FESCO

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

Financial Statements of FESCO for FY 2015-16

EY
Building a better working world

EY Ford Rhodes
Chartered Accountants
96-B-I, 4th Floor, Pace Mall Building
M. M. Alam Road, Gulberg-II
P.O. Box 104, Lahore-54660

Tel: +9242 3577 8402-11
Fax: +9242 3577 8412-13
ey.lhr@pk.ey.com
ey.com/pk

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Faisalabad Electric Supply Company Limited** (the Company) as at **30 June 2016** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion;

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied; except as mentioned in Note 5.1 with which we concur;

   (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at **30 June 2016** and of the loss, its comprehensive income, cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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Emphasis of matter paragraphs

We draw attention to the contents of:

(i) note 25.1.1.1, where it has been explained that the Company has not recorded various credit notes received from the Central Power Purchasing Authority (CPPA), relating to the Company's share of borrowings obtained by the Federal Government, in order to settle the matter of circular debt in the country along with the related accrued mark-up thereon, amounting to Rs. 42,596 million and Rs. 8,824 million, respectively;

(ii) note 25.1.1.2, where it has been explained that the Company has not recorded supplementary charges, amounting to Rs. 6,618 million, invoiced by CPPA to the Company on account of allocation of late payment charges to oil and gas companies; and

(iii) note 25.1.3, which describe various tax contingencies, arising from the matters discussed in the accompanying financial statements, and related amounts recovered by the tax authorities. The ultimate outcome of these matters cannot presently be determined, and hence, pending the resolution thereof, no provision for the same has been made in these financial statements.

(iv) note 26.1 where it has been explained that the Company has used the tariff and tariff differential subsidy relating to financial year 2014-15 notified vide GoP notifications SRO 570(I)/2015 dated 10 June 2015 for financial year 2015-2016 as the tariff for the financial year 2015-2016 has not yet notified by GoP.

Our opinion is not qualified in respect of the above matters.

Chartered Accountants

Audit Engagement Partner's Name: Naseem Akbar

Lahore: 29 November 2016

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
BALANCE SHEET
AS AT 30 JUNE 2016

	Note	2016	2015
		----------------Rupees----------------	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	6	85,569,432,875	81,921,129,567
Long-term loans	7	107,138,141	114,872,567
Long-term deposits		2,321,915	2,140,585
		85,678,892,931	82,038,142,719
CURRENT ASSETS			
Stores, spares and loose tools	8	995,825,281	936,606,723
Trade debts	9	9,335,703,636	9,805,278,535
Current portion of long-term loans	7	50,519,854	45,099,679
Short-term advances	10	52,780,163	43,168,343
Interest accrued		21,023,720	30,144,067
Other receivables	11	43,592,806,184	32,999,522,402
Tax refunds due from the Government	12	7,966,205,211	11,009,050,537
Receivable from Government of Pakistan	13	-	8,863,504,084
Short-term investments	14	5,000,000,000	3,350,000,000
Bank balances	15	2,795,104,061	2,531,449,761
		69,809,968,110	69,613,824,131
TOTAL ASSETS		155,488,861,041	151,651,966,850
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital			
Authorized capital			
5,000,000,000 (2015: 5,000,000,000) ordinary shares of Rupees 10/- each		50,000,000,000	50,000,000,000
Issued, subscribed and paid-up capital	16	10,000	10,000
Revenue reserve			
Accumulated profit		1,920,232,569	23,384,874,905
		1,920,242,569	23,384,884,905
Deposit for shares	17	18,676,382,028	21,932,737,413
SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS	18	27,591,499,820	28,163,846,610
NON-CURRENT LIABILITIES			
Long-term financing	19	2,510,877,433	1,308,256,233
Long-term security deposits	20	5,153,440,140	4,455,020,977
Deferred liabilities			
Staff retirement benefits	21	45,539,299,728	31,199,325,354
Deferred taxation - net	22	-	-
Deferred credit	23	27,936,560,880	26,132,871,911
		81,140,178,181	63,095,474,475
CURRENT LIABILITIES			
Trade and other payables	24	25,289,169,837	14,675,534,309
Interest accrued on long-term loans		555,597,449	271,467,964
Current portion of long-term financing	19	315,791,157	128,021,174
		26,160,558,443	15,075,023,447
CONTINGENCIES AND COMMITMENTS	25	-	-
TOTAL EQUITY AND LIABILITIES		155,488,861,041	151,651,966,850

The annexed notes from 1 to 45 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016	2015
		------------Rupees------------	
Sale of electricity - net	26	**88,195,353,199**	99,993,302,349
Tariff differential subsidy	13	**10,660,951,472**	22,422,784,619
		98,856,304,671	122,416,086,968
Cost of electricity	27	**(100,426,665,223)**	(105,627,083,736)
Gross (loss) / profit		**(1,570,360,552)**	16,789,003,232
Amortization of deferred credit	23	**1,164,093,324**	1,097,287,799
		(406,267,228)	17,886,291,031
Operating expenses			
Distribution costs	28	**(11,969,209,605)**	(11,055,072,838)
Administrative expenses	29	**(2,070,064,756)**	(1,912,737,669)
Customer services costs	30	**(1,434,598,145)**	(1,398,663,651)
Other income	31	**2,154,232,786**	2,311,824,246
Reversal / (Provision) for doubtful debts		**648,066,965**	(87,648,668)
		(12,671,572,755)	(12,142,298,580)
Operating (loss) / profit		**(13,077,839,983)**	5,743,992,451
Finance costs	32	**(187,013,971)**	(207,989,006)
(Loss) / Profit before taxation		**(13,264,853,954)**	**5,536,003,445**
Taxation	33	**(44,580,700)**	(306,419,207)
(Loss) / Profit for the year		**(13,309,434,654)**	5,229,584,238

The annexed notes from 1 to 45 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 2016

	Note	2016	2015
		------------Rupees------------	
(Loss) / Profit for the year		**(13,309,434,654)**	5,229,584,238
Other comprehensive income not to be reclassified to profit and loss account in subsequent periods:			
Actuarial loss relating to defined benefit plans	21.4	**(8,772,135,172)**	(2,044,904,727)
Total comprehensive (loss) / income for the year		**(22,081,569,826)**	3,184,679,511

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

The annexed notes from 1 to 45 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016	2015
		------------Rupees------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	**5,525,524,299**	4,814,833,171
Long-term security deposits received		**698,419,163**	583,156,261
Long-term deposits given		**(181,330)**	(30,680)
Employee benefits paid		**(2,318,973,690)**	(1,909,317,691)
Long-term loans recovered		**2,314,251**	46,933,085
Finance cost paid		**(46,605,201)**	(371,845,160)
Income tax paid		**22,207,854**	(130,125,365)
Net cash generated from operating activities		**3,882,705,346**	3,033,603,621
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		**(6,621,481,419)**	(5,442,541,969)
Sale proceeds from disposal of fixed assets		**-**	3,248,000
Deferred credit received		**2,967,782,293**	2,527,997,564
Profit on bank deposits and short-term investments		**294,256,897**	418,901,410
Net cash used in investing activities		**(3,359,442,229)**	(2,492,394,995)
CASH FLOWS FROM FINANCING ACTIVITIES			
Re-payment of long-term loans		**(19,943,756)**	(241,343,750)
Receipt of long-term loans		**1,410,334,939**	139,408,145
Net cash generated from/ (used) in financing activities		**1,390,391,183**	(101,935,605)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,913,654,300**	439,273,021
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**5,881,449,761**	5,442,176,740
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	35	**7,795,104,061**	5,881,449,761

The annexed notes from 1 to 45 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 2016

	Share capital	Revenue reserve	
	Issued, subscribed and paid up	Accumulated profit / (loss)	Total
	---Rupees---		
Balance as at 01 July 2014	10,000	19,383,936,449	19,383,946,449
Net income for the year - restated	-	5,229,584,238	5,229,584,238
Other comprehensive loss	-	(2,044,904,727)	(2,044,904,727)
Total comprehensive income for the year	-	3,184,679,511	3,184,679,511
Transfer from surplus on revaluation of operating fixed assets recognized directly in equity - net of deferred tax	-	816,258,945	816,258,945
Balance as at 30 June 2015	**10,000**	**23,384,874,905**	**23,384,884,905**
Net loss for the year	-	(13,309,434,654)	(13,309,434,654)
Other comprehensive income	-	(8,772,135,172)	(8,772,135,172)
Total comprehensive loss for the year	-	(22,081,569,826)	(22,081,569,826)
Transfer from surplus on revaluation of operating assets recognized directly in equity-net of deferred tax	-	616,927,490	616,927,490
Balance as at 30 June 2016	10,000	1,920,232,569	1,920,242,569

The annexed notes from 1 to 45 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 2016

1. THE COMPANY AND ITS OPERATIONS

Faisalabad Electric Supply Company Limited is a public limited company incorporated on March 21,1998 under the provisions of the Companies Ordinance, 1984. 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 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).

The registered office of the Company is situated at West Canal Road, Abdullahpur, Faisalabad.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PREPARATION

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

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:

4.1 Property, plant and equipment

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

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

4.2 Stores, spares and loose tools

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

4.3 Trade Debts

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

4.4 Staff Retirement Benefits

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.

4.5 Taxation

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.

4.6 Provisions

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.

5. Summary of Significant Accounting Policies

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

5.1 New, amended standards and interpretations become effective

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

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

Improvements to Accounting Standards Issued by the IASB

IAS 27 – Separate Financial Statements

IAS 28 – Investment in Associates and Joint Ventures

The adoption of the above standards did not have any material impact on these financial statements.

5.2 Functional and Presentation Currency

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

5.3 Property Plant and equipment

a) Operating fixed assets

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct 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 profit and loss account.

Depreciation is charged to profit and loss account 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 6.1 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.

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 profit and loss account in the year the asset is derecognized.

5.4 b) Surplus on revaluation of operating fixed assets

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

i. depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation; and

ii. an amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on Revaluation of Fixed Assets account" to accumulated profits / losses through Statement of Changes in Equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

iii. Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses, if any. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

c) Capital work in progress

Capital work-in-progress is stated at cost on applicable overheads.

5.5 Impairment of non-financial assets

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

5.6 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 profit and loss account.

5.7 Stores and spares and loose tools

These are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis, comprising invoice values and the related charges incurred up to the date of the balance sheet. Provision is made for slow moving and obsolete items, where considered necessary.

5.8 Trade debts

These are stated initially at fair value and subsequently measured at amortized cost, less the provision for impairment, if any. A provision for impairment 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 receivables. Trade debts are written-off when considered irrecoverable.

5.9 Long term loans and other receivables

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

5.10 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.

5.11 Staff retirement benefits

The Company provides unfunded pension, post-retirement medical, free electricity benefits and compensated absences to all its regular employees. Liabilities 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.

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

5.12 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 for the year is included in the profit and loss account.

5.13 Trade and other payables

Liabilities for trade and other amounts payable are carried at amortized cost, which approximates the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

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

b) Tariff Differential Subsidy

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

c) Rental and service income

Meter rentals are recognized on time proportionate basis.

d) Interest/Markup

Interest on bank deposits is recognized using effective interest method.

5.15 Borrowings

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

5.16 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the present value of expected expenditure, discounted at a pre-tax rate that reflects current market assessment of the time value of the money and the risk specific to the obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimates.

5.17 Taxation

Current

Income tax assets and liabilities in respect of current taxation are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws, as applicable in Pakistan, used to compute the amount are those that are enacted or substantively enacted, at the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the profit and loss account. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred

Deferred tax is recognized using the liability method, on all major temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and/or carry forward of unused tax losses can be utilized.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

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

5.18 Financial instruments

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

a) **Financial assets**

Classification and subsequent measurement

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

i **Fair value through profit or loss**

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

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

ii **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 balance sheet.

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

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

b) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

i Fair value through profit or loss

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

ii Other financial liabilities

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

c) Offsetting of financial assets and financial liabilities

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

5.19 Foreign currency transactions

Transactions in foreign currencies are recorded into local currency at the rates of exchange prevailing at the date of transaction. All monetary assets and liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Exchange differences are included in the profit and loss account.

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

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
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 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)	1 January 2017
IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)	1 January 2017
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)	01 January 2016
IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	01 January 2016

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

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 9 -Financial Instruments: Classification and Measurement	01 January 2018
IFRS 14 - Regulatory Deferral Accounts	01 January 2016
IFRS 15 -Revenue from Contracts with Customers	01 January 2018
IFRS 16 – Leases	01 January 2019

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6. PROPERTY, PLANT AND EQUIPMENT

	Note	2016	2015
		----------Rupees----------	
Operating fixed assets	6.1	77,430,263,163	76,411,364,857
Capital work-in-progress	6.2	8,139,169,712	5,509,764,710
		85,569,432,875	81,921,129,567

6.1 Operating fixed assets

Description	Note	COST / REVALUED AMOUNT				Rate	ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
		As at 01 July	Additions/ Transfers	Deletions	As at 30 June	%	As at 01 July	For the year	Deletions	As at 30 June	As at 30 June
		----------Rupees----------					----------Rupees----------				
2016											
Freehold land	6.1.1	12,750,002,284	-	-	12,750,002,284	-	-	-	-	-	12,750,002,284
Building on freehold land		1,597,821,081	192,223,196	-	1,790,044,277	2	246,758,217	33,233,754	-	279,991,971	1,510,052,306
Feeders (up to 11 kv)		63,542,055,252	3,143,514,112	-	66,685,569,364	3.5	15,531,567,353	2,267,788,765	-	17,799,356,118	48,886,213,246
Grids and equipment		17,913,913,277	601,083,117		18,514,996,394	3.5	4,042,166,153	637,416,297	-	4,679,582,450	13,835,413,944
Vehicles		832,768,310	31,743,054		864,511,364	10	585,053,084	39,601,512		624,654,596	239,856,768
Furniture, fixtures and office equipment		485,514,682	68,093,638		553,608,320	10-33.33	305,165,222	39,718,483	-	344,883,705	208,724,615
		97,122,074,886	4,036,657,117	-	101,158,732,003		20,710,710,029	3,017,758,811	-	23,728,468,840	77,430,263,163
2015											
Freehold land		12,214,170,748	535,831,536	-	12,750,002,284	-	-	-	-	-	12,750,002,284
Building on freehold land		1,450,417,890	147,403,191	-	1,597,821,081	2	215,513,524	31,244,693	-	246,758,217	1,351,062,864
Feeders (up to 11 kv)		59,846,356,356	3,695,698,896	-	63,542,055,252	3.5	13,353,304,464	2,178,262,889	-	15,531,567,353	48,010,487,899
Grids and equipment		17,301,081,966	612,831,311	-	17,913,913,277	3.5	3,475,702,249	566,463,904	-	4,042,166,153	13,871,747,124
Vehicles		825,493,589	16,079,284	8,804,563	832,768,310	10	557,922,806	35,742,343	8,612,065	585,053,084	247,715,226
Furniture, fixtures and office equipment		397,233,731	88,280,951	-	485,514,682	10-33.33	275,884,859	29,280,363	-	305,165,222	180,349,460
		92,034,754,280	5,096,125,169	8,804,563	97,122,074,886		17,878,327,902	2,840,994,192	8,612,065	20,710,710,029	76,411,364,857

6.1.1 As explained in note 1, the property and rights in the above assets were transferred to the company on 29 June 1998 by WAPDA in accordance with terms and conditions of Business Transfer Agreement between WAPDA and the Company. Title of land valuing Rs. 4.3 billion is in the name of WAPDA and title of land having value of Rs. 1.1 billion has neither been transferred in the name of WAPDA nor in the name of Company.

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

	2016			2015		
	Cost	Accumulated depreciation	Net Book Value	Cost	Accumulated depreciation	Net Book Value
	----------Rupees----------					
Land - freehold	622,474,784	-	622,474,784	622,474,784	-	622,474,784
Building on freehold land	1,970,640,833	525,784,281	1,444,856,552	1,778,417,637	489,121,918	1,289,295,719
Feeders (up to 11 kv)	48,361,176,829	15,875,294,908	32,485,881,921	45,217,662,717	14,248,859,881	30,968,802,836
Grids and equipment	11,293,737,154	3,698,953,239	7,594,783,915	10,692,654,037	3,536,678,002	7,155,976,035
	62,248,029,600	20,100,032,428	42,147,997,172	58,311,209,175	18,274,659,801	40,036,549,374

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

	Note	2016	2015
		----------Rupees----------	
Distribution cost	28	2,887,661,979	2,723,188,743
Administrative expenses	29	60,159,625	56,733,099
Customer services costs	30	60,159,625	56,733,099
Included in capital work-in-progress		9,777,582	4,339,251
		3,017,758,811	2,840,994,192

6.1.4 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.

6.2	Capital work in progress	Note	2016	2015
			----------Rupees----------	
	Civil works		260,909,023	80,979,746
	Distribution equipment	6.2.1	6,360,520,475	4,176,671,334
		6.2.2	6,621,429,498	4,257,651,080
	Cost of implementation of Enterprise Resource Planning		175,596,186	104,785,655
	Mobilization advance to suppliers / contractors		207,266,858	76,490,557
	Capital stores	6.2.3	1,134,877,170	1,070,837,418
			8,139,169,712	5,509,764,710

6.2.1 Breakup of distribution equipment is as follows:

Material		4,200,910,310	3,254,119,612
Overheads		773,737,004	396,955,328
Contract work		560,037,250	479,901,440
Other Turnkey	6.2.1.1	682,115,196	-
Borrowing costs	6.2.1.2	143,720,715	45,694,954
		6,360,520,475	4,176,671,334

6.2.1.1 These turnkey projects have been awarded for construction of 132 KV Grid Station on various locations of Faisalabad region.

6.2.1.2 This represents borrowing costs incurred specifically to financce the construction of grid station projects.

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

Balance at the beginning of the year	4,257,651,080	3,838,569,848
Additions during the year	4,576,269,615	4,875,014,630
Transfers to operating fixed assets during the year:		
- Building on freehold land	(142,694,566)	(147,403,191)
- Feeders, grids and equipment	(2,069,796,631)	(4,308,530,207)
	(2,212,491,197)	(4,455,933,398)
Balance at the end of the year	6,621,429,498	4,257,651,080

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

7.	LONG-TERM LOANS	Note	2016	2015
			------------Rupees------------	
	Secured, considered good:			
	To employees			
	House building / purchase of plot		154,121,789	155,350,789
	Vehicles / motor cycles		3,536,206	4,621,457
		7.1	157,657,995	159,972,246
	Less: current portion of long term loans		(50,519,854)	(45,099,679)
			107,138,141	114,872,567

7.1 House building / purchase of plot loans are repayable in 10 years, car and motor-cycle loans in 5 years and bicycle loans in 4 years. As per the Company's policy, the rate of mark-up charged on these loans ranges from 11.75% to 14% (2015:12% 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.

		Note	2016	2015
			------------Rupees------------	
8.	**STORES, SPARES AND LOOSE TOOLS**			
	Stores, spares and loose tools		1,006,400,509	949,610,540
	Provision for slow moving / obsolete items	8.1	(10,575,228)	(13,003,817)
			995,825,281	936,606,723
8.1	**Movement in provision during the year is as follows:**			
	Balance at the beginning of the year		13,003,817	12,234,863
	Provision of / (reversal) against slow moving / obsolete items		(2,428,589)	768,954
	Balance at the end of the year		10,575,228	13,003,817
9.	**TRADE DEBTS**			
	Considered good		9,335,703,636	9,805,278,535
	Considered doubtful		660,125,633	1,308,192,598
		9.1	9,995,829,269	11,113,471,133
	Less : Provision for doubtful debts	9.2	(660,125,633)	(1,308,192,598)
			9,335,703,636	9,805,278,535

9.1 This includes recievable from private consumers which are secured to the extent of the consumers' security deposits against electricity connections, as disclosed in note 20.

		Note	2016	2015
			------------Rupees------------	
9.2	**Movement in provision for doubtful debts is as follows:**			
	Balance at the beginning of the year		1,308,192,598	1,220,543,930
	(Reversal against) / provision of doubtful debts		(648,066,965)	87,648,668
	Balance at the end of the year		660,125,633	1,308,192,598
10.	**SHORT-TERM ADVANCES**			
	Considered good - unsecured			
	- to suppliers		41,487,323	32,309,568
	- to employees against operating expenses		10,368,404	8,043,171
	- for sports		924,436	2,815,604
			52,780,163	43,168,343
11.	**OTHER RECEIVABLES**			
	Due from energy debtors	11.1	5,525,417,661	3,784,035,106
	Receivables from suppliers against guarantee / Warranty material		138,478,976	282,071,872
	Unsecured, considered good			
	From related parties:			
	Central Power Purchasing Agency		33,850,712,008	25,784,783,997
	Other related parties on account of:			
	- Free electricity	11.2	916,862,161	764,339,899
	- Pensions	11.3	3,132,412,652	2,353,328,293
			4,049,274,813	3,117,668,192
	Others	11.4	28,922,726	30,963,235
			43,592,806,184	32,999,522,402

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11.1 Due from energy debtors:

	Note	2016	2015
		------------Rupees------------	
General sales tax		**4,412,295,784**	3,225,717,748
Income tax		**107,910,138**	138,670,448
Tariff Realization / Universal Obligation surcharge	11.1.1	**566,008,019**	131,454,639
Finance Cost / Debt Servicing surcharge		**234,542,975**	69,237,249
Electricity duty		**53,642,768**	67,371,431
Equalization surcharge	11.1.2	**1,559,260**	48,005,425
Extra / Further sales tax		**42,199,914**	52,257,396
PTV License fee		**42,875,693**	44,341,228
Nelum Jhelum surcharge		**64,383,110**	6,979,542
		5,525,417,661	3,784,035,106

11.1.1 This represents Tariff Realization Surcharge receivable from the concumers pursuant to S.R.O 568(1)/2015, dated 10 June 2015 issued by the Ministry of Water and Power, GoP.

11.1.2 This represents equalization surcharge receivable from consumers pursuant to S.R.O 236(1)2011, dated 15 March 2011 issued by the Ministry of Water and Power, GoP.

11.2 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:

	2016	2015
	------------Rupees------------	
Northern Power Generation Company Limited	**307,671,020**	266,620,113
National Transmission & Dispatch Company Limited	**188,777,654**	165,391,287
Water and Power Development Authority	**212,733,345**	153,038,848
Islamabad Electric Supply Company Limited	**107,570,459**	82,963,505
Peshawar Electric Supply Company Limited	**54,680,711**	55,680,085
Gujranwala Electric Power Company Limited	**24,758,903**	23,658,417
Quetta Electric Supply Company Limited	**11,488,077**	9,300,829
Central Power Generation Company Limited	**3,252,670**	2,484,629
Hyderabad Electric Supply Company Limited	**2,730,318**	2,441,030
Lakhra Power Generation Company Limited	**1,477,476**	1,312,994
Tribal Area Electric Supply Company Limited	**865,956**	722,618
Jamshoro Power Company Limited	**692,645**	627,186
Sukkur Electric Power Company Limited	**162,927**	98,358
	916,862,161	764,339,899

11.3 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:

	Note	2016	2015
		------------Rupees------------	
Water and Power Development Authority	11.3.1	**2,413,025,449**	1,887,365,767
National Transmission & Dispatch Company Limited		**350,446,245**	262,840,242
Multan Electric Power Company Limited		**110,964,022**	65,709,109
Islamabad Electric Supply Company Limited		**70,015,691**	52,009,518
Northern Power Generation Company Limited		**107,020,426**	41,915,821
Gujranwala Electric Power Company Limited		**31,563,797**	19,775,713
Hyderabad Electric Supply Company Limited		**12,356,778**	8,066,116
Central Power Generation Company Limited		**17,912,635**	6,985,568
Quetta Electric Supply Company Limited		**10,739,389**	5,135,489
Sukkur Electric Power Company Limited		**4,464,547**	1,519,434
Jamshoro Power Company Limited		**2,291,235**	1,058,125
Lakhra Power Generation Company Limited		**985,321**	650,925
Tribal Area Electric Supply Company Limited		**627,117**	296,466
		3,132,412,652	2,353,328,293

11.3.1 This includes receivable from WAPDA amounting to Rs. 1,100 (2015: 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 Ministry of Water and Power referred the matter to NEPRA. NEPRA in its tariff determination dated 10 March 2015 has decided that above amount is receivable from the WAPDA.

11.4 This includes an amount of Rs. 22 million (2015: Rs. 19 million) receivable against shortage and/or theft.

12. TAX REFUNDS DUE FROM THE GOVERNMENT

	Note	2016	2015
		------------Rupees------------	
Sales tax			
- Excess of input tax over output tax		-	2,976,056,772
- Sales tax refundable	12.1	**7,754,081,753**	7,754,081,753
		7,754,081,753	10,730,138,525
Income tax		**212,123,458**	278,912,012
		7,966,205,211	11,009,050,537

12.1 During the current and prior years, the tax authorities have recovered these amounts against various sales tax demands, disclosed in note 25.1.3.2 to the financial statements. Based on the legal opinion provided by the tax advisor of the Company, the management is confident that said amount is fully recoverable from the sales tax authorities and accordingly no provision in this regard has been recognized. However, the final outcome of these matters depend upon future decisions of appellate authorities.

13. RECEIVABLE FROM GOVERNMENT OF PAKISTAN

	Note	2016	2015
		------------Rupees------------	
Balance at the beginning of the year		**8,863,504,084**	6,393,485,252
Tariff differential subsidy recognized during the year	13.1	**10,660,951,472**	22,422,784,619
Adjusted against balance with CPPA	13.2	**(19,524,455,556)**	(19,952,765,787)
Balance at the end of the year		**-**	8,863,504,084

13.1 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 Government which are charged to the consumers.

13.2 This includes an amount of Rs. 11,602 million which represents Tariff rationalization surcharge adjusted against receivable from Government of Pakistan on account of tariff differentail subsidy invoices as allowed by Ministry of Water and Power vide SRO No 189(I) dated 5th March, 2015.

14. SHORT-TERM INVESTMENTS

	Note	2016	2015
		------------Rupees------------	
Held to maturity investments			
- Term Deposit Receipts (TDRs)	14.1	**5,000,000,000**	3,350,000,000

14.1 These represent term deposits placed in local currency with different banks having maturity of three months (2015: three months) at rates ranging from 5.65% to 7.00% (2015: 6.30% to 10.50%) per annum.

15. BANK BALANCES

	Note	2016	2015
		------------Rupees------------	
Current accounts		**707,540,551**	1,021,883,609
Deposit accounts	15.1 & 15.2	**1,998,705,157**	1,451,434,266
		2,706,245,708	2,473,317,875
Cash in transit		**88,858,353**	58,131,886
		2,795,104,061	2,531,449,761

15.1 These carry mark-up ranging from 3.0% to 4.0% (2015: 3.0% to 6.5%) per annum.

15.2 Included herein is an amount of Rs. 215.33 million (2015: Rs. 246.71 million) kept in separate bank accounts relating to customers' security deposits.

16. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2016	2015		2016	2015
----Number of shares----			------------Rupees------------	
1,000	1,000	Ordinary shares of Rs. 10 each, issued for consideration in cash	**10,000**	10,000

16.1 These represent shares which are held by the Government of Pakistan and its nominees.

17. DEPOSIT FOR SHARES

	Note	2016	2015
		------------Rupees------------	
Incorporation expenses incurred by WAPDA	17.1	**219,427,350**	219,427,350
Debt service liability paid by WAPDA	17.2	**72,146,536**	72,146,536
Transfer of assets after incorporation	17.3	**1,396,405,187**	1,396,405,187
Transfer on account of clearance of circular debt	17.4	**16,988,402,955**	20,244,758,340
		18,676,382,028	21,932,737,413

17.1 This represents the Company's incorporation expenses and reversal of provision for doubtful debts relating to pre-incorporation period incurred by WAPDA against which shares will be issued by the Company.

17.2 In previous years, GoP / WAPDA paid debt service liability, amounting to Rs. 2,134 million, on behalf of the Company relating to foreign relent and Cash Development loans. The amount has been adjusted against the liability assumed by the Company on account of 1,234 EX-WAPDA pensioners. The Company is of the view that post retirement benefit obligation was not accounted for by GoP/WAPDA during the assets valuation transferred under BTA.

17.3 This represents reallocation of loans against assets constructed by National Transmission and Dispatch Company Limited (NTDC) and transferred to the Company during 01 July 2000 to 30 June 2007 through WAPDA against which the Company will issue shares.

17.4 This represents GoP's investment / equity in the Company channelized through PEPCO / NTDC as a measure taken to clear circular debts prevailing in the power sector.

18. SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - net of tax

	Note	2016	2015
		------------Rupees------------	
Balance at the beginning of the year		**35,710,349,721**	36,812,719,966
Transfer to accumulated profit in respect of incremental depreciation		**(894,097,812)**	(816,258,945)
Related deferred tax liability		**(277,170,322)**	(286,111,300)
		(1,171,268,134)	(1,102,370,245)
		34,539,081,587	35,710,349,721
Impact of deferred taxation			
Deferred tax liability at the beginning of the year		**(7,546,503,111)**	(8,139,033,618)
Deferred tax liability on incremental depreciation charged during the year		**277,170,322**	286,111,300
Reduction in deferred tax liability	18.1	**321,751,022**	306,419,207
		(6,947,581,767)	(7,546,503,111)
Balance at the end of the year - net of tax		**27,591,499,820**	28,163,846,610

18.1 This reduction resulted from change in applicable rate from 32% to 31%.

	Note	2016	2015
		------------Rupees------------	
19. LONG-TERM FINANCING SECURED			
From Government of Pakistan out of Asian Development Bank			
- Trench I	19.1.1	1,058,969,258	1,058,969,258
- Trench II	19.1.2	304,833,149	315,976,905
- Trench III	19.1.3	623,732,899	61,331,244
- Trench IV	19.1.4	839,133,284	-
	19.1	2,826,668,590	1,436,277,407
Less: Current portion shown under current liabilities		(315,791,157)	(128,021,174)
		2,510,877,433	1,308,256,233

19.1 Asian Development Bank Loan

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:

19.1.1 Trench I:

This facility has been extended with sanctioned limit of US dollar 17.654 million. 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% per annum which includes Exchange Risk Component (ERC) at 6% per annum.

19.1.2 Trench II:

This facility has been extended with sanctioned limit of US dollar 11.230 million. 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% per annum which includes Exchange Risk Component (ERC) at 6.8% per annum.

19.1.3 Trench III:

ADB has extended this facility with sanctioned limit of US dollar 24.11 million. The repayment of loan would start 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% per annum which includes Exchange Risk Component at 6.8% per annum and commitment charges are at the rate of 0.15% per annum net of loan amount.

19.1.4 Trench IV:

ADB has extended this facility with sanctioned limit of US dollar 15.86 million. 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% per annum which includes Exchange Risk Component at 6.8% per annum and commitment charges are at the rate of 0.15% per annum net of loan amount.

20. LONG-TERM SECURITY DEPOSITS

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

21. 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.

	Note	Pension obligations - unfunded		Medical benefits		Free electricity		Compensated absences		Total	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		Rupees		Rupees		Rupees		Rupees		Rupees	
21.1 The amounts recognized in the balance sheet											
Present value of defined benefit obligations		36,213,253,879	24,565,795,724	2,710,440,379	2,083,453,731	3,872,396,781	2,424,242,199	2,743,208,689	2,125,833,700	45,539,299,728	31,199,325,354
21.2 Changes in the present value of defined benefit obligations:											
Balance at the beginning of the year		24,565,795,724	19,338,285,139	2,083,453,731	1,918,026,524	2,424,242,199	1,689,420,430	2,125,833,700	1,761,497,376	31,199,325,354	24,707,229,469
Current service cost		780,703,766	610,389,824	60,125,602	58,652,107	76,992,481	63,709,024	93,947,172	27,173,873	1,011,769,021	759,924,828
Past service cost-due to restoration		3,256,355,385	-	-	-	-	-	-	-	3,256,355,385	-
Interest cost		2,482,348,406	2,620,845,147	208,152,063	252,038,983	248,665,032	230,221,162	215,017,542	214,258,327	3,154,183,043	3,317,363,619
WAPDA Pensioners' liability		-	1,757,199,357	-	166,532,511	-	137,722,894	-	-	-	2,061,454,762
Benefits paid during the year		(1,848,764,671)	(1,606,434,117)	(202,106,252)	(102,142,185)	(112,007,599)	(105,879,873)	(156,095,168)	(94,861,516)	(2,318,973,690)	(1,909,317,691)
Actuarial loss / (gain) on obligation	21.4	6,976,815,269	1,845,510,374	560,815,235	(209,654,209)	1,234,504,668	409,048,562	464,505,443	217,765,640	9,236,640,615	2,262,670,387
Balance at the end of the year		36,213,253,879	24,565,795,724	2,710,440,379	2,083,453,731	3,872,396,781	2,424,242,199	2,743,208,689	2,125,833,700	45,539,299,728	31,199,325,354

	Note	Pension obligations - unfunded		Medical benefits		Free electricity		Compensated absences		Total	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		Rupees		Rupees		Rupees		Rupees		Rupees	
21.3 Charge to profit and loss											
Current service cost		780,703,766	610,389,824	60,125,602	58,652,107	76,992,481	63,709,024	93,947,172	27,173,873	1,011,769,021	759,924,828
Interest cost		2,482,348,406	2,620,845,147	208,152,063	252,038,983	248,665,032	230,221,162	215,017,542	214,258,327	3,154,183,043	3,317,363,619
Actuarial loss / (gain)		-	-	-	-	-	-	464,505,443	217,765,640	464,505,443	217,765,640
		3,263,052,172	3,231,234,971	268,277,665	310,691,090	325,657,513	293,930,186	773,470,157	459,197,840	4,630,457,507	4,295,054,087
21.4 Charge to other comprehensive income											
Actuarial loss / (gain)	21.4.1	6,976,815,269	1,845,510,374	560,815,235	(209,654,209)	1,234,504,668	409,048,562	-	-	8,772,135,172	2,044,904,727
21.4.1 Break-up of actuarial loss / (gain)											
Financial assumptions		4,624,132,225	(1,527,209,328)	330,229,919	(24,645,083)	(381,953,902)	663,090,602	106,533,152	-	4,678,941,394	(888,763,809)
Experience adjustments		2,352,683,044	3,372,719,702	230,585,316	(185,009,126)	1,616,458,570	(254,042,040)	357,972,291	217,765,640	4,557,699,221	3,151,434,176
		6,976,815,269	1,845,510,374	560,815,235	(209,654,209)	1,234,504,668	409,048,562	464,505,443	217,765,640	9,236,640,615	2,262,670,367

21.5 Significant actuarial assumptions at the balance sheet date are:

	Pension 2016	Pension 2015	Medical 2016	Medical 2015	Free electricity 2016	Free electricity 2015	Compensated absences 2016	Compensated absences 2015
Discount rate (per annum)	9.0%	10.5%	9.0%	10.5%	9.0%	10.5%	9.0%	10.5%
Future salary increase (per annum)	8.0%	9.0%	8.0%	-	-	-	8.0%	9.0%
Indexation rate (per annum)	3.0%	3.0%	-	-	-	-	-	-
Exposure Inflation rate (per annum)	-	-	-	2.5%	-	-	-	-
Medical Inflation rate Facility	-	-	7.0%	7.0%	-	-	-	-
Medical Inflation rate allowance			2.0%					
Medical take-up rate of allowances-in Service			50.0%					
Take up rate of allowance - retirees			0.0%					
Electricity Inflation rate (per annum)	-	-	-	-	7.0%	9.0%	-	-
Withdraw rate	Low	Low	Low	Low	Low	Low	Low	Low
Mortality rate	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005	Adjusted SLIC 2001-2005

21.6 Sensitivity analysis:

	Pension obligations - unfunded		Medical benefits		Free electricity		Compensated absences	
	%	Amount	%	Amount	%	Amount	%	Amount
2016:								
Effect of change in discount rate								
1% increase	10.0%	32,002,934,865	10.0%	2,417,726,704	10.0%	3,305,814,972	10.0%	2,510,023,790
1% decrease	8.0%	41,425,541,850	8.0%	3,077,717,079	8.0%	4,601,672,129	8.0%	3,020,437,629
Effect of change in salary increase rate								
1% increase	9.0%	38,071,248,540	-	-	-	-	9.0%	3,034,035,939
1% decrease	7.0%	34,563,666,756	-	-	-	-	7.0%	2,494,751,992
Effect of change in medical inflation rate								
1% increase	-	-	8.0%	2,942,401,360	-	-	-	-
1% decrease	-	-	6.0%	2,511,793,097	-	-	-	-
2015:								
Effect of change in discount rate								
1% increase	11.5%	(1,567,032,962)	11.5%	(295,300,710)	11.5%	(378,849,686)	11.5%	(165,238,687)
1% decrease	9.5%	3,174,130,145	9.5%	375,473,225	9.5%	491,308,993	9.5%	193,974,839
Effect of change in salary increase rate								
1% increase	10.0%	1,218,629,677	-	-	-	-	10.0%	205,292,419
1% decrease	8.0%	(1,091,958,057)	-	-	-	-	8.0%	(177,504,594)
Effect of change in medical inflation rate								
1% increase	-	-	8.0%	275,463,722	-	-	-	-
1% decrease	-	-	6.0%	(232,219,295)	-	-	-	-

21.7 Description of risks to the Company

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

Final salary risk

The risk that the final salary at the time of cessation of service is greater than what was assumed.

Withdrawal risk

The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.

Mortality risk

The risk that the actual mortality experience is different. Similar to the Withdrawal risk, the effect depends on the beneficiaries' service/age distribution and the benefit.

Medical escalation risk

The risk that the cost of post retirement medical benefits will increase.

	Note	2016	2015
		------------Rupees------------	

22. DEFERRED TAXATION - net

	Note	2016	2015
Deferred tax asset	22.1	15,484,344,049	16,083,265,393
Deferred tax liability	22.2	(15,484,344,049)	(16,083,265,393)
		-	-

22.1 Movement in deferred tax asset:

	2016	2015
Balance at the beginning of the year	16,083,265,393	8,139,033,618
Reversal for the year		
Related to reversal of liability on account of incremental depreciation	(277,170,322)	(286,111,300)
Reduction in deferred tax asset	(321,751,022)	(306,419,207)
Provision for tax asset - profit and loss account	-	8,536,762,282
	15,484,344,049	16,083,265,393

22.2 Movement in deferred tax liability:

	2016	2015
Balance at the beginning of the year	(16,083,265,393)	(8,139,033,618)
Transfer to profit and loss on account of incremental depreciation	277,170,322	286,111,300
Reduction in deferred tax liability on revaluation reserve	321,751,022	306,419,207
Provision for tax liability - profit and loss account	-	(8,536,762,282)
	(15,484,344,049)	(16,083,265,393)

23. DEFERRED CREDIT

	Note	2016	2015
		------------Rupees------------	
Contributions against connections installed / deposit works:			
Balance as at 01 July		31,351,146,682	29,066,466,699
Additions during the year		1,908,662,570	2,284,679,983
		33,259,809,252	31,351,146,682
Amortization			
Balance at the beginning of the year		9,460,255,498	8,362,967,699
For the year		1,164,093,324	1,097,287,799
		10,624,348,822	9,460,255,498
Receipts against deposit works and connections waiting account	23.1	5,301,100,450	4,241,980,727
Closing Balance for the year		27,936,560,880	26,132,871,911

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

24. TRADE AND OTHER PAYABLES

	Note	2016	2015
		------------Rupees------------	
Creditors		**797,713,491**	891,675,025
Other payables:			
Advances from customers		**-**	308,580,284
Excess receipt against deposit work		**200,896,598**	185,335,430
Provision for Workers' Profit Participation Fund	24.1	**110,185,918**	110,185,918
Due to related parties on account of:			
- Free electricity	24.2	**888,991,410**	896,294,886
- Pension	24.3	**38,846,134**	12,333,833
		927,837,544	908,628,719
Billing related payables	24.4	**22,076,028,134**	11,233,074,946
Excess of output over input tax		**322,106,338**	-
Accrued liabilities		**614,601,706**	864,058,981
Retention from contractors		**79,244,643**	50,801,862
Others		**160,555,465**	123,193,144
		25,289,169,837	14,675,534,309

24.1 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, amounting to Rs. 110.185 million. 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 year has been made since the company has not earned profit.

24.2 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:

	2016	2015
	------------Rupees------------	
Multan Electric Power Company Limited	**96,131,828**	101,362,125
Lahore Electric Supply Company Limited	**660,617,481**	661,709,305
Pakistan Electric Power Company Limited	**132,242,101**	133,223,456
	888,991,410	896,294,886

24.3 Due to related parties on account of pension - net

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

	2016	2015
	------------Rupees------------	
Lahore Electric Supply Company Limited	**12,593,283**	3,611,238
Peshawar Electric Supply Company Limited	**26,252,851**	8,722,595
	38,846,134	12,333,833

24.4 Billing related payables

	Note	2016	2015
		------------Rupees------------	
Fuel price adjustment payable to consumers		3,808,700,359	5,138,823,957
Withholding tax		105,961,325	178,783,378
Realized -			
Equalization surcharge payable	24.4.1	2,211,083,758	2,165,820,499
Electricity duty payable		10,080,420	109,814,757
TV License fee payable		86,282,831	79,163,551
Neelum Jhelum surcharge		143,460,451	6,902,232
Extra / further tax		19,759,032	28,451,006
Financing cost / debt servicing surcharge payable		5,887,710,766	499,741,155
Tariff realization / universal obligation surcharge payable		6,496,669,026	716,223,274
General sales tax		53,676,075	37,199,401
Unrealized -			
Financing cost / debt servicing surcharge payable		234,542,974	69,237,248
Tariff realization / universal obligation surcharge payable		566,008,018	131,454,638
Electricity duty		53,642,768	67,371,430
General sales tax		2,139,522,213	1,713,834,379
Income tax		107,910,138	138,670,448
TV license fee		42,875,693	44,341,228
Equalization surcharge payable		1,559,262	48,005,426
Extra / further tax		42,199,914	52,257,396
Neelum Jhelum surcharge	24.4.2	64,383,111	6,979,543
		22,076,028,134	11,233,074,946

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

24.4.2 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 Water and Power, 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.

25. CONTINGENCIES AND COMMITMENTS

25.1 Contingencies

25.1.1 Claims against the Company not acknowledged as debt are as follows:

		2016	2015
Loans not acknowledged as debt by the Company	25.1.1.1	42,595,897,936	39,536,846,823
Interest on syndicated loan	25.1.1.1	8,824,436,071	8,648,225,744
Supplementary charges	25.1.1.2	6,618,439,759	6,185,535,218
		58,038,773,766	54,370,607,785

25.1.1.1 In order to curb the circular debt in the country, the Federal Government, through Power Holding Private Limited (PHPL) has injected money from time to time through borrowings from commercial banks. The amount was ultimately transferred to Distribution Companies on the basis of outstanding payables towards Central Power Purchasing Agency (CPPA) which aggregates to Rs. 270,474 million up till last year.

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 severely liable in-case of default. The Management of DISCOs objected to this arrangement and based on their observations the proposed mechanism of extending the loan was revised in a joint meeting held at the Ministry of Water and Power on 14 May 2012, whereby a bilateral agreement was proposed to be signed between each DISCO and PHPL with all DICSOs being severally liable. The Board of Directors of the Company accorded its approval in its 100th and 101st meeting subject to certain reservations. The draft of the relending agreement between the Company and PHPL was received on 13 August 2012. Subsequently, during a joint meeting held at LESCO Head Office on 27 August 2012, it was agreed among DISCOs that the relending agreement will be effective from the date it is signed by the respective DISCOs and the same was communicated to Ministry of Water & Power vide a letter issued by the LESCO Legal Director [# L-Dir/12150-53 dated 28 August 2012]. As of 30 June 2016, CPPA has issued advices of loan amounting to Rs. 42,596 million representing the facility allocated to the Company by the Ministry.

During the year, CPPA has issued credit invoices to the Company amounting to Rs. 3,059 million, resulting in total loan allocation of Rs. 42,596 million, along with related accrued mark-up of Rs. 8,824 million.

NEPRA being the power sector regulator have also raised certain concerns on the structure of the transaction which have been forwarded to the Ministry of Water and Power vide [letter No. 1970-73 dated 07 September 2012]. Pending resolution of matters raised by the 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 loan and related liabilities have not been recorded in these financial statements. However, they have been disclosed in the contingencies.

25.1.1.2 This represents supplementary charges invoiced by CPPA to the Company on account of allocation of late payment charges to oil and gas companies which are accumulating over the years amounting to Rs. 6,618 (2015: Rs. 6,186 million) million. However, National Electric Power Regulatory Authority (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.

25.1.2 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.

25.1.3 Taxation

25.1.3.1 Income tax

The Company has filed income tax returns for tax years 2007 to 2014. While finalizing income tax assessments, tax authorities have created demand for tax years 2007, 2009 ,2010, 2013, 2014 and 2015 by calculating minimum tax on purchase price of electricity and disallowance of brought forward losses, by treating profit on bank deposit as income from other sources and, by calculating minimum tax on subsidy receivable from GoP, respectively. These demands had an aggregate tax impact of Rs. 8,314 million. As a result of appeals, filed by the Company before appellate authorities, most of these demands have been deleted. However, the Company and Tax Department are in appeal before higher appellate forums.

Further, tax authorities have also raised demand of Rs. 118 million, in respect of alleged short payment of withholding/ advance tax, in respect of tax years 2007 to 2012, under various sections of the Income Tax Ordinance, 2001. The matters relating to 2007 to 2011 are pending at the level of Appellate Tribunal Inland Revenue (ATIR). Whereas, the matter relating to 2012 has been remanded back.

Pending finalization of appeals, no provision has been recognized by the Company, against the total demand of Rs.2,869 million, as management is confident that the outcome of these appeals will be in favor of the Company.

25.1.3.2 Sales Tax

In respect of financial year 2009 tax authorities raised a show cause notice for Rs. 4,696 million in respect of revenue from non-utility operation, pending connections, repair, testing and inspection fee, re-connections and, disallowed input tax. Similar show cause of Rs. 6,767 million has also been issued for financial year 2010. The Company has obtained a stay order form Lahore High Court against these show cause notices. Currently these matters are pending with Honorable Lahore High Court.

In respect of financial year 2009, tax authorities has also raised a demand of Rs. 6,888 million. However, ATIR has decided the case in favor of the Company and tax authorities have filed an appeal with Honorable High Court, which is pending.

		2016	2015
		------------Rupees------------	
25.2	**Commitments**		
25.2.1	Commitments in respect of capital expenditure	**1,491,355,754**	470,343,225
25.2.2	Commitments against inland letter of credit	**1,401,298,026**	919,460,433

26. SALE OF ELECTRICITY

	2016	2015
Gross sales	**103,216,659,936**	114,377,694,099
Sales tax	**(15,021,306,737)**	(14,384,391,750)
	88,195,353,199	99,993,302,349

26.1

FESCO's tariff for the financial year 2015-16 was filed for approval from NEPRA on 07 August 2015 and is yet to be notified by Ministry of Water and Power in the Official Gazette. In view of the aforesaid, the Company has used the tariff relating to financial year 2014-15 notified by GoP vide SRO 570(I)/2015 dated 10 June 2015. Tariff differential subsidy has also been calculated and accounted for on the basis of aforesaid notifications.

27. COST OF ELECTRICITY

27.1 Electricity purchased from Central Power Purchasing Agency (CPPA) during the year has been invoiced at the average rate of Rs. 8.274 / KWH (2015: Rs. 9.395 / KWH).

28. DISTRIBUTION COSTS

	Note	2016	2015
		------------Rupees------------	
Salaries, wages and other benefits	28.1	**8,484,254,446**	7,761,258,522
Depreciation	6.1.3	**2,887,661,979**	2,723,188,743
Repair and maintenance	28.2	**430,744,048**	411,965,507
Rent, rates and taxes		**15,439,980**	12,771,370
Postage and telephone		**17,093,853**	14,972,135
Power, light and water		**18,369,422**	17,907,873
Office supplies and other expenses		**15,046,241**	12,596,938
Travelling and conveyance		**200,584,011**	172,499,864
Professional fee		**13,058,113**	9,623,682
Transportation		**183,497,340**	183,490,212
Advertisement charges		**5,597,567**	39,659,502
Insurance		-	-
Other charges		**28,170,918**	24,569,317
		12,299,517,918	11,384,503,665
Less: Transfer to capital / deposit work-in-progress		**330,308,313**	329,430,827
		11,969,209,605	11,055,072,838

28.1 This includes a sum of Rs. 2,447 million (2015: Rs. 2,421 million), Rs. 201 million (2015: Rs. 233 million), Rs. 244 million (2015: Rs. 220 million) and Rs. 580 million (2015: Rs. 344 million) in respect of pension, medical, free electricity and compensated absences benefits to employees, respectively.

28.2 This amount has been reported net-off by the income generated by Transformation and Reclamation Workshop income amounting to Rs. 216 million (2015: 121 million).

29. ADMINISTRATIVE EXPENSES

	Note	2016	2015
		------------Rupees------------	
Salaries, wages and other benefits	29.1	**1,706,074,909**	1,568,472,546
Depreciation	6.1.3	**60,159,625**	56,733,099
Repair and maintenance		**38,917,496**	34,128,501
Power, light and water		**19,928,757**	18,454,519
Office supplies and other expenses		**51,851,323**	74,722,826
Travelling and conveyance		**41,920,040**	35,147,278
Professional fee		**52,464,079**	25,953,992
Audit fee		**1,664,950**	1,000,000
Transportation		**43,036,607**	46,983,535
Management fees		**27,685,231**	25,179,653
Postage and telephone		**8,778,825**	7,643,985
Bank charges		**11,548,849**	11,946,361
Provision / (reversal) for slow moving items	8.1	**(2,428,589)**	768,954
Other charges		**8,462,654**	5,602,420
		2,070,064,756	1,912,737,669

29.1 This includes a sum of Rs. 571 million (2015: Rs. 565 million), Rs. 47 million (2015: Rs. 54 million), Rs. 57 million (2015: Rs. 51 million) and Rs. 135 million (2015: Rs. 80 million) in respect of pension, medical, free electricity and compensated absences benefits to employees, respectively.

30. CUSTOMER SERVICES COSTS

	Note	2016	2015
		Rupees	
Salaries, wages and other benefits	30.1	1,077,561,627	1,038,855,611
Depreciation	6.1.3	60,159,625	56,733,099
Electricity bills collection charges		255,199,534	263,942,578
Travelling and conveyance		24,608,458	23,184,611
Repair and maintenance		372,761	412,788
Rent, rates and taxes		2,548,933	1,681,191
Postage and telephone		1,808,797	1,516,613
Power, light and water		3,151,708	3,452,400
Office supplies and other expenses		6,061,801	5,791,583
Transportation		3,023,941	3,022,519
Other charges		100,960	70,658
		1,434,598,145	1,398,663,651

30.1 This includes a sum of Rs.245 million (2015: Rs. 242 million), Rs. 20 million (2015: Rs. 23 million), Rs. 24 million (2015: Rs. 22 million) and Rs. 58 million (2015: Rs. 34 million) in respect of pension, medical, free electricity and compensated absences benefits to employees, respectively.

31. OTHER INCOME

	Note	2016	2015
		Rupees	
Income from financial assets			
Profit on bank deposits and short-term investment		285,136,550	406,057,788
Late payment surcharge		1,111,854,111	1,098,174,832
		1,396,990,661	1,504,232,620
Income from non-financial assets			
Gain on installation of new connection		321,465,916	306,585,904
Repair, testing and inspection fee		15,900,062	12,394,266
Recovery of late delivery charges		73,535,109	49,831,235
Non-utility operations	31.1	18,354,694	42,725,142
		429,255,781	411,536,547
Others			
Meter / service rent		48,882,024	48,146,536
Reconnection fees		20,488,898	21,401,677
Excess deposit work receipts written back		118,497,934	196,752,002
Service charges on collection of PTV Fee & electricity duty		135,035,217	125,861,516
FESCO colonies quarterly rent		5,082,271	3,893,348
		327,986,344	396,055,079
		2,154,232,786	2,311,824,246

31.1 It represents tender fee, community van fee, registration fee of contractors, sale of scrap, and interest on employee advance .

32. FINANCE COSTS

	Note	2016	2015
		Rupees	
Interest on Long-Term Debt		187,013,971	207,989,006

33. TAXATION

	Note	2016	2015
Current	33.1	-	-
Deferred	33.2	(44,580,700)	306,419,207
		(44,580,700)	306,419,207

33.1 There is no provision of taxation keeping in view the taxable losses and negative turnover as calculated under section 113 of the Income Tax Ordinance, 2001.

	Note	2016	2015
		-----------Rupees-----------	

33.2 Charge for deferred tax is as follows:

		2016	2015
Reversal of taxable differences relating to incremental depreciation		277,170,322	286,111,300
Reversal of taxable differences		-	8,536,762,282
Reversal of deductible differences		-	(8,822,873,582)
Reduction in deferred tax asset		(321,751,022)	306,419,207
		(44,580,700)	306,419,207

34. CASH GENERATED FROM OPERATIONS

	2016	2015
(Loss) / Profit before taxation	(13,264,853,954)	5,536,003,445
Adjustments for non-cash charges and other items:		
Depreciation	3,017,758,811	2,840,994,192
Provision for employee benefits	4,630,457,507	4,295,054,087
Amortization of deferred credit	(1,164,093,324)	(1,097,287,799)
Gain on disposal of fixed assets	-	(3,055,502)
Finance costs	330,734,686	207,989,006
Provision / (reversal) for doubtful debts	(648,066,965)	87,648,668
Bad debts written off	398,919	-
Profit on bank deposits and short-term investment	(285,136,550)	(406,057,788)
Provision / (reversal) for slow moving / obsolete items	(2,428,589)	768,954
	5,879,624,495	5,926,053,818
Working capital changes		
(Increase)/decrease in current assets:		
Stores and spares	(56,789,969)	225,192,647
Trade debts	1,117,242,945	(108,325,991)
Short-term advances	(9,611,820)	14,828,746
Recoverable from tax authorities - sales tax	3,298,163,110	1,309,708,162
Receivable from Government of Pakistan	8,863,504,084	(2,470,018,832)
Other receivables	(10,593,283,782)	(12,071,153,512)
Increase/(decrease) in current liabilities:		
Trade and other payables	10,291,529,190	6,452,544,688
	12,910,753,758	(6,647,224,092)
Net operating cash flows after working capital changes	5,525,524,299	4,814,833,171

35. CASH AND CASH EQUIVALENTS

	Note	2016	2015
Short-term investments	14	5,000,000,000	3,350,000,000
Bank balances	15	2,795,104,061	2,531,449,761
		7,795,104,061	5,881,449,761

36. TRANSACTION WITH RELATED PARTIES

The related parties comprise associated companies, directors of the Company, companies with common directorship 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 :

	2016	2015
	-----------Rupees-----------	
Nature of transactions		
Electricity purchases	100,426,665,223	105,627,083,736
Purchase of materials	11,687,715	87,554,271
Sale of materials	2,459,925	35,449,885

36.1 The transactions with the key management under the terms of employment are disclosed in note 36.

[illegible]

37. REMUNERATION OF THE CHIEF EXECUTIVE AND DIRECTORS

	2016	2015
	-----------Rupees-----------	
Basic Salary	1,313,810	942,177
Fee for attending meetings	165,000	120,000
Allowances and benefits	3,362,419	2,361,024
House rent allowance	126,060	126,060
Utilities allowance	192,120	194,388
Bonus	261,255	156,600
Others/TA bills	1,106,510	477,535
	6,527,174	4,377,784
Number of persons	1	1

37.1 In addition, Chief Executive Officer is also provided with the Company's maintained vehicle and free accommodation.

37.2 The aggregate amount charged in the financial statements for the year as fees to Directors is Rs. 2,491,350 (2015: Rs.906,210) for attending Board of Directors and sub-committee meetings.

38. FINANCIAL RISK MANAGEMENT

38.1 Financial risk factors

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

Risk management framework

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

a) Market risk

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

Exposure to currency risk

The company has taken foreign currency loans, denominated in US dollars, from Asian Development Bank through Government of Pakistan (GoP). However, the receipt of loan and repayment of loan to GoP is in Pak rupees. Further, Exchange Risk Component is also being paid as part of its financing arrangement with GoP; consequently, it is not subject to currency risk on this financial instrument.

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

	Note	2016	2015
		-----------Rupees-----------	
Fixed rate instruments			
Financial assets			
Long-term loans	7	**157,657,995**	159,972,246
Short-term investments	14	**5,000,000,000**	3,350,000,000
Bank balances - deposit accounts	15	**1,998,705,157**	1,451,434,266
		7,156,363,152	4,961,406,512
Financial liabilities			
Long-term financing	19	**2,826,668,590**	1,436,277,407

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 balance sheet 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 obligation.

Exposure to credit risk

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

	2016		2015	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
	---------------------------Rupees---------------------------			
Long-term loans	**157,657,995**	**157,657,995**	159,972,246	159,972,246
Long-term deposits	**2,321,915**	**2,321,915**	2,140,585	2,140,585
Trade debts	**9,995,829,269**	**9,995,829,269**	11,113,471,133	11,113,471,133
Short-term advances	**52,780,163**	**52,780,163**	43,168,343	43,168,343
Interest accrued	**21,023,720**	**21,023,720**	30,144,067	30,144,067
Other receivables	**43,592,806,184**	**43,592,806,184**	32,999,522,402	32,999,522,402
Short term investments	**5,000,000,000**	**5,000,000,000**	3,350,000,000	3,350,000,000
Bank balances	**2,795,104,061**	**2,795,104,061**	2,531,449,761	2,531,449,761
	61,617,523,307	**61,617,523,307**	50,229,868,537	50,229,868,537

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

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

Type of consumer	2016	2015
	-----------Rupees-----------	
Domestic	4,678,066,425	3,578,445,027
Commercial	679,885,914	1,161,276,895
Industrial	1,928,421,065	5,066,515,192
Agricultural	2,585,865,926	868,477,406
Others	123,589,939	438,756,613
	9,995,829,269	11,113,471,133

The aging of trade debtors at the reporting date was:

	2016		2015	
	Gross	Impairment	Gross	Impairment
	-------------------------Rupees-------------------------			
Less than one year	9,564,284,831	250,800,285	10,768,312,084	971,581,124
Over 1 and up to 3 year	243,398,148	222,337,615	189,894,075	183,793,441
Over 3 year	188,146,290	186,987,733	155,264,974	152,818,033
	9,995,829,269	660,125,633	11,113,471,133	1,308,192,598

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		2016	2015
		Short-term	Long-term	-----------Rupees-----------	
Public Sector Banks					
National Bank of Pakistan	JCR-VIS	A-1+	AAA	636,342,420	505,392,620
The Bank of Khyber	PACRA	A1	A	-	44,201
The Bank of Punjab	PACRA	A1+	AA	94,949,746	160,376,230
Specialized Banks					
Zarai Taraqiati Bank Ltd	JCR-VIS	A1+	AAA	15,703,481	5,721,663
Private Sector Banks					
Allied Bank Limited	PACRA	A1+	AA+	226,805,427	206,829,405
Askari Bank Limited	PACRA	A1+	AA+	52,717,303	223,259,653
Bank Alflah Limited	PACRA	A1+	AA	102,175,855	24,613,910
Faysal Bank Limited	PACRA	A1+	AA	2,409,607	18,655,596
Habib Bank Limited	JCR-VIS	A-1+	AAA	290,872,158	188,210,131
Habib Metro Politan Bank Limited	PACRA	A1+	AA+	-	91,892
JS Bank Limited	PACRA	A1+	A+	584,443	214,004
MCB Bank Limited	PACRA	A1+	AAA	532,408,542	512,763,111
Punjab Provisional Co-operative bank	JCR-VIS	BB+	B	-	487,277
First Women Bank	PACRA	A2	A-	-	54,902
NIB Bank Limited	PACRA	A1+	AA-	84,668,992	81,612,777
Tameer Microfinance Bank Limited	PACRA	A+	A1	45,019,831	54,620,183
Silk Bank Limited	JCR-VIS	A-2	A-	130,846	-
Soneri Bank Limited	PACRA	A1+	AA-	124,964	99,502
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA	-	2,333
Summit Bank	JCR-VIS	A-1	A-	-	-
United Bank Limited	JCR-VIS	A-1+	AAA	378,232,614	324,491,963

	Rating Agency	Rating Short-term	Rating Long-term	2016	2015
				Rupees	
Islamic Banks					
Al Baraka Bank (Pakistan) Limited	PACRA	A1	A	**2,164,824**	90,429
Dubai Islamic Bank Ltd	PACRA	A1	A	**73,251**	25,465
Mezan Bank Limited	PACRA	AA	A1+	**3,668,973**	14,113,706
Bank Islami Limited	PACRA	A1	A+	**42,157**	40,700
Burj Bank	JCR-VIS	A-2	BBB+	**16,783**	-
Balance with other institutions:					
Other institutions	N/A	N/A	N/A	**325,991,844**	209,638,108
				2,795,104,061	2,531,449,761

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

c) **Liquidity risk**

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

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual cash flows	Less than one year	One to five years	More than five years
			Rupees		
2016					
Long-term financing	**2,826,668,590**	**2,826,668,590**	**315,791,157**	**573,415,937**	**1,937,461,496**
Long-term security deposits	**5,153,440,140**	**5,153,440,140**	-	-	**5,153,440,140**
Trade and other payables	**8,081,949,897**	**8,081,949,897**	**8,081,949,897**	-	-
Accrued interest	**555,597,449**	**555,597,449**	**555,597,449**	-	-
	16,617,656,076	**16,617,656,076**	**8,953,338,503**	**573,415,937**	**7,090,901,636**
2015					
Long-term loans	1,436,277,407	1,436,277,407	128,021,174	573,415,937	734,840,296
Long-term security deposits	4,455,020,977	4,455,020,977	-	-	4,455,020,977
Trade and other payables	7,265,673,888	7,265,673,888	7,265,673,888	-	-
Accrued interest	271,467,964	271,467,964	271,467,964	-	-
	13,428,440,236	13,428,440,236	7,665,163,026	573,415,937	5,189,861,273

38.2 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.

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38.3 Financial instruments by categories

	Loans and receivables		Held-to-maturity	
	2016	2015	2016	2015
	---Rupees---			
Financial assets as per balance sheet				
Long-term loans	157,657,995	159,972,246	-	-
Long-term deposits	2,321,915	2,140,585	-	-
Trade debts	9,995,829,269	11,113,471,133	-	-
Interest accrued	21,023,720	30,144,067	-	-
Receivable from Government of Pakistan	-	8,863,504,084	-	-
Other receivables	43,592,806,184	32,999,522,402	-	-
Short-term investments	-	-	5,000,000,000	3,350,000,000
Bank balances	2,795,104,061	2,531,449,761	-	-
	56,564,743,144	55,700,204,278	5,000,000,000	3,350,000,000

	Liabilities at fair value through profit and loss		Other financial liabilities	
	2016	2015	2016	2015
	---Rupees---			
Financial liabilities as per balance sheet				
Long-term loans - secured	-	-	2,826,668,590	1,436,277,407
Long-term security deposits	-	-	5,153,440,140	4,455,020,977
Trade and other payables	-	-	8,081,949,897	7,265,673,888
Accrued interest	-	-	555,597,449	271,467,964
	-	-	16,617,656,076	13,428,440,236

38.4 Capital risk management

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions.

The Company monitors capital using the net debt to total capital ratio, which is total debt of the Company as reduced by cash and cash equivalents, divided by total equity plus the net debt. Equity comprises of share capital, capital and revenue reserves. During the year, the Company's strategy was to maintain leveraged gearing. The net debt to equity ratio as at 30 June 2016 and 30 June 2015 were as follows:

	Note	2016	2015
		---Rupees---	
Long-term financing	19	2,510,877,433	1,308,256,233
Long-term security deposits	20	5,153,440,140	4,455,020,977
Deferred credit	23	27,936,560,880	26,132,871,911
Trade and other payables	24	25,289,169,837	14,675,534,309
Interest accrued on long-term financing		555,597,449	271,467,964
Current portion of long-term financing	19	315,791,157	128,021,174
Total debt		61,761,436,896	46,971,172,568
Short-term investment	14	(5,000,000,000)	(3,350,000,000)
Bank balances	15	(2,795,104,061)	(2,531,449,761)
Net debt		53,966,332,835	41,089,722,807
Equity		1,920,242,569	23,384,884,905
Total Capital		55,886,575,404	64,474,607,712
Net debt to total equity		97%	64%

39. PROVIDENT FUND

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

40. 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.

41. NUMBER OF EMPLOYEES

The number of total employees at the year end were 15,737 (2015: 14,668), whereas the average number of employees during the year were 15,421 (2015: 15,198).

42. 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 10,700,287,500 (2015:10,006,237,[illegible]90) units of electricity to its consumers during the year.

43 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, where necessary for better presentation. However, no significant reclassification has been made in these financial statements.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 29 NOV 2016 by the Board of Directors of the Company.

45. GENERAL

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

CHIEF EXECUTIVE

DIRECTOR