compensated absences benefits to employees, respectively.		
<b>30. OTHER INCOME</b>			
<b>Income from financial assets</b>			
Profit on bank deposits and short-term investment		750,304,120	429,699,150
Late payment surcharge		1,280,219,337	1,069,161,806
		<u>2,030,523,457</u>	<u>1,498,860,956</u>
<b>Income from non-financial assets</b>			
Gain on installation of new connection		417,093,177	385,977,409
Repair, testing and inspection fee		18,659,948	11,093,914
Recovery of late delivery charges		133,884,455	70,907,698
Non-utility operations	(30.1)	71,331,812	62,182,007
		<u>640,969,392</u>	<u>530,161,028</u>
<b>Others</b>			
Meter / service rent		48,524,059	49,529,161
Re-connection fees		17,394,167	18,492,266
Excess deposit work receipts written back		72,102,074	6,856,062
Service charges on collection of PTV Fee & electricity duty		93,083,465	57,432,876
FESCO colonies quarterly rent		10,075,375	1,647,423
		<u>241,179,140</u>	<u>133,957,788</u>
		<u>2,912,671,989</u>	<u>2,162,979,772</u>
<b>30.1</b>	It represents tender fee, community van fee, registration fee of contractors, sale of scrap, and interest on employee advance.		
<b>31. FINANCE COSTS</b>			
Interest on loans and borrowings		146,971,138	150,138,225

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32. TAXATION	Note	2018 -----Rupees-----	2017 (Restated)
Current:			
- for the year	(32.1)	1,139,178,537	526,024,214
- for prior year		<u>(39,026,605)</u>	-
		<u>1,100,151,932</u>	<u>526,024,214</u>
Deferred	(21.1)	4,011,412,525	1,571,073,270
		<u><u>5,111,564,457</u></u>	<u><u>2,097,097,484</u></u>

32.1 In view of the available tax losses, no provision for taxation has been made during the current year.

32.2 In tax year 2017, the Company is liable to pay minimum tax on its turnover without excluding purchase price of electricity. However for the purpose of calculating minimum tax under section 113 of the income tax ordinance 2001, subsidy income receivable from Government of Pakistan is to be excluded from turnover of the Company as it constitutes exempt income. Government of Pakistan vide Finance Act - 2016-17 levied Turnover / Minimum tax on total turnover of company under section 113 on all companies having profit or loss during the year. Furthermore, the provisions of section 113 (C) relating to "Alternate Corporate Tax" are also not applicable for reasons of accounting loss during the year.

33. CASH FLOWS FROM OPERATING ACTIVITIES		(Restated)	
Loss before taxation		(34,659,497,478)	(13,852,789,031)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of operating fixed assets	(4.1.3)	3,335,425,858	3,159,772,652
Amortization of intangible assets	(5)	29,215,076	28,030,534
Provision for employee benefits	(20.3)	6,744,744,265	5,147,484,777
Amortization of deferred credit	(22)	(1,338,916,821)	(1,258,327,190)
Finance costs	(31)	779,945,891	382,631,076
Provision for doubtful debts	(8.2)	43,188,003	67,928,134
Profit on bank deposits and short-term investment	(30)	(750,304,120)	(429,699,150)
Excess deposit work receipts written back	(30)	(72,102,074)	(6,856,062)
Provision for slow moving / obsolete items	(7.1)	33,591,410	5,598,088
		<u>8,804,787,487</u>	<u>7,096,562,859</u>
<b>Working capital changes</b>			
<b>(Increase)/decrease in current assets:</b>			
Stores and spares and loose tools		172,502,112	(1,925,547,410)
Trade debts		(5,268,096,246)	(3,886,049,979)
Short-term advances		34,836,630	(5,215,867)
Receivable from tax authorities - sales tax		(784,836,572)	(17,288,296)
Receivable from Government of Pakistan	(33.1)	(3,640,013,553)	-
Other receivables		6,374,371,736	25,498,919,214
<b>Increase/(decrease) in current liabilities:</b>			
Trade and other payables		39,777,206,654	(3,956,134,119)
		<u>36,665,970,761</u>	<u>15,708,683,543</u>
<b>Net operating cash flows after working capital changes</b>		<u><u>10,811,260,770</u></u>	<u><u>8,952,457,371</u></u>

33.1 **Non cash financing activity**

During 2016-17, Finance Division, GOP vide its letter No. F.1(4)-CF.1/-2015-16/443 dated April 28, 2016 instructed PEPCO to adjust the Tariff Differential Subsidy (TDS) receivable of respective distribution companies against GOP Equity/Share deposit money. Accordingly CPPA-G had issued a credit note to the Company adjusting TDS receivable of Rs. 833 million against Government of Pakistan-Share Deposit Money.

34. **CASH AND CASH EQUIVALENTS**

Short-term investments	(13)	11,200,000,000	4,970,000,000
Bank balances	(14)	5,904,567,841	7,094,601,316
		<u>17,104,567,841</u>	<u>12,064,601,316</u>

**FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED**

**35. TRANSACTION WITH RELATED PARTIES**

Transactions with related parties are priced at arm's length. Prices for transactions with related parties are determined on the basis of comparable uncontrolled price method. The sale and purchase prices of electricity are controlled by the National Electric Power Regulatory Authority (NEPRA).

The related parties comprise associated companies, directors of the Company, companies with common directorship and control and key management personnel. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

Name of related party	Nature of transactions	Note	Month	Maximum Balance	2017		2018		
					2017	2018	2017	2018	
-----Rupees-----									
<b>Government of Pakistan</b>									
Economic Affairs Division	Receipts of loan	(18.1)	-	-	959,264,954	1,428,940,629			
Ministry of Finance	Tariff differential subsidy	(12)	Jun-18	2,806,427,483	20,132,058,251	13,756,204,780			
	Deposit for share	(16)	-	-	833,586,070	-			
<b>Associated companies due to significant influence</b>									
National Electric Power Regulatory Authority	NEPRA fee	-	-	-	33,085,250	29,623,000			
<b>National Transmission and Despatch Company Limited</b>									
	Use of system charges	(23)	Jun-18	-	4,900,424,482	4,118,738,214			
	Due against use of system charges	(23.4)	Jun-18	2,085,890,679	2,085,890,679	-			
	Receivable against free electricity	(10.3)	Jun-18	245,191,507	245,191,507	216,402,497			
	Receivable against pension	(10.3)	Jun-18	413,356,188	413,356,188	288,324,887			
<b>Central Power Purchasing Authority - G</b>									
	Purchases of electricity	(26)	-	-	150,142,017,827	105,922,391,792			
	Due against purchases of electricity	(23)	Jun-18	41,934,220,810	41,934,220,810	-			
	Receivables from CPPA-G	(10)	-	-	-	7,643,168,582			
	Financing cost surcharge	-	-	-	5,339,722,159	5,137,994,403			
	Tariff rationalization surcharge	-	-	-	789,058,114	571,824,896			
<b>Associated companies due to common control</b>									
<b>Northern Power Generation Company Limited - Genco III</b>									
	Due against free electricity	(10.2)	Jun-18	382,515,231	382,515,231	344,111,823			
	Receivable against pension	(10.3)	Jun-18	274,922,861	274,922,861	194,335,498			
<b>Water and Power Development Authority</b>									
	Due against free electricity	(23.4)	Jun-18	114,168,762	92,895,245	99,233,040			
	Receivable against pension	(10.3)	Jun-18	2,862,305,270	4,430,681,582	4,072,359,691			
	Receivable against WAPDA welfare fund	(10)	Jun-18	439,174,394	439,174,393	365,824,131			
<b>Islamabad Electric Supply Company Limited</b>									
	Receivable against free electricity	(10.2)	Feb-18	118,415,606	117,687,297	114,607,205			
	Receivable against pension	(10.3)	Jun-18	121,051,457	82,892,607	80,268,632			
	Sale of material	-	-	-	19,858,500	-			
	Purchase of material	-	-	-	4,262,500	-			



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Name of related party	Nature of transactions	Note	Month	Maximum Balance	Rupees	
					2018	2017
Peshawar Electric Supply Company Limited	Receivable against free electricity	(10.2)	Jun-18	60,157,560	60,157,560	58,547,083
	Due against pension	(23)	Jun-18	51,216,978	51,216,978	3,833,443
Gujranwala Electric Power Company Limited	Receivable against free electricity	(10.2)	Jun-18	28,237,510	28,237,510	26,673,601
	Receivable against pension	(10.3)	Jun-18	66,146,183	48,985,668	38,006,141
	Sale of material	-	-	57,372,600	-	-
Quetta Electric Supply Company Limited	Purchase of material	-	-	20,692,500	20,692,500	2,480,000
	Receivable against free electricity	(10.2)	Jun-18	15,744,048	15,744,048	13,651,103
Central Power Generation Company Limited - Genco II	Receivable against pension	(10.3)	Jun-18	17,968,720	17,968,720	13,493,953
	Sale of material	-	-	-	1,210,000	-
Hyderabad Electric Supply Company Limited	Receivable against free electricity	(10.2)	Jun-18	4,378,193	4,378,193	3,921,863
	Receivable against pension	(10.3)	Jun-18	27,153,167	27,153,167	19,626,585
Lakhta Power Generation Company Limited - Genco IV	Receivable against free electricity	(10.2)	Jun-18	1,805,717	1,805,717	1,630,182
	Receivable against pension	(10.3)	May-18	1,810,065	1,227,207	1,264,292
Tribal Area Electric Supply Company Limited	Receivable against free electricity	(10.2)	Jun-18	1,165,490	1,165,490	1,005,465
	Receivable against pension	(10.3)	Jun-18	550,099	550,099	279,331
Jamsoro Power Company Limited - Genco I	Receivable against free electricity	(10.2)	Mar-18	830,273	780,798	777,030
	Receivable against pension	(10.3)	Jun-18	4,574,713	4,574,713	2,579,409
Sukkur Electric Power Company Limited	Due against free electricity	(23.4)	Jul-17	250,488	255,861	208,661
	Receivable against pension	(10.3)	Sep-17	8,231,058	6,917,262	7,561,318
	Sale of material	-	-	-	2,420,000	-
	Purchase of material	-	-	-	12,242,700	-
Lahore Electric Supply Company Limited	Due against free electricity	(23.4)	Jun-17	661,018,813	641,535,824	653,151,265
	Receivable against pension	(10.3)	Jun-18	100,286,906	37,306,955	56,475,466
Multan Electric Power Company Limited	Sale of material	-	-	-	3,784,240	7,260,000
	Purchase of material	-	-	-	-	11,077,000
Pakistan Electric Power Company Limited	Due against free electricity	(23.4)	Jul-17	85,966,310	82,732,041	87,533,755
	Receivable against pension	(10.3)	Apr-18	229,247,611	165,111,958	167,151,330
Key management personnel	Sale of material	-	-	-	23,723,200	3,340,000
	Purchase of material	-	-	-	35,803,100	3,001,600
Key management personnel	Due against free electricity	(23.4)	Jul-17	136,346,451	136,201,767	136,369,687
	Management fee	-	-	-	29,929,543	132,251,429

Transactions with key management personnel are disclosed in note 36 to these financial statements

## 36. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Company is as follows:

	Chief Executive		Directors		Executives	
	2018	2017	2018	2017	2018	2017 (Restated)
	Rupees					
Basic salary	2,156,460	1,675,170	-	-	46,001,320	31,390,800
Conveyance allowance	-	-	-	-	1,775,000	1,370,000
Bonus	326,620	274,089	-	-	7,512,280	2,615,900
Fee for attending meetings	1,050,000	530,000	4,911,500	2,950,000	-	-
Utilities and other benefits	3,202,828	5,014,362	-	-	25,775,631	19,547,198
Travelling and daily allowance	3,089,806	1,187,156	-	-	3,986,257	3,105,380
	<b>9,825,714</b>	<b>8,680,777</b>	<b>4,911,500</b>	<b>2,950,000</b>	<b>85,050,488</b>	<b>58,029,278</b>
<b>Number of persons</b>	<b>1</b>	<b>1</b>	<b>10</b>	<b>10</b>	<b>33</b>	<b>23</b>

36.1 In addition, Chief Executive Officer is also provided with the Company's maintained vehicle and free accommodation. Further, 31 executives of the Company have been provided with the Company's maintained vehicle and 24 executives have been provided with accommodation according to the Company's policy.

36.2 Comparative figures have been restated to reflect changes in the definition of executive as per the Companies Act, 2017.

## 37. FINANCIAL RISK MANAGEMENT

## 37.1 Financial risk factors

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

## Risk management framework

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

## a) Market risk

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

## 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. However, at year end there are no material foreign currency balances.

## ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the reporting date, the interest rate profile of the Company's interest bearing financial instruments is:

	Note	2018	2017
-----Rupees-----			
<b>Fixed rate instruments</b>			
<b>Financial assets</b>			
Long-term loans	(6)	156,652,059	147,954,712
Short-term investments	(13)	11,200,000,000	4,970,000,000
Bank balances - deposit accounts	(14)	4,243,474,987	5,972,326,281
		<b>15,600,127,046</b>	<b>11,090,280,993</b>
<b>Financial liabilities</b>			
Interest bearing loans and borrowings	(18)	5,214,874,173	4,255,609,219

**Sensitivity analysis**

**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.

**iii) Other price risk**

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

**b) Credit risk**

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

**Exposure to credit risk**

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

	2018		2017	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
	-----Rupees-----			
Long-term loans	156,652,059	156,652,059	147,954,712	147,954,712
Long-term deposits	2,795,165	2,795,165	2,551,165	2,551,165
Trade debts	19,149,975,492	19,149,975,492	13,881,879,249	13,881,879,249
Interest accrued	60,620,106	60,620,106	90,199,023	90,199,023
Other receivables	13,287,891,546	13,287,891,546	17,994,653,931	17,994,653,931
Receivable from the Government of Pakistan	2,806,427,483	2,806,427,483	-	-
Short term investments	11,200,000,000	11,200,000,000	4,970,000,000	4,970,000,000
Bank balances	5,904,567,841	5,904,567,841	7,094,601,316	7,094,601,316
	<u>52,568,929,692</u>	<u>52,568,929,692</u>	<u>44,181,839,396</u>	<u>44,181,839,396</u>

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

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

Type of consumer	2018	2017
	-----Rupees-----	
Domestic	9,937,448,469	5,254,086,724
Commercial	2,475,873,838	786,346,306
Industrial	6,267,624,986	5,396,303,607
Agricultural	438,645,649	2,433,753,361
Others	30,382,550	11,389,250
	<u>19,149,975,492</u>	<u>13,881,879,248</u>

	2018		2017	
	Gross	Impairment	Gross	Impairment
	-----Rupees-----			
The aging of trade debtors at the reporting date was:				
<b>Private Consumers</b>				
Less than one year	18,329,799,323	241,290,936	13,212,779,011	245,344,406
Over 1 and up to 3 year	207,836,566	207,836,566	240,090,604	240,090,604
Over 3 year	322,114,266	322,114,266	242,618,757	242,618,757
	<u>18,859,750,155</u>	<u>771,241,768</u>	<u>13,695,488,372</u>	<u>728,053,767</u>
<b>Government Consumers</b>				
Less than one year	190,436,050	-	126,988,224	-
Over 1 and up to 3 year	93,523,142	-	55,694,307	-
Over 3 year	6,266,145	-	2,708,345	-
	<u>290,225,337</u>	<u>-</u>	<u>186,390,876</u>	<u>-</u>
	<u>19,149,975,492</u>	<u>771,241,768</u>	<u>13,881,879,248</u>	<u>728,053,767</u>

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

	Rating Agency	Rating		2018	2017
		Short-term	Long-term	-----Rupees-----	
<b>Public Sector Banks</b>					
National Bank of Pakistan	PACRA	A1+	AAA	935,982,466	2,779,688,589
Sindh Bank Limited	JCR-VIS	A1+	AA	15,267,618	-
The Bank of Khyber	PACRA	A1	A	158,179	371,089
The Bank of Punjab	PACRA	A1+	AA	74,418,462	137,444,242
First Women Bank	PACRA	A2	A-	36	(181,140)
<b>Specialized Banks</b>					
Zarai Taraqati Bank Ltd	JCR-VIS	A1+	AAA	2,702,400,426	5,800,540
<b>Private Sector Banks</b>					
Allied Bank Limited	PACRA	A1+	AAA	216,498,425	1,343,953,172
Askari Bank Limited	PACRA	A1+	AA+	642,416	6,686,284
Bank Alfiah Limited	PACRA	A1+	AA+	44,025,792	48,352,414
Faysal Bank Limited	PACRA	A1+	AA	17,443,537	2,340,114
Habib Bank Limited	JCR-VIS	A1+	AAA	205,263,500	294,521,021
Habib Metropolitan Bank Limited	PACRA	A1+	AA+	(62,803)	820,947
JS Bank Limited	PACRA	A1+	AA-	12,306,090	319,221
MCB Bank Limited	PACRA	A1+	AAA	766,366,929	465,338,871
Telenor Microfinance Bank Limited	PACRA	A1	A+	77,439,964	127,282,496
Silk Bank Limited	JCR-VIS	A2	A-	(14,988)	(106,188)
Sonari Bank Limited	PACRA	A1+	AA-	(106,313)	(195,038)
Standard Chartered Bank (Pakistan) Ltd	PACRA	A1+	AAA	16,526	10,417
Summit Bank Limited	JCR-VIS	A1	A-	(17,409)	321,668
United Bank Limited	JCR-VIS	A1+	AAA	113,182,520	1,388,650,039
Punjab Provisional Co-operative Bank	N/A	N/A	N/A	(999,598)	4,304,054
Bank Al-Habib	PACRA	A1+	AA+	226,332,188	-
Samba Bank	JCR-VIS	A1	AA	928	-
<b>Islamic Banks</b>					
Al Baraka Bank (Pakistan) Limited	PACRA	A1	A	31,820,946	49,134,715
Dubai Islamic Bank Pakistan Limited	JCR-VIS	A1	AA-	(6,867)	(61,457)
Meezan Bank Limited	JCR-VIS	A1+	AA+	226,291,977	3,755,031
Bank Islami Pakistan Limited	PACRA	A1	A+	(8,096)	395,608
<b>Balance with other institutions:</b>					
NADRA	N/A	N/A	N/A	202,927,130	237,120,147
Pakistan post office	N/A	N/A	N/A	36,997,860	198,534,462
				<u>5,904,567,841</u>	<u>7,094,601,316</u>

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

### c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. For this purpose financial support is available to the Company from Federal Government. Further, liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

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-----					
<b>2018</b>					
Loans and borrowings	5,214,874,173	-	-	-	-
Long-term security deposits	7,082,383,461	7,082,383,461	-	-	7,082,383,461
Trade and other payables	60,552,851,463	60,552,851,463	60,552,851,463	-	-
	<b>72,850,109,097</b>	<b>67,635,234,924</b>	<b>60,552,851,463</b>	-	<b>7,082,383,461</b>
<b>2017</b>					
Loans and borrowings	4,255,609,219	-	-	-	-
Long-term security deposits	5,948,744,106	5,948,744,106	-	-	5,948,744,106
Trade and other payables	20,893,887,401	20,893,887,401	20,893,887,401	-	-
	<b>31,098,240,726</b>	<b>26,842,631,507</b>	<b>20,893,887,401</b>	-	<b>5,948,744,106</b>

### 37.2 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The carrying amounts of all the financial instruments reflected in these financial statements approximate their fair value.

#### Fair value hierarchy

The Faisalabad Electric Supply Company Limited uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable either, directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2018, the Faisalabad Electric Supply Company Limited did not hold any financial instruments carried at fair

### 37.3 Financial instruments by categories

	Cash and cash equivalent		Loans and receivables		Held to maturity	
	2018	2017	2018	2017	2018	2017
-----Rupees-----						
<b>Financial assets as per statement of financial position</b>						
Long-term loans	-	-	156,652,059	147,954,712	-	-
Long-term deposits	-	-	2,795,165	2,551,165	-	-
Trade debts	-	-	18,378,733,724	13,153,825,481	-	-
Interest accrued	-	-	60,620,106	90,199,023	-	-
Other receivables	-	-	13,287,891,546	19,662,263,282	-	-
Receivable from Government of Pakistan	-	-	2,806,427,483	-	-	-
Short-term investments	-	-	-	-	11,200,000,000	4,970,000,000
Cash and bank balances	5,904,567,841	7,094,601,316	-	-	-	-
	<b>5,904,567,841</b>	<b>7,094,601,316</b>	<b>34,693,120,083</b>	<b>33,056,793,663</b>	<b>11,200,000,000</b>	<b>4,970,000,000</b>

	Financial liabilities at amortize cost	
	2018	2017
-----Rupees-----		
<b>Financial liabilities as per statement of financial position</b>		
Interest bearing loans and borrowings	5,214,874,173	4,255,609,219
Long-term security deposits	7,082,383,461	5,948,744,106
Trade and other payables	60,552,851,463	20,893,887,401
	<b>72,850,109,097</b>	<b>31,098,240,726</b>

**37.4 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain healthier capital ratios in order to support its business and maximize shareholders value. The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions.

No changes were made in the objectives, policies or processes from the previous year. The Company's strategy, which was unchanged from last year, was to maintain optimal capital structure in order to minimize cost of capital.

**38. PROVIDENT FUND**

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

**39. BENAZIR EMPLOYEE STOCK OPTION SCHEME**

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme (the Scheme) for employees of certain State Owned Enterprises (SOEs), including Faisalabad Electric Supply Company Limited, and Non-State Owned Enterprises, where GoP holds significant investments (Non-SOEs). 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 a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GoP has transferred 12% of its investment in such SOEs and Non-SOEs to a Trust Fund, established under a Trust Deed, created for the purpose by each of such entities. The eligible employees are entitled to be allotted units by each Trust Fund in proportion to their respective length of service and 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 stated GoP policy of empowerment of employees of State Owned Enterprises, needs to be accounted for by the covered entities, including the Company, under the provisions of revised International Financial Reporting Standard-2, "Share - based Payments" (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the Securities & Exchange Commission of Pakistan (SECP), on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan, has granted exemption vide SRO 587(I)/2011 dated June 07, 2011 to such entities from the application of IFRS 2 to the Scheme.

Owing to the fact that GoP still holds 100% shares of the Company and has not transferred shares to the trust in accordance with BESOS, the financial impact on these financial statements could not be estimated.

**40. NUMBER OF EMPLOYEES**

2018                      2017  
-----Number-----

The Company has employed following number of persons including permanent and contractual staff:

- Total number of employees at year end	16,035	16,634
- Average number of employees during the year	16,335	16,318

40.1 The Company has no factory employees to be disclosed in pursuant to the requirements of the Companies Act, 2017.

**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 12,924,563,711 (2017:11,498,760,383) units of electricity to its consumers during the year.

**42. CORRESPONDING FIGURES**

42.1 Corresponding figures have been rearranged, reclassified and restated, wherever necessary. However, no significant rearrangement, reclassification and restatement have been made except as mentioned below:

<u>Reclassified from</u>	<u>Reclassified to</u>	<u>Note</u>	<u>2017 Rupees</u>
Current accounts	Cash in transit	(14)	237,120,147
Other receivables - free electricity - WAPDA	Other receivables - Wapda welfare fund	(10)	365,824,131

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42.2 The company in FY 2015 and 2016 erroneously adjusted an amount of Rs.1,568 million (total Rs. 5,318 million) as past service cost of WAPDA Pensioners retired before July, 1998 against the equity amounting to Rs. 20,245 million injected by Government of Pakistan through CPPA-G vide credit Note No.PPA-199/FESCO dated 21 June, 2013. Out of Rs. 5,318 million, an amount of Rs. 3,749 million was required to be adjusted equal to the available equity balance of WAPDA of Rs. 3,749 million, whereas the remaining amount of Rs.1,568 million was required to be recorded as receivables from WAPDA. This has now been rectified by restating the corresponding financial statements. The effect of restatement is summarized as follows:

Impact on statement of financial position	2016 Rupees
Increase in deposit for shares	1,568,376,312
Increase in other receivables	1,568,376,312

42.3 During 2016, the Company erroneously omitted data of 1,663 employees while estimating the obligations under staff retirements benefits. The corresponding figures of the financial statements have been restated accordingly. The effect of the restatement is summarized below:

Impact on statement of financial position	2017 Rupees	2016 Rupees
(Decrease) / increase in employees' retirement benefits	(9,730,890)	2,178,380,377
(Decrease) / increase in accumulated loss	(9,730,890)	2,178,380,377

  

Impact on statement of profit or loss	2017 Rupees
Increase in operating expenses	196,054,234
Increase in loss after taxation	196,054,234

  

Effect on other comprehensive income:	2017 Rupees
Decrease in re-measurement loss on employees' retirement benefits	205,785,124
Decrease in total comprehensive loss	9,730,890

42.4 In prior years, the resultant deferred tax liability on the incremental depreciation was deducted twice from the gross revaluation surplus. Further in the prior years, the Company didn't recognize deferred tax on accelerated tax depreciation on fixed assets, staff retirements benefits, minimum tax carried forward, provision for doubtful debts and provision for slow moving items, which has now been rectified in pursuant to the requirements of the IAS - 12 "Income Taxes".

The impact of above changes have been summarized as below:

Impact on statement of financial position	2017 Rupees
Increase in revaluation surplus on property, plant and equipment	267,145,764
Increase in deferred tax liability	1,838,219,034

  

Impact on statement of profit or loss	2017 Rupees
Increase in deferred tax expense	1,571,073,270

  

Impact on statement of comprehensive income	2017 Rupees
Decrease in actuarial loss relating to defined benefit plans	1,266,814,000

  

Impact on statement of changes in equity	2017 Rupees
Decrease in surplus on revaluation of fixed assets	304,259,270

43. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 14 JAN 2019 by the Board of Directors of the Company

44. GENERAL

Figures in these financial statements have been rounded off to the nearest Pakistani Rupee, unless otherwise stated

  
\_\_\_\_\_  
CHIEF EXECUTIVE

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\_\_\_\_\_  
DIRECTOR