

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the annexed financial statements of **QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED** (the Company), which comprise the statement of financial position as at June 30, 2020, and the statement of profit or loss, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

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

#### Basis for Opinion

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

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of Management and Board of Directors for the Financial Statements**

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

#### Report on Other Legal and Regulatory Requirements

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

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

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

#### Other Matter

The financial statements of the Company for the year ended June 30, 2019 were audited by another firm of auditors who had expressed an unmodified opinion thereon vide their report dated December 06, 2019.

LAHORE

DATED: 30 APR 2021

*BDO Ebrahim & Co.*  
BDO EBRAHIM & CO.  
CHARTERED ACCOUNTANTS  
*BDO*



**QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2020**

	Note	2020 ------(Rupees in 000')-----	2019
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment			
Operating fixed assets	6	11,029,745	11,595,510
Capital work in progress	8	27,559	-
Right-of-use assets	9	896	-
Intangible assets	10	374	787
Long term deposits and prepayments	11	401	1,347
		<u>11,058,975</u>	<u>11,597,644</u>
<b>CURRENT ASSETS</b>			
Trade debts	12	3,501,383	2,153,958
Short term loans and advances	13	9,292	30,788
Short term deposits and prepayments	14	6,249	6,347
Other receivables	15	1,459,323	1,219,202
Cash and bank balances	16	1,516,369	717,467
		<u>6,492,616</u>	<u>4,127,762</u>
<b>TOTAL ASSETS</b>		<u><u>17,551,591</u></u>	<u><u>15,725,406</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital	17.1	6,000,000	6,000,000
Issued, subscribed and paid up share capital	17.2	3,809,780	3,809,780
Share deposit money		5	5
Revenue reserve - Unappropriated profit		5,488,330	3,018,982
<b>TOTAL EQUITY</b>		<u>9,298,115</u>	<u>6,828,767</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	18	6,223,456	7,182,777
Deferred liabilities	19	19,254	18,370
Long term retentions	20	104,960	69,614
		<u>6,347,670</u>	<u>7,270,761</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	621,342	430,717
Accrued finance cost	22	207,256	239,544
Provision for taxation	23	49,643	76,165
Current portion of long term financing	24	1,027,565	879,452
		<u>1,905,806</u>	<u>1,625,878</u>
<b>TOTAL LIABILITIES</b>		<u>8,253,476</u>	<u>8,896,639</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>17,551,591</u></u>	<u><u>15,725,406</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	25		

The annexed notes from 1 to 50 form an integral part of these financial statements.

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**



**QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Note	2020 ------(Rupees in 000')-----	2019
Sales	27	4,335,207	3,623,160
Cost of sales	28	<u>(901,418)</u>	<u>(888,053)</u>
Gross profit		3,433,789	2,735,107
Administrative expenses	29	<u>(80,593)</u>	<u>(79,999)</u>
Other operating expenses	30	<u>(1,575)</u>	<u>(12,419)</u>
		(82,168)	(92,418)
Other income	31	<u>367,972</u>	<u>150,614</u>
Operating profit		3,719,593	2,793,303
Finance cost	32	<u>(1,235,819)</u>	<u>(1,065,523)</u>
Profit before taxation		2,483,774	1,727,780
Taxation	33	<u>(16,299)</u>	<u>58,341</u>
Profit for the year		<u><u>2,467,475</u></u>	<u><u>1,786,121</u></u>
Earnings per share - Basic and diluted (Rupees)	48	<u><u>6.48</u></u>	<u><u>4.69</u></u>

The annexed notes from 1 to 50 form an integral part of these financial statements.

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**CHIEF EXECUTIVE**

  
**DIRECTOR**



**QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
	----- (Rupees in 000') -----	
Profit for the year	2,467,475	1,786,121
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of net defined benefit liability - net of tax	1,873	(35)
Items that may be reclassified subsequently to profit or loss	-	-
Other comprehensive income / (loss) for the year	1,873	(35)
Total comprehensive income for the year	<u>2,469,348</u>	<u>1,786,086</u>

The annexed notes from 1 to 50 form an integral part of these financial statements.

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**CHIEF EXECUTIVE**

  
**DIRECTOR**



**QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Issued, subscribed and paid-up share capital	Share deposit money	Revenue reserve Unappropriated profit	Total
Balance as at July 01, 2018	3,809,780	5	1,232,896	5,042,681
Total comprehensive income for the year	-	-	1,786,121	1,786,121
Profit for the year	-	-	(35)	(35)
Other comprehensive loss for the year	-	-	1,786,086	1,786,086
Total comprehensive income for the year	-	-	3,018,982	6,828,767
Balance as at June 30, 2019	3,809,780	5		
Total comprehensive income for the year	-	-	2,467,475	2,467,475
Profit for the year	-	-	1,873	1,873
Other comprehensive income for the year	-	-	2,469,348	2,469,348
Total comprehensive income for the year	-	-	5,488,330	9,298,115
Balance as at June 30, 2020	3,809,780	5		

The annexed notes from 1 to 50 form an integral part of these financial statements.  
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**CHIEF EXECUTIVE**

  
**DIRECTOR**

**QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Note	2020 ------(Rupees in 000')-----	2019 -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		2,483,774	1,727,780
Adjustments for items not involving movement of funds:			
Depreciation on property, plant and equipment	6.1 & 9.1	566,111	568,743
Amortization of intangible assets	29	480	480
Exchange loss	30	1,575	12,419
Finance cost	32	1,235,819	1,065,523
Employee benefits	19	7,244	5,913
Net cash flow before working capital changes		4,295,003	3,380,858
<b>(Increase) / decrease in current assets</b>			
Trade debts		(1,347,425)	(765,694)
Short term loans and advances		21,496	(1,463)
Short term deposits and prepayments		98	130
Other receivables		165,824	132,628
		(1,160,007)	(634,399)
<b>Increase in current liabilities</b>			
Trade and other payables		189,050	127,707
		189,050	127,707
Cash generated from operations		3,324,046	2,874,166
Taxes paid		(448,766)	(718,588)
Employee benefits paid		(4,487)	(1,107)
Financial charges paid		(1,243,399)	(975,100)
Net cash generated from operating activities		1,627,394	1,179,371
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to capital work in progress	8	(27,559)	-
Addition to fixed assets	6	(296)	(1,443)
Addition to intangible assets	10	(67)	(96)
Net cash used in investing activities		(27,922)	(1,539)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long term financing - repayment		(835,916)	(856,091)
Long term retentions		35,346	25,072
Dividend paid		-	(600,000)
Net cash used in financing activities		(800,570)	(1,431,019)
Net increase / (decrease) in cash and cash equivalents		798,902	(253,187)
Cash and cash equivalents at the beginning of the year		717,467	970,654
Cash and cash equivalents at the end of the year		1,516,369	717,467

The annexed notes from 1 to 50 form an integral part of these financial statements.

  
**CHIEF EXECUTIVE**

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**DIRECTOR**



**QUAID-E-AZAM SOLAR POWER (PRIVATE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020**

**1 LEGAL STATUS AND NATURE OF BUSINESS**

**1.1 Status of the Company**

Quaid-e-Azam Solar Power (Private) Limited ('The Company') was incorporated as a private limited Company under the repealed Companies Ordinance, 1984 (Now the Companies Act, 2017) on September 16, 2013. The principal activity of the Company is to build, own, operate and maintain a solar power plant having a total capacity of 100 MW in Lal Sohanra, Cholistan, Bahawalpur (the main business unit of the Company).

**1.2 Commercial Operations Date (COD)**

In accordance with Central Power Purchasing Agency (Guarantee) Limited (CPPA) letter No. CPPA/(G)L/GM/CE-II/MT-IV/QASPPL/17-38 dated August 7, 2015, the Company achieved Commercial Operations Date (COD) on July 15, 2015. National Electric Power Regulatory Authority (NEPRA) has granted generation license to the Company which is valid until December 30, 2039.

**1.3 Sale of entire power generation**

As explained in note 26.1, the Company has entered into Energy Purchase Agreement (EPA) with National Transmission and Dispatch Company Limited (NTDC) through Central Power Purchasing Agency (Guarantee) Limited (CPPA) for the sale of its entire power generation for a period of 25 years valid till December 30, 2039.

**2 GEOGRAPHICAL LOCATION AND ADDRESSES OF BUSINESS UNITS**

The registered office of the Company is situated at 3rd Floor, 83A-E1, Gulberg III, Main Boulevard, Lahore, Pakistan. The power plant of the Company is located at following location:

<b>Plant</b>	<b>Plant address</b>
Solar Power Plant	Quaid -e-Azam solar Park Bahawalpur, Cholistan Development Authority.

**2.1 Basis of preparation**

**2.2 Statement of compliance**

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

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

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

### **2.3 Accounting convention**

These financial statements have been prepared under the historical cost convention unless otherwise stated under the relevant policy note.

The financial statements have been prepared following accrual basis of accounting except for cash flow information.

The preparation of these financial statements in conformity with approved accounting standards requires the management to exercise its judgment in the process of applying the Company's accounting policies and use of certain critical accounting estimates. The areas involving a higher degree of judgment, critical accounting estimates and significant assumptions are disclosed in note 5.29.

### **2.4 Functional and presentation currency**

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

## **3 ADOPTION OF IFRS 16 "LEASES"**

### **3.1 IFRS 16 'Leases'**

IFRS 16 'Leases' was issued on January 01, 2016. This standard is adopted locally by the Securities and Exchange Commission of Pakistan and is effective for accounting periods beginning on or after January 1, 2019. IFRS 16 replaced IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease'.

Effective July 1, 2019, the Company has adopted IFRS 16, "Leases" except as mentioned in below paragraph, which replaces existing guidance on accounting for leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentive" and SIC-27 "Evaluating the substance of transactions involving the legal form of a Lease". IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.



The SECP through its S.R.O. 986 (1)/2019 dated September 2, 2019 extended its exemption from the requirements of IFRS 16 to extent of power purchase agreement to all companies that have executed their power purchase agreements before January 1, 2019. Accordingly, the Company has prepared these financial statements consistent with prior years. Apart from the above, the adoption of IFRS 16 does not have any significant impact on these financial statements of the Company during the current year.

### **Transition method and practical expedients utilized**

The Company applied IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (July 01, 2019), without restatement of comparative figures.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- applied a single discount rate to a portfolio of leases with similar characteristics.
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

On adoption of IFRS 16, the Company recognised a right-of-use asset and lease liability at the commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of cost to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company used its incremental borrowing rate as the discount rate as at July 01, 2019.

The right-of-use asset is subsequently depreciated using straight line method from the date of recognition to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by the impairment losses, if any, and adjusted for certain remeasurement of the lease liability.



Subsequently, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The adoption of IFRS 16 did not have any impact on opening retained earnings as on July 1, 2019 as the Company had land on lease from the Government of Punjab for 25 years and all the liabilities have already been paid and previously this amount has been shown as long term prepayment which now has been reclassified on July 01, 2019 as right of use asset. On transition to IFRS 16, the Company recognised right-to-use assets on the date of initial application as follows.

	Note	July 01, 2019 -----'Rupees---
Property and equipment		
Right-of-use assets - Land	9.1	946
Long term deposits and prepayment		
Long term prepayment	11.1	(946)

The Company considers other leases (office building) as short term, therefore, no lease liability has been recorded in these financial statements under IFRS 16.

#### 4 NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED STANDARDS

##### 4.1 Amendments that are effective in current year and may or may not be relevant to the Company

The Company has adopted the amendments to the following approved accounting standards as applicable in Pakistan which became effective during the year from the dates mentioned below against the respective standard:

	Effective date (annual periods beginning on or after)
Conceptual Framework for Financial Reporting 2018 - Original Issue	March 01, 2018
IFRS 8 Operating Segments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 01, 2019

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		<b>Effective date (annual periods beginning on or after)</b>
IFRS 9	Financial Instruments - amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 01, 2019
IFRS 14	Regulatory Deferral Accounts - Original issue	July 01, 2019
IFRS 16	Leases - Original issue	January 01, 2019
IAS 19	Employee benefits - Amendments regarding plan amendments, curtailments or settlements	January 01, 2019
IAS 28	Investments in Associates and Joint Ventures - Amendments regarding long-term interests in associates and joint ventures	January 01, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 01, 2019

Other than the amendments to standards mentioned above, there are certain annual improvements made to IFRS that became effective during the year:

#### **4.2 Amendments not yet effective**

The following amendments to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

	Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update these pronouncements with regard to references to and quotes from the framework or to indicate where they refer to different version of the Conceptual Framework.	January 01, 2020
IFRS 3	Business Combinations - amendments to clarify the definition of a business	January 01, 2020
IFRS 3	Business Combinations - amendments updating a reference to the Conceptual Framework	January 01, 2022
IFRS 4	Insurance Contracts - Amendments regarding the expiry date of the deferral approach	January 01, 2023
IFRS 7	Financial Instruments: Disclosures - Amendments regarding pre-replacement issues in the context of the IBOR reform	January 01, 2023

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		<b>Effective date (annual periods beginning on or after)</b>
IFRS 9	Financial Instruments - Amendments regarding pre-replacement issues in the context of the IBOR reform	January 01, 2020
IFRS 9	Financial Instruments - Amendments regarding the interaction of IFRS 4 and IFRS 9	January 01, 2023
IFRS 16	Leases - Amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification	January 01, 2020
IFRS 17	Insurance Contracts - Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published	January 01, 2023
IAS 1	Presentation of Financial Statements - amendments regarding the definition of materiality	January 01, 2020
IAS 1	Presentation of Financial Statements - Amendments regarding the classification of liabilities	January 01, 2022
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors - amendments regarding the definition of materiality	January 01, 2020
IAS 16	Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	January 01, 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets - Amendments regarding the costs to include when assessing whether a contract is onerous	January 01, 2022
IAS 39	Financial Instruments: Recognition and Measurement - Amendments regarding pre-replacement issues in the context of the IBOR reform	January 01, 2020

The annual improvements to IFRSs that are effective from the dates mentioned below against respective standards:

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**Effective date  
(annual periods  
beginning on or  
after)**

**Annual improvements to IFRSs (2015 – 2017) Cycle:**

IFRS 3	Business Combinations	January 01, 2019
IFRS 11	Joint Arrangements	January 01, 2019
IAS 12	Income Taxes	January 01, 2019
IAS 23	Borrowing Costs	January 01, 2019

**4.3 Standards or interpretations not yet effective**

The following new standards have been issued by the International Accounting Standards Board (IASB), which have been adopted locally by the Securities and Exchange Commission of Pakistan effective from the dates mentioned against the respective standard:

IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 17	Insurance Contracts

The following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which have not been adopted locally by the Securities and Exchange Commission of Pakistan (SECP):

IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 14	Regulatory Deferral Accounts
IFRS 17	Insurance Contracts

The Company expects that the adoption of the other amendments and interpretations of the standards will not have any material impact and therefore will not affect the Company's financial statements in the period of initial application.

**4.4 Conceptual Framework for Financial Reporting by IASB**

On March 29, 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately and contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallize. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of January 01, 2020, unless the new guidance contains specific scope outs.

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**Effective date  
(annual periods  
beginning on or  
after)**

The IASB issued 'Interest Rate Benchmark Reform' which amended followings IFRS:

IFRS 7	Financial Instruments "disclosures"	January 01,2020
IFRS 9	Financial Instruments	January 01,2020
IAS 39	Financial Instruments: Recognition and Measurement	January 01,2020

Interest Rate Benchmark Reform amended IFRS 7 and IFRS 9 and IAS 39 as a first reaction to the potential effects the IBOR reform could have on financial reporting, this amendment requiring additional disclosures around uncertainty arising from the interest rate benchmark reform.

**4.5 Standards, amendments and interpretations to existing standards that are not yet effective but applicable/ relevant to the Company's operations.**

IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' is applicable for annual periods beginning on or after 1 January 2006, however, Securities and Exchange Commission of Pakistan (SECP) granted waiver from the application of IFRIC 4 to all companies including power sector companies through its notification SRO 24(I) 2012 dated January 16, 2012. This interpretation provides guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for as a lease in accordance with IFRS 16, 'Leases'.

The SECP through its S.R.O. 986 (1)/2019 dated September 2, 2019 extended its exemption from the requirements of IFRS 16 to all companies that have executed their power purchase agreements before January 1, 2019. Accordingly, the Company has prepared these financial statements consistent with prior years.

Consequently, the Company is not required to account for a portion of its Energy Purchase Agreement (EPA) as a lease under IFRS 16. If the Company were to follow IFRIC 4 and IFRS 16, the effect on the financial statements would be as follows:

	2020	2019
	----- (Rupees in 000) -----	
De-recognition of property, plant and equipment	10,864,068	11,582,234
Recognition of lease debtor	10,036,967	12,149,103
		BDO



	2020	2019
	----- (Rupees in 000') -----	
Increase in un-appropriated profit at the beginning of the year	566,871	553,012
Increase in profit for the year	13,799	13,859
Increase in un-appropriated profit at the end of the year	<u>580,670</u>	<u>566,871</u>

## 5 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 presented, unless otherwise stated.

### 5.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation on property, plant and equipment is charged to the statement of profit or loss on the straight line method so as to write off the cost of an asset over its estimated useful life at the annual rates mentioned in note 6 after taking into account their residual values. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its property, plant and equipment as at June 30, 2020 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised, while no depreciation is charged for the month in which the asset is disposed off. The Company assesses at each statement of financial position date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount.

Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised to the statement of profit or loss for the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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

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The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

## **5.2 Intangible assets**

Expenditure incurred to acquire computer software, is capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off. Amortisation is charged using straight line method at the rate mentioned in note 10.

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

## **5.3 Capital work in progress**

Capital work-in-progress are stated at cost less impairment losses, if any, and consists of expenditure incurred, advances made and other costs directly attributable to operating fixed assets in the course of their construction and installation. Cost also includes applicable borrowing costs. Transfers are made to relevant operating fixed assets category as and when assets are available for use intended by the management.

## **5.4 Leases**

### **Right-of-use assets**

The right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of cost to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using straight line method from the date of recognition to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by the impairment losses, if any, and adjusted for certain remeasurement of the lease liability.



## **Lease liabilities**

The lease liability was measured upon initial recognition at the present value of the future lease payments over the lease term, discounted with the specific incremental borrowing rate. Subsequently lease liabilities are measured at amortized cost using the effective interest rate method.

The Company recognises leases as a right-of-use asset and corresponding liability at the date at which the leased asset is available for use by the Company, except for the assets under the Power Purchase Agreement (PPA) which are exempted from the applicability of this standard as explained in note 4.5. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Subsequently, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## **5.5 Taxation**

### **Current**

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

The charge for current tax included in statement of profit or loss is net off amount recoverable from Central Power Purchasing Agency (Guarantee) Limited (CPPA) as a pass through item under the terms of Energy Purchase Agreement between the Company and CPPA.

### **Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction neither affects accounting nor taxable profit or loss.

BDO



Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the date of statement of financial position. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

The deferred tax liability in respect of temporary differences is not recognized as the future tax payments on the generation, sale, exportation or supply of electricity are pass-through items and claimable from CPPA in full and the settlement of these temporary differences in future will have no tax consequences on the Company.

#### **5.6 Trade debts**

Trade debts are recognized and carried at original invoiced amount which is the fair value of the consideration to be received in future for units sold less provision for impairment. The Company holds trade debts with the objectives to collect contractual cash flows and, therefore, measure them subsequently at amortised cost using the effective interest method. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

#### **5.7 Loans, advances and other receivables**

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

#### **5.8 Operating leases**

Short term leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of profit or loss on a straight-line basis over the lease term.

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## 5.9 Impairment

### Financial assets

As explained in note 5.10.4, amounts due from the Government of Pakistan are assessed in accordance with the provisions of IAS 39 at each reporting date to determine whether there is any objective evidence that one or more events have had a negative effect on the estimated future cash flows of these receivables.

The Company recognizes loss allowance for Expected Credit Losses (ECLs) on financial assets measured at amortized cost and contract assets. The Company measures loss allowance at an amount equal to lifetime ECLs.

Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

At each reporting date, the Company assesses whether the financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial assets have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

### Non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognized if the carrying amount of the assets or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of cash generating units are allocated to reduce the carrying amounts of the assets in a unit on a pro rata basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to that extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

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## 5.10 Financial instruments

### 5.10.1 Financial assets other than those due from the Government of Pakistan

The Company classifies its financial assets in the following categories: at fair value through profit or loss and at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

#### a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

#### b) Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. These comprise of loans, advances, deposits and other receivables and cash and cash equivalents in the statement of financial position.

All financial assets are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of profit or loss. Financial assets are de-recognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets at amortised cost are measured using the effective interest rate method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss as part of other income when the Company's right to receive payments is established.

The Company applies simplified approach, as allowed under IFRS 9, for measuring expected credit losses which uses a lifetime expected loss allowance for all the financial assets. It assess on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.



### **5.10.2 Financial liabilities**

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

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the statement of profit or loss.

### **5.10.3 Offsetting of financial assets and financial liabilities**

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

### **5.10.4 Financial assets due from the Government of Pakistan**

Financial assets due from the Government of Pakistan include trade debts and other receivables due from CPPA under PPA that also includes accrued amounts. The SECP through SRO 985(I)/2019 dated September 2, 2019 has notified that, in respect of companies holding financial assets due from the Government of Pakistan, the requirements contained in IFRS 9 with respect to application of expected credit losses method shall not be applicable till June 30, 2021 and that such companies shall follow relevant requirements of IAS 39 in respect of above referred financial assets during the exemption period. Accordingly, the same continue to be reported as per the following accounting policy:

Trade debts and other receivables are recognized initially at invoice value, which approximates fair value, and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the Company will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade debt is impaired. The provision is recognized in the statement of profit or loss. When a trade debt is uncollectible, it is written-off against the provision. Subsequent recoveries of amounts previously written off are credited to the statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.



### **5.11 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cheques in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark-up arrangements.

### **5.12 Borrowings**

Borrowings are recognised initially at fair value (proceeds received), net of transaction costs incurred and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Finance costs are accounted for on an accrual basis and are shown as accrued finance cost to the extent of the amount remaining unpaid.

### **5.13 Borrowing costs**

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

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

All other borrowing / finance costs are recognised in statement of profit or loss in the period in which they are incurred.

### **5.14 Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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Liabilities for creditors and other costs payable are initially recognised at the fair value of the consideration to be paid in future for goods and / or services, whether or not billed to the Company and subsequently measured at amortised cost using the effective interest rate method.

#### **5.15 Revenue recognition**

Revenue shall be recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset and thus has the ability to direct the use and obtain the benefits from the good or service.

- Revenue on account of energy is recognised on transmission of electricity to CPPA through the grid system on monthly basis.
- Non-Project Missed Volume is recognised when these are invoiced when underlying data is available on monthly basis and the same has been acknowledged by CPPA.
- Income on bank deposits and delayed payment mark-up on amounts due under the Energy Purchase Agreement is accrued on a time proportion basis by reference to the principal / amount outstanding and the applicable rate of return.
- Other income are recorded on accrual basis.

#### **5.16 Related party transactions**

Transactions with related parties are based on the policy that all transactions between the Company and the related parties are carried out at arm's length. The prices are determined in accordance with the methods prescribed in the Companies Act, 2017.

#### **5.17 Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company has only one reportable segment.

#### **5.18 Contingencies**

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

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## 5.19 Ijarah

Ijarah in which a significant portion of the risks and rewards of ownership are retained by the lessor / Muj'ir (lessor) are classified as Ijarah. Payments made during the period are charged to the statement of profit or loss on a straight-line basis over the period of the Ijarah. The SECP has issued directive (vide SRO 431(I)/2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statements by companies while accounting for Ijarah (Lease) transactions as defined by said Standard. The Company has adopted the above said standard.

## 5.20 Derivative financial instruments

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

When the Company becomes a party to a hybrid contract with a host that is not an asset within the scope of IFRS 9, the Company is required to identify any embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently at fair value through profit or loss.

Embedded derivatives are separated and accounted for as stand-alone derivatives if these are not 'closely related' to the host contract, that is, if their economic characteristics and risks are different from those of the rest of the contract. If the embedded derivative cannot be measured separately either at acquisition or subsequently, the Company designates the entire hybrid contract as at fair value through profit or loss.

The Company's tariff, like other power companies, comprises of various price components with indexations falling within the ambit of embedded derivatives. Such embedded derivatives, as per IFRS 9 "Financial Instruments", need to be separated from the host contract and accounted for as derivatives if economic characteristics and risks of the embedded derivatives are not closely related to the host contract.

The SECP, through its S.R.O. 986(1)2019 dated September 2, 2019 (in partial modification of its previously issued S.R.O. 24/(1)2012 dated January 16, 2012) has allowed companies not to recognise embedded derivative under IFRS 9 if they have chosen to capitalise exchange differences as permitted under the notification. Accordingly, the Company has not recognised embedded derivatives in these financial statements.

However, for the reasons explained in note 7, derivatives embedded in the Power Purchase Agreement (PPA), have not been separated from the host contract and accordingly have not been recognised in these financial statements.

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## 5.21 Contract liabilities

Contract liability is the obligation of the Company to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfer goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (Whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract. It also include liabilities arising out of customers' right to claim amounts from the Company on account of contractual delays in delivery of performance obligations and incentive on target achievements.

## 5.22 Contract assets

A contract assets represents the Company's right to consideration in exchange for goods that the Company has transferred to customer that is not yet unconditional. In contrast, a receivable represents the Company's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

There is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

## 5.23 Deferred liabilities

The Company operates an unfunded gratuity scheme covering all permanent employees who complete prescribed qualifying period of service. The obligation under gratuity scheme is calculated on the basis of last drawn basic salary and length of service of the employee.

The latest actuarial valuation for the gratuity scheme was carried out as at June 30, 2020. Projected unit credit method, using the following significant assumptions is used for the valuation of this scheme:

- Discount rate 8.50 percent per annum (2019: 14.25 percent per annum);
- Expected rate of increase in salary level 7.50% percent per annum (2019: 13.25 percent per annum); and
- Expected mortality rate as per SLIC (2001-2005) Mortality Table, with one year setback.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in income.

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## **5.24 Foreign currencies**

### **Transactions and balances**

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

## **5.25 Share capital**

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, if any.

## **5.26 Dividend**

Dividend distribution to the Company's members is recognised as a liability in the period in which the dividends are approved.

## **5.27 Provisions**

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

## **5.28 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

## **5.29 Use of estimates and judgments**

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

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The estimates and underlying assumptions are reviewed on an ongoing basis. A change in accounting estimate may effect only the current period of the statement of profit or loss or the statement of profit or loss of both current and future years.

Judgments and estimates made by management in the application of approved accounting standards that may have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next years are discussed in the following paragraphs:

**a) Property, plant and equipment**

The Company reviews the useful lives and residual values of property, plant and equipment on a regular basis. Any change in estimate in future years might affect the carrying amounts of the respective items of property, plant and equipment's with corresponding effect on depreciation charge and impairment.

**b) Impairment of assets**

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated using criteria given in respective accounting standards to determine the extent of impairment loss, if any.

**c) Taxation**

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Company's view differs from that 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.

**d) Provision for doubtful receivables**

The Company uses a provision matrix to calculate ECLs for trade receivables (other than receivable from Government) and other receivables. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

**e) Provision and contingencies**

The Company reviews the status of all pending litigations and claims against the Company. Based on its judgment and the advice of the legal advisors for the estimated financial outcome, appropriate disclosure or provision is made. The actual outcome of these litigations and claims can have an effect on the carrying amounts of the liabilities recognized at the balance sheet date.

BDO



**f) Financial instrument**

The fair value of the financial instrument that are not traded in an active market is determined by using valuation techniques based on assumption that are dependent on conditions existing at the balance sheet.

**g) Defined benefit plan**

Certain actuarial assumptions have been adopted by external professional valuer (as disclosed in note 19.3) for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

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6 OPERATING FIXED ASSETS

The following is the statement of property, plant and equipment:

Description	(Rupees in 000')						Grand total
	Building on lease hold land	Plant and machinery	IT equipment	Furniture and fixture	Electric equipment	Vehicles	
Net carrying value basis							
Year ended June 30, 2020							
Opening net book value (NBV)	83,124	11,499,109	1	7,531	3,297	2,448	11,595,510
Additions (at cost)	-	-	272	-	24	-	296
Disposal (NBV)	-	-	-	-	-	-	-
Depreciation charge	(3,877)	(555,794)	(214)	(3,983)	(1,184)	(1,009)	(566,061)
Closing net book value	79,247	10,943,315	59	3,548	2,137	1,439	11,029,745
Gross carrying value basis							
Year ended June 30, 2020							
Cost	96,933	13,721,004	4,997	21,000	6,628	19,284	13,869,846
Accumulated depreciation	(17,686)	(2,777,689)	(4,938)	(17,452)	(4,491)	(17,845)	(2,840,101)
Net book value	79,247	10,943,315	59	3,548	2,137	1,439	11,029,745
Net carrying value basis							
Year ended June 30, 2019							
Opening net book value (NBV)	86,917	12,054,726	315	11,726	3,644	5,483	12,162,811
Additions (at cost)	84	170	30	52	821	286	1,443
Depreciation charge	(3,877)	(555,787)	(344)	(4,247)	(1,168)	(3,321)	(568,744)
Closing net book value	83,124	11,499,109	1	7,531	3,297	2,448	11,595,510
Gross carrying value basis							
Year ended June 30, 2019							
Cost	96,933	13,721,004	4,725	21,000	6,604	19,284	13,869,550
Accumulated depreciation	(13,809)	(2,221,895)	(4,724)	(13,469)	(3,307)	(16,836)	(2,274,040)
Net book value	83,124	11,499,109	1	7,531	3,297	2,448	11,595,510
Depreciation rate % per annum	4%	4-8%	33%	25%	20%	20%	Abd



6.1 The depreciation charge for the year has been allocated as follows:

	2020	2019
Note	------(Rupees in 000')-----	
Cost of sales	560,441	560,626
Administrative expenses	5,620	8,118
	<u>566,061</u>	<u>568,744</u>

6.2 Building on lease hold land of the Company is located at Quaid -e-Azam Solar Park Bahawalpur with an area of 500 acres of land situated in Cholistan Development Authority, Government of the Punjab, District Bahawalpur. The Company has established Solar Power Project of 100 MW at said land.

6.3 One vehicle having cost amounting to Rs. 3.825 million is not in the Company possession as this has been taken by the S&GA Department of the Government under notification of Supreme court of Pakistan under Suo moto case No. 11 of 2018 dated May 2, 2018.

RDP



## 7 EMBEDDED DERIVATIVES

The Company's tariff, like other power companies, comprises of various price components with indexations falling within the ambit of embedded derivatives. Such embedded derivatives, as per IFRS 9 "Financial Instruments", need to be separated from the host contract and accounted for as derivatives if economic characteristics and risks of the embedded derivatives are not closely related to the host contract.

The SECP, through its S.R.O. 986(1)2019 dated September 2, 2019 (in partial modification of its previously issued S.R.O. 24/(1)2012 dated January 16, 2012) has allowed companies not to recognise embedded derivative under IFRS 9 if they have chosen to capitalise exchange differences as permitted under the notification. Accordingly, the Company has not recognised embedded derivatives in these financial statements.

The SECP, through its S.R.O. 986(1)2019 dated September 2, 2019 partially modified its previously issued S.R.O. 24/(1)2012 dated January 16, 2012 and granted exemption to all companies that have executed their power purchase agreements before January 01, 2019 from the application of IAS 21 'The Effects of Changes in Foreign Exchange Rates' to the extent of capitalisation of exchange differences. However, the Company believes that there is no impact on the Company's Financial Statement as the Company do not have any foreign currency loan.

		2020	2019
		------(Rupees in 000')-----	
8	CAPITAL WORK IN PROGRESS	Note	
	This comprises of:		
	Plant and machinery		
	Purchase of SCADA system	8.1	27,559      -
8.1	Opening balance		-      -
	Add: Addition during the year	8.2	27,559      -
	Less: Transferred to operating fixed assets		-      -
	Closing balance		27,559      -

8.2 This represents 90% amount paid to NR Electric Company Limited for the purchase of SCADA system. This has been subsequently received and installed and transferred to operating fixed assets.

## 9 RIGHT OF USE ASSETS

	Land	9.1	896      -
--	------	-----	------------

1300

2020                      2019  
 Note                      -----(Rupees in 000')-----

The following is the statement of right of use assets:

**9.1 Land**

Year ended June 30, 2020

Net carrying value basis

Opening net book value	-	-
Reclassified from long term prepayments	946	-
Addition (at cost)	-	-
Depreciation charge	(50)	-
Closing net book value	896	-
Gross carrying value basis		
Cost	1,250	-
Accumulated depreciation	(354)	-
Net book value	896	-
Depreciation rate % per annum	4%	-

9.2 The land has been obtained on lease from the Government of the Punjab for 25 years. Lease hold land of the Company is located at Quaid -e-Azam Solar Park Bahawalpur with an area of 500 acres of land situated in Cholistan Development Authority, Government of the Punjab, District Bahawalpur. The Company has established Solar Power Project of 100 MW at said land.

**10 INTANGIBLE ASSETS**

**Cost**

Balance as at July 01,	2,486	2,390
Additions for the year	67	96
Balance as at June 30,	2,553	2,486

**Amortization**

Balance as at July 01,	1,699	1,219
Charge for the year	480	480
Balance as at June 30,	2,179	1,699
Carrying value	374	787

Amortization rate per annum ( % )                      20%                      20%

10.1 This represents computer software and licences capitalised based on the accounting policy of the Company. 300



10.2 Entire amortization charge on intangible assets is allocated to administrative expenses.

		2020	2019
Note		------(Rupees in 000')-----	

## 11 LONG TERM DEPOSITS AND PREPAYMENTS

Long term prepayments	11.1	-	946
Long term deposits	11.2	401	401
		<u>401</u>	<u>1,347</u>

### 11.1 Long term prepayments

Movement in this head is as follows:

Opening balance		946	996
Addition (at cost)		-	-
Transferred to right of use assets		(946)	-
Amortisation		-	(50)
Closing balance		<u>-</u>	<u>946</u>

11.2 This represents amount paid to Cholistan Development Authority against the lease of land for the period of 25 years. During the year it has been transferred to right of use assets.

## 12 TRADE DEBTS

Secured

Considered good

Central Power Purchasing Agency  
(Guarantee) Limited (CPPA)

Gross trade debts	12.1	3,446,859	2,153,958
Accrued income	12.2	54,524	-
Net trade debts		<u>3,501,383</u>	<u>2,153,958</u>

12.1 These represent trade receivables against sales relating to post-commercial operations date from CPPA and are considered good. These are secured by a guarantee from the Government of Pakistan under the Implementation Agreement and are in the normal course of business and interest free, however, a delayed payment mark-up at the rate of three months KIBOR plus 2% is charged in case the amounts are not paid within due dates. The rate of delayed payment mark-up charged during the period on outstanding amounts ranges from 8.09% to 13.35% (8.42% to 14.97% in 2019) per annum.

BDO

12.2 The Company had invoiced 48.301 million Kwh during trial production for the cumulative period from March 28, 2015 till July 15, 2015 recorded through back up metering system installed by the company, However, Central Power Purchasing Agency (Guarantee) Limited (CPPA) initially confirmed only 31.296 million units based on main metering system for the period May 08, 2015 to July 15, 2015. There was a dispute between the company and CPPA relating to the remaining 17 million Kwh energy exported by the company prior to May 08, 2015 as the main metering system was not tested by a meter reading committee constituted by National Transmission and Dispatch Company Limited ('NTDC') comprising one member each of NTDC, Multan Electric Power Company Limited ('MEPCO') and the company before that date.

Based on a subsequent report issued by meter reading committee, CPPA further approved 10.284 million units and the same were reinvoiced by the company on December 07, 2015. In accordance with the suggestion of meter reading committee, the Company and MEPCO requested CPPA to form a high level enquiry committee comprising of Superintending Engineers (GSO), Regional Manager M&T, 2nd, MEPCO Multan and XEN M&T, MEPCO, Bahawalpur Division to finalize the Net delivered energy in respect of the remaining disputed 6.721 million Kwh exported by the company prior to May 08, 2015.

The dispute resolution committee under chairmanship of Chief Engineer Technical Services Group (TSG) NTDC was formed by CPPA on February 14, 2017. The committee has obtained the net amount of Energy delivered to the remote end substations to verify the energy delivered against the dispute claimed by the Company. NTDC vide its letter No. CE/TSG/1499-1504 dated February 21, 2019 has shared the meter readings of remote end substations during the disputed period. The Company vide its letter No. QAS-19/02/22-01 dated February 22, 2019 has accepted the meter readings shared by MEPCO as the difference of units is only 1.38% of 6.721 million Kwh. A meeting of Dispute Resolution Committee was held on February 08, 2021 and the Committee has concluded that 6.653 million Kwh units amounting to Rs. 54.524 million (excluding sales tax) shall be invoiced by the Company to CPPA, accordingly this amount has been recorded as receivable and correspondence revenue in the books of accounts in the current period. However, the invoice has been raised subsequent to the reporting date.

12.3 Age analysis of gross trade debts is as follows:

Note	2020 ------(Rupees in 000)-----	2019
Neither past due nor impaired	529,957	823,551
Past due but not impaired:		
1 to 30 days	636,164	429,856
31 to 90 days	526,657	750,567
91 to 180 days	1,658,621	32,261
181 to 365 days	-	42,930
Above 365 Days	149,984	74,793
	<u>2,971,426</u>	<u>1,330,407</u>
	<u>3,501,383</u>	<u>2,153,958</u>



12.4 The maximum amount due from Central Power Purchasing Agency (Guarantee) Limited (CPPA) at the end of any month during the year was Rs. 3,663.31 million (2019: Rs. 2283.84 million).

12.5 This includes an amount of Rs. 84.952 million (2019: Rs. 23.29 million) against interest on late payments.

	Note	2020 ------(Rupees in 000')-----	2019
<b>13</b>	<b>SHORT TERM LOANS AND ADVANCES</b>		
Unsecured			
Considered good			
Advances to employees	13.1	9,245	4,735
Suppliers		47	26,053
		<u>9,292</u>	<u>30,788</u>

13.1 This represents advances to employees against gratuity. This also includes bonus given to employees, however, based on Board direction it has been recorded as an advance to employees.

13.2 Included in advances to employees are amounts due from executives of Rs. 2.261 million (2019: Rs. 4.116 million). This is not past due.

**14**      **SHORT TERM DEPOSITS AND PREPAYMENTS**

Security deposits	14.1	1,926	1,926
Prepaid insurance		2,796	2,752
Other prepayments		1,527	1,669
		<u>6,249</u>	<u>6,347</u>

14.1 This includes an amount of Rs. 1.917 million (2019: Rs. 1.917 million) security deposit against rented premises. The said deposit is refundable at the expiry of the respective rent agreement or on vacation of the rented premises.

**15**      **OTHER RECEIVABLES**

Unsecured			
Considered good			
Due from contractors		2,867	-
Due from PRA	15.1	230,104	230,104
Sales tax under protest	15.2	2,021	2,021
Income tax under protest		1,981	1,981
Due from related parties	15.3	447	447

300

	Note	2020 ------(Rupees in 000')-----	2019
Recoverable from CPPA as pass through items			
Workers' Profit Participation Fund	15.5	393,636	269,447
Income tax	33.2	778,592	715,202
Worker's Welfare Fund	15.6	49,675	-
		<u>1,459,323</u>	<u>1,219,202</u>

#### 15.1 Due from Punjab Revenue Authority (PRA)

This represents Rs. 230.104 million (2019: Rs. 230.104 million) paid by Company under protest to PRA as disclosed in note 25.1 (a).

15.2 This represents input sales tax which was paid by the Company on hoteling and consultancy expenses which has not been allowed by PRA. The Company has filed an appeal in Appellate Tribunal. The Company expects favourable outcome.

#### 15.3 Due from related parties

Khadim-e-Punjab Ujala Program (KPUP)	18	18
Quaid-e-Azam Wind Power (Private) Limited (QWPL)	429	429
	<u>447</u>	<u>447</u>

15.4 These represents expenses incurred on behalf of these related parties. The maximum amount of advance outstanding at the end of any month in respect of KPUP and QWPL was Rs. 0.018 million (2019: Rs. 0.018 million) and Rs. 0.429 million (2019: Rs. 0.429 million) respectively. This is past due but not impaired.

#### 15.5 Workers' Profit Participation Fund

Under section 6.3 (a) of Part IV of schedule 1 of the Energy Purchase Agreement, payments to Workers' Profit Participation Fund are recoverable from CPPA as a pass through item.

#### 15.6 Worker's Welfare Fund

Under section 6.3 (a) of Part IV of schedule 1 of the Energy Purchase Agreement, payments to Worker's Welfare Fund are recoverable from CPPA as a pass through item.

#### 16 CASH AND BANK BALANCES

Cheques in hand		50,000	246,000
Cash at bank			
Local currency			
Current accounts:		349	360
Saving accounts:	16.1	1,466,020	471,107
		<u>1,466,369</u>	<u>471,467</u>
		<u>1,516,369</u>	<u>717,467</u>



16.1 Balance in saving accounts carry mark-up at the rate ranging from 6.5% to 11.25% (2019: 5.5% to 10.25%) per annum.

2020                      2019  
 Note -----(Rupees in 000')-----

**17 SHARE CAPITAL**

**17.1 Authorized share capital**

	2020	2019		
Number of ordinary shares of Rs. 10,000/- each				
<u>600,000</u>	<u>600,000</u>		<u>6,000,000</u>	<u>6,000,000</u>

**17.2 Issued, subscribed and paid up share capital**

	2020	2019		
Number of ordinary shares of Rs. 10,000/- each				
<u>380,978</u>	<u>380,978</u>		<u>3,809,780</u>	<u>3,809,780</u>

17.3

**17.3 Movement of share capital is as follows:**

Opening balance			3,809,780	3,809,780
Shares issued during the year			-	-
Closing balance			<u>3,809,780</u>	<u>3,809,780</u>

17.4 380,978 (2019: 380,978) ordinary shares of Rs. 10,000 each held by The Government of Punjab Energy Department and four other persons as nominee of the Government of Punjab.

17.5 There is no shareholder agreement for voting rights, board selection, rights of first refusal and block voting.

**18 LONG TERM FINANCING**

The reconciliation of the carrying amount of loan is as follows:

Secured

Opening balance			8,153,377	9,009,468
Less: Repayments during the year			(835,916)	(856,091)
Closing balance			<u>7,317,461</u>	<u>8,153,377</u>
Less: Transaction cost			(66,440)	(91,148)
Less: Current portion shown under current liabilities			<u>(1,027,565)</u>	<u>(879,452)</u>
			<u>6,223,456</u>	<u>7,182,777</u>

18.1

18.1 This represents the loan availed against aggregate facility of Rs. 11,137 million obtained from the Bank of Punjab. The key terms are as follows:

Rate of interest per annum	3 months KIBOR +3% per annum
Instalments ending on	July 16, 2025
Number of instalments remaining	21 unequal quarterly instalments

18.2 The loan is secured by first charge over fixed assets of the Company of Rs. 30,883 million along with hypothecation of all present and future fixed assets of the Company and assignment of project contracts and receivables. The mark up charged during the year ranged from 10.64% to 13.55% (2019: 9.41% to 14.11%) per annum. The transaction cost amortised during the year is Rs. 26.70 million (2019: Rs. 27.41 million) as referred to in note 32.

## 19 DEFERRED LIABILITIES

### 19.1 Provision for gratuity

### 19.2 General description

The scheme provides for terminal benefits for all its permanent employees who qualify for the scheme. The defined benefit payable to each employee at the end of his service comprises of total number of years of his service multiplied by last drawn basic salary.

Annual charge is based on actuarial valuation carried out by an independent approved valuer M/S Nauman Associates as at June 30, 2020 using the Projected Unit Credit method.

The Company faces the following risks on account of gratuity:

Final salary risk - The risk that the final salary at the time of cessation of service is greater than what the Company has assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macro-economic factors), the benefit amount would also increase proportionately.

Discount rate fluctuation - The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the current plans' bond holdings.

Demographic Risks: Mortality Risk - The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.

Withdrawal Risk - The risk of actual withdrawals experience is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.



	Note	2020 ------(Rupees in 000')-----	2019
<b>19.3 The amounts recognized in the statement of financial position are as follows:</b>			
Present value of defined benefit obligation		19,010	18,370
Payable to ex-employee		244	-
Closing net liability		<u>19,254</u>	<u>18,370</u>
<b>19.4</b>	The expected charge in respect of defined benefit plan for the year ending June 30, 2021 will be 1.455 million.		
<b>19.5 Changes in the present value of the defined benefit obligation are as follows:</b>			
Opening balance		18,370	13,528
Current service cost		4,965	4,745
Interest cost		2,279	1,168
Benefits paid		(4,487)	(1,106)
Benefits due but not paid		(244)	-
Actuarial gain from changes in financial assumption		(361)	270
Experience adjustments		(1,512)	(235)
Closing balance		<u>19,010</u>	<u>18,370</u>
<b>19.6 The amounts recognized in the statement of profit or loss:</b>			
Current service cost		4,965	4,745
Net interest cost for the year		2,279	1,168
Total included in salaries, wages and amenities		<u>7,244</u>	<u>5,913</u>
Experience adjustment arising on obligation		-7.85%	-1.27%
<b>19.7 The amounts recognized in the other comprehensive income are as follows:</b>			
Actuarial gain from changes in financial assumptions		(361)	270
Experience adjustments		(1,512)	(235)
Total remeasurements chargeable to OCI		<u>(1,873)</u>	<u>35</u>

### 19.8 Sensitivity Analysis

Significant assumptions for the determination of the defined benefits obligation are discount rate and expected salary increase. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

BDD

**19.9 Year end sensitivity analysis ( $\pm 100$  bps) on defined benefit obligation**

<b>Impact on defined benefit obligation</b>			
	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
		----- (Rupees in 000') -----	
Discount rate	1%	17,424	20,882
Salary increase	1%	20,933	17,352

19.10 Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) are as follows:

	<b>2020</b>	<b>2019</b>
Discount Rates	8.50%	14.25%
Future salary increases	7.50%	13.25%
Expected Mortality Rate	SLIC (2001-05)	SLIC (2001-05)
Average duration of plan	9 Years	7 Years

	<b>Note</b>	<b>2020</b>	<b>2019</b>
		----- (Rupees in 000') -----	
<b>20 LONG TERM RETENTIONS</b>			
Maintenance retention fund	20.1	43,307	34,094
Asset replacement fund	20.2	61,653	35,520
		104,960	69,614

20.1 It represents 5% deduction from the total quarterly payments to the O&M contractor, M/s Tbea Xinjiang Sunoasis Company Limited, against operations and maintenance (O&M) works for the plant maintenance required under the agreement with the contractor.

20.2 It represents 5% deduction from the revised O&M Cost (excluding insurance and security cost), as approved by the Board and agreed with the contractor, from the quarterly payments to the contractor against O&M works for replacement of items of property, plant and equipment, in addition to those included in the engineering, procurement and construction contract ('EPC Contract').

In addition to the above, based on the report of ILF Pakistan (Private Limited), the Company has achieved 76.76% APR against the benchmark APR of 75.59% as per note 21.1 and produced excessive energy of 2448.92 MWh units. As a result of which the company has recorded an expense based on 2281.11 MWh on pro rata basis in cost of sales out of which 50% has been transferred to Asset Replacement Fund, 25% towards the Company and remaining 25% to the O&M contractor as per clause 1.4.5 of Schedule -1 for Engineering, Procurement, Construction and Operation & Maintenance Contract (EPC and O&M Contract).

BDD



	Note	2020 ------(Rupees in 000')-----	2019
<b>21</b>			
<b>TRADE AND OTHER PAYABLES</b>			
Payable to contractor	21.1	72,259	59,071
Payable to consultants		3,452	4,726
Retention money		-	1,926
Accrued liabilities		16,675	30,502
Withholding tax payable		4,554	11,260
Other liabilities	21.2 & 21.3	26,528	7,630
Sales tax liability		54,432	46,125
Payable to Director General Public Relations		131	30
Worker's Profit Participation Fund payable	21.4	393,636	269,447
Worker's Welfare Fund	21.5	49,675	-
		<u>621,342</u>	<u>430,717</u>

21.1 This represents payable to O&M contractor, M/s Tbea Xinjiang Sunoasis Company Limited, against operations and maintenance (O&M) works.

21.2 This includes an amount of Rs. 16.00 million (2019: Rs. 16.00 million) provided in regard to payable to District Council Bahawalpur as explained in note 25.1 (b) to these financial statements.

21.3 Other liabilities include Rs 0.696 million (2019: Rs. 0.919 million) due to executives.

#### 21.4 Workers' Profit Participation Fund

Opening balance		269,447	183,058
Provision for the year	21.6	124,189	86,389
Payment during the year		-	-
Interest charged during the year		-	-
Closing balance		<u>393,636</u>	<u>269,447</u>

#### 21.5 Workers' Welfare Fund

Opening balance		-	-
Provision for the year	21.6	49,675	-
Payment during the year		-	-
Interest charged during the year		-	-
Closing balance		<u>49,675</u>	<u>-</u>

21.6 The Company is required to pay 5% of its profit to the Workers profits participation fund and 2% of its profit to the Workers' Welfare Fund. However, such payment will not effect the Company's overall profitability as these are recoverable from CPPA as pass through items under the terms of the Energy Purchase Agreement (EPA).

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Until previous year, the Honourable Supreme Court (HSC) through order dated November 10, 2016 annulled the amendments made Workers' Welfare Fund Ordinance, 1971 through Finance Act 2006 and 2008, and restored the original Ordinance under which Workers Welfare Fund is not applicable on the income of the Company.

Further, in case of Company, The Punjab Government Employees Welfare Fund (Amendment) Act 2009 is applicable, under which exempt income, i.e income form power supply operations is not subject to Workers' Welfare Fund. According no provision for Worker Welfare Fund had been recognised in previous year. However, a new law "The Punjab Workers Welfare Fund Act, 2019 was enacted dated December 13, 2019 and accordingly provision has been made in these financial statements for the current year.

	Note	2020 ------(Rupees in 000')-----	2019
<b>22 ACCRUED FINANCE COST</b>			
Accrued mark-up on long term loan		<u>207,256</u>	<u>239,544</u>
<b>23 PROVISION OF TAXATION</b>			
Advance income tax		809,413	696,634
Less: Provision for taxation		<u>(859,056)</u>	<u>(772,799)</u>
		<u>(49,643)</u>	<u>(76,165)</u>
<b>24 CURRENT PORTION OF LONG TERM FINANCING</b>			
Long term financing			
The Bank of Punjab	18	<u>1,027,565</u>	<u>879,452</u>

**25 CONTINGENCIES AND COMMITMENTS**

**25.1 Contingent liabilities**

- a) During the year 2017, the Company was served a notice by Punjab Revenue Authority (PRA) wherein it required the Company to explain the circumstances for not withholding Punjab Sales Tax on services at 16% under Punjab Sales Tax on Services (Withholding) Rules 2015, on the contractual execution of EPC works on the aggregate contract value. The Company through its response to PRA dated May 23, 2017, challenged this notice as being without jurisdiction and also on the grounds that it is tax exempt under the "Policy for development of renewable energy for power generation 2006 of the Government of Pakistan". However, PRA issued an Assessment Order dated November 30, 2017 and determined sales tax liability of Rs. 230.104 million and penalty amounting to Rs. 11.505 million along with default surcharge on payments against local execution of EPC works. The management of the Company filed an appeal before the Commissioner (Appeals) against the impugned order, who through order dated April 25, 2018 decided the case in favour of PRA.

1300



The Company filed an appeal on May 23, 2018 before the Appellate Tribunal PRA to vacate the impugned Order. The appeal has not yet been fixed for hearing and is pending adjudication. The Company also paid Rs. 230.104 million during the year ended June 30, 2018 under protest to PRA without prejudice to any right of appeal or other remedy available to the Company as shown 'Due from PRA' in note 15.1 of these financial statements. During the prior financial year, the writ petition was filed on March 22, 2019 impugning the legality of Rule-6 of Services withholding Rule, 2015 of Punjab Sales Tax on Services Act, 2012 and the definition of un-registered person as used in these rules. The writ petition came up for hearing before the Honourable Lahore High Court on March 25, 2019. The Honourable Lahore High Court issued notices to the respondents and also stayed appeal proceedings before the Appellate Tribunal Punjab Revenue Authority, Lahore. The writ is pending adjudication. Based on legal advisor's opinion, the Company's management expects favourable outcome due to which no provision has been recorded in these financial statements.

- b) The Company received a letter from District Council Bahawalpur dated October 28, 2017, demanding fee of Rs. 218.77 million for map approval of plant site. The Company filed an appeal before the Divisional Commissioner Bahawalpur dated December 21, 2017 on the grounds that the rate of fee for approval of erection of plant may be levied on the building only and not on the open area and that the calculation of the assessed fee may be made on the rates applicable when the installation of plant commenced in the year 2014.

The Local Government & Community Development (LG&CD) Department of Government of Punjab via its letter dated February 12, 2018 directed the Chief Officer, District Council, Bahawalpur to charge the rate of conversion fee as well building plan fee prevalent in the year 2013-2014 and fine on late approval at the rate prevalent in year 2018. The Chairman of District council Bahawalpur has requested the secretary LG&CD department to reconsider the matter through letter dated February 16, 2018. The Company recognized a provision of Rs. 16 million in prior year financial statements as per the directions of LG&CD Department letter dated February 12, 2018. In the prior financial year, the Company has approached law and parliamentary department through letter dated April 23, 2019 to tender an advice on the rates that should be applicable in respect of building plan and conversion fee. The advice from law and parliamentary affairs is pending. Based on legal advisor's opinion, the Company's management expects favourable outcome due to which no additional provision has been recorded in these financial statements.

- c) An individual, Mr. Munir Ahmed has filed a writ petition No. 94609/2017 against Federation of Pakistan and various other respondents including the Company under Article 199 of the Constitution of Islamic Republic of Pakistan, 1973 (the Constitution) in the Honorable Lahore High Court ('the Court') as a public interest litigation against the incorporation of various public sector companies by the Government of Punjab. The petitioner has prayed that the formation of these companies be declared illegal and ultra vires the Constitution on various constitutional grounds and non-compliances with laws, inter alia including not getting proper audits or submission of audited financial statements to the appropriate forum.

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The legal counsel of the Company has submitted before the Court that the petition be dismissed as it is based on frivolous allegations that have not been substantiated by any provision of law, fact or cogent evidence, the petitioner has come to the Court without exhausting alternate remedies available to him under the law and that the Company has conducted regular annual audits and has maintained full compliance with all laws, rules and regulations and has duly submitted its reports and functioning with the SECP.

An individual, Mr. Shan Saeed Ghumman filed a case against Federation of Pakistan and various other respondents including the Company through a writ petition No. 112301/2017 in the Honorable Lahore High Court ('the Court') as a public interest litigation against the incorporation of various public sector companies by the Government of Punjab. The petitioner has prayed that operation of these companies should be put under the control and management of the respective local governments and should be reconstituted in accordance with mandatory provisions of Punjab Local Government Act 2013, Companies Act 2017, Public Sector Companies (Corporate Governance) Rules, 2013 and other applicable provisions of law including the issuance of their audit reports where applicable.

These cases are pending adjudication. Based on legal advisor's opinion, the management is confident that no adverse inference will be drawn against the Company in these matters.

- d) The Company is facing claims, launched in the labour courts, pertaining to payroll, staff retirement benefits and other related matters. In the event of an adverse decision, the Company would be required to pay an amount of Rs. 0.2442 million against these claims.
- e) Proceedings u/s 161 were initiated by DCIR for the tax year 2014. The DCIR passed order u/s 161/205 and demand amounting to Rs. 2.139 million for tax year 2014 was created vide said order. The Company being aggrieved filed appeal before CIR (A) which is pending for hearing. The Company expects a favourable outcome of the proceedings. However, if the case is decided against the Company, it may result in tax payable of Rs. 2.139 million. (June 30, 2019: Rs. 2.139 million).
- f) Proceedings u/s 161 were initiated by DCIR for the tax year 2014. The DCIR passed order u/s 161/205 and demand amounting to Rs. 0.946 million for tax year 2015 was created vide said order. The Company being aggrieved filed appeal before CIR (A) which is pending for hearing. The Company expects a favourable outcome of the proceedings. However, if the case is decided against the Company, it may result in tax payable of Rs. 0.946 million. (June 30, 2019: Rs. 0.946 million).
- g) Demand amounting to Rs. 1.962 million has been created by DCIR vide order u/s 11 of Sales Tax Act, 2001 dated August 30, 2018 against Company. The Company being aggrieved filed appeal before CIR (A). CIR (A) remanded back the case. The Company being aggrieved with order passed by CIR (A) filed appeal before ATIR which is still pending for adjudication. The Company expects a favourable outcome of the proceedings. However, if the case is decided against the Company, it may result in tax payable of Rs. 1.962 million (June 30, 2019: Rs. 1.962 million).

These cases (d e f and g) are pending adjudication. Based on legal advisor's opinion, the management is confident that no adverse inference will be drawn against the Company in these matters.



	Note	2020 ------(Rupees in 000')-----	2019
<b>25.2 Commitments</b>			
Contracts for capital expenditure		2,666	25,288
Contracts for other than capital expenditure		5,289,263	5,393,041
Commitment for trustee fee, and arrangement and advisory fee to The Bank of Punjab, a related party		5,000	6,000

## 26 SIGNIFICANT CONTRACTS

### 26.1 Energy purchase agreement (EPA)

The Company has entered into Energy Purchase Agreement (EPA) on July 08, 2015 with National Transmission & Dispatch Company Limited through Central Power Purchasing Agency (Guarantee) Limited for the sale of its entire power generation. The term of EPA is for 25 years.

### 26.2 Implementation agreement (IA)

The Company has entered into an Implementation Agreement (IA) with the President of Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (The "GoP") on July 08, 2015 to design, construct, commission, operate and maintain approximately 100 MW (net) power generation complex at Quaid-e-Azam Solar Park, Bahawalpur, Pakistan. The term of IA is for 25 years.

### 26.3 Operation and maintenance (O&M)

The Company has entered into an agreement with Tebian Electric Apparatus Stock Company Limited (Parent Company) and Tbea Xinjiang Sunoasis Company Limited (Contractor) for the operation and maintenance of the plant for Rs. 55.276 million after adjustment of insurance & security cost.

## 27 SALES

### Sales

Central Power Purchasing Agency (Guarantee) Limited

Gross Energy Purchase Price (EPP)	27.1	5,007,750	4,202,353
Less: Sales tax		(727,067)	(579,193)
		4,280,683	3,623,160
Accrued income	12.2	54,524	-
		<u>4,335,207</u>	<u>3,623,160</u>

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- 27.1 Based on mutual understanding with O&M contractor, the Company has assumed responsibility of insuring its plant from second year of operations (since July 15, 2016) and has reduced the O&M agreement by the insurance component. The Company has paid a total premium of Rs. 263.576 million (Second Year of operation: Rs. 77.068 million, Third Year of operations: Rs. 77.068 million, Fourth Year of operation: Rs. 54.72 million and Fifth Year Rs. 54.72 million) NEPRA vide its order dated June 02, 2016 has allowed the adjustment of insurance cost at actual, subject to a ceiling, and allowed to adjust reference tariff annually as per actual upon production of authentic documentary evidence. The Company, after payment of insurance premium for second, third, fourth and fifth year of operations, submitted documentary evidence to NEPRA for tariff adjustment. The claim of insurance for second year of operations along with another claim of Rs. 48.964 million in respect of certain withholding taxes borne by the Company has been rejected by the NEPRA through order dated November 29, 2016. The Company has filed a writ petition on June 03, 2017 before the Lahore High Court against the order of NEPRA which is pending for adjudication. The decision of NEPRA for fifth year of operations is still pending. The recognition of these contingent revenues and related trade debts have been deferred till the final decision of the Court.
- 27.2 As per section 9.5 (d) of Energy Purchase Agreement (EPA) late payments by either party of amounts due and payable under EPA shall bear interest at a rate per annum equal to the Delayed Payment Rate (i.e. three months KIBOR plus 2%, calculated for the actual number of days that the relevant amounts remains unpaid on the basis of a three hundred and sixty-five day year), prorated daily.

	Note	2020 ------(Rupees in 000')-----	2019
<b>28 COST OF SALES</b>			
Operation and maintenance charges	28.1	230,857	193,160
Salaries, wages & other benefits	28.2	31,482	33,688
Rent, rates and taxes		-	105
Utilities		1,132	826
Consultancy charges		8,080	20,159
Insurance		47,236	48,040
Travelling and conveyance		1,787	1,497
Depreciation on property, plant and equipment	6.1	560,441	560,626
Security expense		16,182	27,827
Repairs and maintenance		264	283
Printing and stationery		32	25
Communication charges		2,908	1,265
Meeting fee charges		337	279
Others		147	273
Training and development		533	-
		<u>901,418</u>	<u>888,053</u>

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28.1 This represents operation and maintenance cost for the year. The Company has entered into an agreement with Tebian Electric Apparatus Stock Company Limited (Parent Company) and Tbea Xinjiang Sunoasis Company Limited (Contractor) for the operation and maintenance of the plant.

28.2 Salaries, wages and other benefits includes provision for gratuity of Rs. 2.980 million (2019: Rs 2.881 million)

	Note	2020 ------(Rupees in 000')-----	2019
<b>29 ADMINISTRATIVE EXPENSES</b>			
Salaries, wages and other benefits	29.1	37,431	38,411
Rent, rates and taxes		12,862	12,649
Utilities		3,124	2,929
Advertisement and promotion		231	933
Legal and professional charges		3,705	3,097
Auditors' remuneration	29.2	1,475	2,645
Consultancy charges		6,292	1,980
Travelling and conveyance		1,916	1,915
Repairs and maintenance		1,206	750
Printing and stationery		626	444
Insurance expense		1,930	2,023
Depreciation on property, plant and equipment		5,620	8,118
Depreciation on right of use of assets	9.1	50	50
Amortization of intangible assets	10	480	480
Communication charges		1,305	1,258
Meeting fee charges		298	180
Security expense		828	607
License fee		439	776
Training and development		-	139
Others		775	615
		<u>80,593</u>	<u>79,999</u>
29.1 Salaries, wages and other benefits includes provision for gratuity of Rs. 4.264 million (2019: Rs 3.032 million).			
<b>29.2 Auditors' remuneration</b>			
Statutory audit		1,400	2,415
Other certifications/CCG review report		75	150
Out of pocket expenses		-	80
		<u>1,475</u>	<u>2,645</u>
<b>30 OTHER OPERATING EXPENSES</b>			
Loss on foreign exchange-net	30.1	1,575	12,419

30.1 This represents the net exchange loss on the liabilities and payments made towards foreign contractor and consultants.

	Note	2020 ------(Rupees in 000')-----	2019
<b>31 OTHER INCOME</b>			
Income from financial assets			
Return on saving accounts		80,769	48,043
Mark-up on delayed payment from CPPA	27.2	263,635	96,525
		<u>344,404</u>	<u>144,568</u>
Income from non-financial assets			
Liquidated damages from the O&M	31.1 & 2	23,198	5,789
Others		370	257
		<u>23,568</u>	<u>6,046</u>
		<u>367,972</u>	<u>150,614</u>

31.1 Annual Performance Ratio ('APR') test for the 3rd O&M year was revised on the basis of high voltage meter generation that was previously conducted on low voltage meter's data. The revised calculation was conducted by ILF Pakistan (Private) Limited that recommends additional recovery of USD 0.0977 million in terms of APR liquidated damages for year 3 O&M by interpolating the low voltage billing meter reading to high voltage billing meter reading. The conversion rate used for this was Rs. 154.65/USD.

31.2 Annual Performance Ratio ('APR') test for the 4th O&M year was revised on the basis of High voltage meter generation that was previously conducted on low voltage meter's data. The revised calculation was conducted by ILF Pakistan (Private) Limited and the result was 55.86 MWh excess energy instead of previously calculated excess energy of 559.69 MWh. The bifurcation was incorporated on the basis of note 20.2.

## 32 FINANCE COST

Mark-up on long term loan		1,208,763	1,036,024
Transaction cost		26,794	27,405
Bank charges		262	2,094
		<u>1,235,819</u>	<u>1,065,523</u>

## 33 TAXATION

Current	33.1	(16,299)	(10,228)
Prior	33.3	-	68,569
		<u>(16,299)</u>	<u>58,341</u>

### 33.1 Tax charge reconciliation

Numerical reconciliation between average effective tax rate and applicable tax rate:

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	2020	2019
	%	%
Applicable tax rate	29	29
Tax losses and credits not recognized	17	17
Taxes claimable as pass through items	(45.35)	(45.47)
Prior year tax	-	(3.97)
Super tax impact	-	0.06
Rate change impact	-	-
Average effective tax rate charged to profit or loss	0.65	(3.38)

- 33.2 As per clause 6.3 (a) of Part IV of the first schedule to the Energy Purchase Agreement, all taxes payable on the generation, sale, exportation or supply of electricity are pass-through items and shall be claimable from CPPA in full. Based on Alternate Corporate Tax (ACT), the total provision for taxation is Rs. 422.42 million (2019: Rs. 335.985 million) of which Rs. 405.943 million (2019: Rs. 325.757 million), included as receivable from CPPA in note 15 as a pass through item, represents ACT on profit before tax excluding income on bank deposits and liquidated damages from contractor. The remaining provision of Rs. 16.299 million (2019: Rs. 10.228 million) representing ACT on income from bank deposits and liquidated damages from contractor, may not be claimable from CPPA as a pass-through item, not being construed as directly related to the generation, sale, exportation or supply of electricity.
- 33.3 Additional Commissioner Inland Revenue ('the ACIR') through order dated May 29, 2018 in proceedings under section 122(5A) of Income Tax Ordinance, 2001 ('ITO') relating to non-payment of taxes on income on bank deposits for the tax year 2015 imposed a tax liability of Rs 78.160 million on the Company including net principal liability of Rs 64.379 million along with default surcharge of Rs 13.781 million and created a net demand of Rs 47.126 million after adjustment of taxes already paid. Subsequently, the Company filed an appeal before Appellate Tribunal Inland Revenue on November 01, 2018. Appellate tribunal through order dated August 30, 2019 decided the case in favour of the Company. Therefore, provision for taxation was reversed in the last year financial statements.

Later on November 29, 2019 Commissioner Inland revenue filed a reference in Lahore High Court. The reference came up for hearing before the Honourable Court on December 3, 2019 and the Court issued a notice to the tax payer and power of attorney has been filed on January 27, 2020. The reference is pending adjudication.

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33.4 With respect to proceedings under section 122(5A) of ITO relating to Tax years 2016 and 2017, The ACIR through orders dated May 29, 2018 imposed tax liability of Rs. 160.873 million and Rs. 234.435 million respectively by disallowing tax credit under section 65B of ITO as claimed by the Company in its tax return. The Company paid 25% of these tax liabilities during the year ended June 30, 2018 under protest and preferred appeals before the Commissioner Inland Revenue (Appeals), on the grounds that the tax credit under section 65B of ITO should be allowed. The Commissioner Inland Revenue (Appeals) through order dated October 17, 2018 decided the cases against the Company and maintained the impugned order. Subsequently, the Company filed an appeal before Appellate Tribunal Inland Revenue on November 01, 2018. The liability was already provided by the Company in the financial statements of relevant financial years on prudence basis. During the prior year, the Company has discharged liability of Rs. 277.80 million (Tax year 2016: Rs. 112.10 million and 2017: Rs. 165.70 million). The Appellate tribunal through order dated August 30, 2019 decided the case against the Company. The Company has filed a references before the Honourable Lahore High Court, Lahore on November 22, 2019. The references came up for hearing before the Honourable Lahore High Court on December 09, 2019. The Hon'ble Court issued notices to the respondent department. The references are pending adjudication.

In addition to above, through a separate order dated May 30, 2018, the ACIR has imposed super tax of Rs. 45.533 million relating to Tax year 2017 for which a provision was recognized by the Company in the financial statements for the year ended June 30, 2018 and payment was also made to FBR. The Company had preferred an appeal before the Commissioner Inland Revenue (Appeals) and has also filed a writ petition before Honourable Lahore High Court on July 23, 2018 against legality of super tax. The CIR (Appeals-IV), Lahore has dismissed the appeal vide her order No. 100/A-IV dated December 24, 2019. Further, the Honourable High Court announced the order in open court on February 24, 2020 and dismissed the writ petition relying on its own judgement date February 28, 2020 in ICA # 134758 of 2018. Later on, the Company has filed writ petition before the Supreme Court of Pakistan against this order which is pending adjudication. However, the Supreme Court has granted leave on November 26, 2020.

### 33.5 Comparison of tax provision against tax assessments

Years	Excess/ (Short)	Tax provision	Tax assessment/ tax return
	----- (Rupees in 000') -----		
2018-19	-	293,773	293,773
2017-18	-	199,600	199,600
2016-17	-	245,521	245,521

1300







- 34.1 The details of compensation paid to key management personnel are shown under the heading of "Remuneration of Chief Executive, Directors and Executive (note 41)". There are no transactions with key management personnel other than under their terms of employment.
- 34.2 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The Company considers all members of its management team, including the Chief Executive Officer and the Directors to be key management personnel.
- 34.3 All transactions with GoP and its owned entities (the Bank of Punjab and the National Bank of Pakistan, under the bank account maintenance) are not disclosed as the management is of the view that it is impracticable to disclose such transactions due to the nature of the transactions. The Company is exempt from the disclosure requirements of the related party transactions and outstanding balances with the government and another entity that is a related party because the same government.

## **35 FINANCIAL RISK MANAGEMENT**

### **35.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department under policies approved by the Board of Directors. The Company's finance department evaluates and hedges financial risks. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk. All treasury related transactions are carried out within the parameters of these policies.

#### **(a) Market risk**

##### **(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument shall fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk amounting to Rs. 75.711 million (2019: Rs. 63.797 million) (Payable to contractor and consultant) arising of only from the US Dollar and the Euro. Currency risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

At June 30, 2020 if the Rupee had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit for the year would have been Rs. 3.613 million (2019: Rs. 2.954 million) lower / higher mainly as a result of foreign exchange losses / gains on translation of USD-denominated financial assets and liabilities.



At June 30, 2020 if the Rupee had weakened / strengthened by 5% against the Euro with all other variables held constant, the impact on profit for the year would have been Rs. 0.084 million (2019: Rs. 0.028 million) lower / higher mainly as a result of foreign exchange losses / gains on translation of USD-denominated financial assets and liabilities.

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
	2020	2019	2020	2019
USD to PKR	161.84	150.20	167.75	163.76
EUR to PKR	187.48	156.64	188.69	186.37

**(ii) Other price risk**

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

**(iii) Interest rate risk**

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has significant long-term interest-bearing liability. The Company's interest rate risk arises from long term borrowing. Borrowing obtained at variable rates expose the Company to cash flow interest rate risk.

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, finance cost for the period would have been increased / decreased by Rs. 58.511 million (2019: Rs. 78.819 million) respectively.

Financial liabilities/(Assets)	Effective rates	2020	2019
		Carrying amount ----- (Rupees in 000') -----	
Variable rate instruments:			
Long term financing	10.18%	7,317,461	8,153,377
Bank balances	9%	(1,466,369)	(471,467)
Net exposure		<u>5,851,092</u>	<u>7,681,910</u>

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## Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2020.

	Profit and loss	
	100 bp increase	100 bp decrease
<b>As at June 30, 2020</b>		
Cash flow sensitivity - Variable rate financial liabilities	58,511	(58,511)
<b>As at June 30, 2019</b>		
Cash flow sensitivity - Variable rate financial liabilities	76,819	(76,819)

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

### 35.2 Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Note	2020 ----- (Rupees in 000') -----	2019 -----
Long term deposits	401	401
Trade debts	3,501,383	2,153,958
Short term deposits	1,926	1,926
Other receivables	1,222,350	985,096
Bank balances	1,516,369	717,467
	<u>6,242,429</u>	<u>3,858,848</u>

#### Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty.

#### Concentration of credit risk

Concentration of credit risk exists when the changes in economic or industry factor similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets is limited and is exposed to concentrations of credit risk as the financial asset are held with a limited number of institutions.



### Trade debts - considered good

Trade debts mainly represents receivable from Central Power Purchasing Agency (CPPA), a Government owned entity. Hence the management believes that no impairment allowance is necessary in respect of these trade debts.

	2020	2019
	----- (Rupees in 000') -----	
The aging of trade receivable at the reporting date is:		
Neither past due nor impaired	529,957	823,551
Past due but not impaired:		
1 to 30 days	636,164	429,856
31 to 90 days	526,657	750,567
91 to 180 days	1,658,621	32,261
181 to 365 days	-	42,930
Above 365 Days	149,984	74,793
	<u>2,971,426</u>	<u>1,330,407</u>
	<u>3,501,383</u>	<u>2,153,958</u>

Based on the guarantee secured by the Government of Pakistan under the Implementation Agreement, the Company believes that no impairment allowance is necessary in respect of trade debtors past due as some receivables have been recovered subsequent to the year end and for other receivables there are reasonable ground to believe that the amounts will be recovered in short course of time.

### Bank balances

The credit quality of Company's bank balances can be assessed with reference to external credit rating agencies as follows:

	Rating 2020			2020
	Short term	Long term	Agency	(Rupees in 000')
Bank of Punjab (BOP)	A1+	AA	PACRA	1,466,020
	Rating 2019			2019
	Short term	Long term	Agency	(Rupees in 000')
Bank of Punjab (BOP)	A1+	AA	PACRA	471,467

Due to the Company's business relationships with the banks and after giving due consideration to their strong financial standing, management does not expect non-performance by the banks on their obligations to the Company. Accordingly, the credit risk is minimal.

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### 35.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company's approach to managing liquidity is to ensure that, as far as possible, it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the Company's reputation.

Management monitors the forecasts of the Company's cash and cash equivalents on the basis of expected cash flow. This is generally carried out in accordance with practice and limits set by the Company. The Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet its liabilities, monitoring balance sheet liquidity ratios against internal and external regulatory requirements, and maintaining debt financing plans. Following are the contractual maturities of financial liabilities, including interest payments:

	Carrying Amount	Contractual cash flow	Less than 1 year	Between 1 and 5 years	Over 5 years
----- (Rupees in 000)' -----					
<b>2020</b>					
Long term loan	7,317,461	11,092,527	2,112,862	8,979,665	-
Trade and other payables	562,356	562,356	562,356	-	-
Mark-up accrued	207,256	207,256	207,256	-	-
Long term retentions	104,960	104,960	-	-	104,960
	<u>8,192,033</u>	<u>11,967,099</u>	<u>2,882,474</u>	<u>8,979,665</u>	<u>104,960</u>
<b>2019</b>					
Long term loan	8,153,377	13,169,495	2,076,967	10,564,312	528,216
Trade and other payables	373,332	373,332	373,332	-	-
Mark-up accrued	239,544	239,544	239,544	-	-
Long term retentions	69,614	69,614	-	-	69,614
	<u>8,835,867</u>	<u>13,851,985</u>	<u>2,689,843</u>	<u>10,564,312</u>	<u>597,830</u>

### 36 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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



- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

There were no financial instruments held by the Company which are measured at fair value as of June 30, 2019 and June 30, 2020.

Transfer between levels of the fair value hierarchy are recognised at the end of the reporting period during which the changes have occurred. However, there were no transfers between levels of fair value hierarchy during the year.

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37 FINANCIAL INSTRUMENTS BY CATEGORY

	Note	Original carrying amount		Fair value				
		Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
<b>On-Statement of financial position - financial instruments</b>								
As at June 30, 2020								
<b>Financial assets</b>								
<b>Financial assets at amortised cost</b>								
Long term deposits	11	401	-	401	-	-	-	
Trade debts	12	3,501,383	-	3,501,383	-	-	-	
Short term deposits	14	1,926	-	1,926	-	-	-	
Other receivables	15	1,222,350	-	1,222,350	-	-	-	
Cash and bank balances	16	1,516,369	-	1,516,369	-	-	-	
		6,242,429	-	6,242,429	-	-	-	
<b>Financial liabilities at amortised cost</b>								
Long term financing	18	-	7,317,461	7,317,461	-	-	-	
Trade and other payables	21	-	562,356	562,356	-	-	-	
Long term retentions	20	-	104,960	104,960	-	-	-	
Accrued finance cost	22	-	207,256	207,256	-	-	-	
		-	8,192,033	8,192,033	-	-	-	

**On-Statement of financial position - financial instruments**

As at June 30, 2019

**Financial assets**

**Financial assets at amortised cost**

Long term deposits	11	401	-	401	-	-	-
Trade debts	12	2,153,958	-	2,153,958	-	-	-
Short term deposits	14	1,926	-	1,926	-	-	-
Other receivables	15	985,096	-	985,096	-	-	-
Cash and bank balances	16	717,467	-	717,467	-	-	-
		3,858,848	-	3,858,848	-	-	-
<b>Financial liabilities at amortised cost</b>							
Long term financing	18	-	8,153,377	8,153,377	-	-	-
Trade and other payables	21	-	373,332	373,332	-	-	-
Long term retentions	20	-	69,614	69,614	-	-	-
Mark-up accrued	22	-	239,544	239,544	-	-	-
		-	8,835,867	8,835,867	-	-	-

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

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### 38 CAPITAL MANAGEMENT

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- (i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- (ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The management at all times seeks to earn returns higher than its weighted average cost of capital, by increasing efficiencies in operations, so as to increase profitability.

	2020	2019
	----- (Rupees in 000') -----	
The proportion of debt to equity at the year end was:		
Long term finances	7,317,461	8,153,377
Total Equity	9,298,115	6,828,767
Total Capital	<u>16,615,576</u>	<u>14,982,144</u>
Gearing Ratio	<u>44%</u>	<u>54%</u>

### 39 RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management framework. The executive management team is responsible for developing and monitoring the Company's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors through the audit committee. The audit committee oversees compliance by management with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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#### 40 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, whenever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison in accordance with the accounting and reporting standards as applicable in Pakistan. However, no significant reclassification has been made except following have been reclassified for better presentation.

Reclassification from	Reclassification to	2019 (Rupees in 000')
Advances, deposits, prepayments and other receivables	Short term loans and advances	30,788
	Short term deposits and prepayments	6,347
	Other receivables	1,219,202

#### 41 NUMBER OF EMPLOYEES

	2020 Numbers	2019 Numbers
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Number of employees at June 30,

Permanent

Head office

19

22

Plant

12

14

Average number of employees during the year

Permanent

Head office

19

23

Plant

11

13

41.1 The number of employees as at year end was 31 (2019: 36) and average number of employees during the year was 30 (2019: 35).

#### 42 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	CHIEF EXECUTIVE		DIRECTORS		EXECUTIVES	
	2020	2019	2020	2019	2020	2019
	----- (Rupees in thousand) -----					
<b>Short term employee benefits</b>						
Managerial remuneration	-	331	-	-	46,165	42,533
Utilities	-	-	-	-	-	-
Bonus	-	-	-	-	-	3,063
Medical expenses	-	-	-	-	-	722
Meeting fee	-	-	2,835	-	-	-
Others	-	-	-	-	-	2,039
	-	331	2,835	-	46,165	48,357

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CHIEF EXECUTIVE		DIRECTORS		EXECUTIVES	
2020	2019	2020	2019	2020	2019

**Post employment benefits**

Expense incurred in respect of gratuity	-	-	-	-	4,301	3,370
	-	331	2,835	-	50,466	51,727

**Number of person(s)**

	-	1	13	6	8	10
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42.1 The Company has 13 (2019: 6) directors who have not received any remuneration and other benefits, except aggregating fee for attending meetings Rs. 2.835 million (2019: Rs. 0.15 million).

42.2 Certain executives of the Company are provided with Company maintained vehicles.

**43 CAPACITY AND PRODUCTION**

	2020 MWH	2019 MWH
Actual capacity per Hr	100	100
Benchmark energy for the year	153,300	150,103
Actual energy delivered for the year, as acknowledged by CPPA	158,344	164,474

43.1 Output produced by the Complex is dependent on the load demanded by CPPA-G and Complex availability.

**44 RECONCILIATION OF MOVEMENT OF LIABILITIES AND EQUITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES**

	Liabilities		
	Equity reserves	Financing	Total
	(Rupees in thousand)		
Balance as at July 01, 2019	-	8,153,377	8,153,377
Borrowings during the period	-	-	-
Repayment	-	(835,916)	(835,916)
Balance as at June 30, 2020	-	7,317,461	7,317,461

44.1 There is no non cash transaction during the year.

**45 SUMMARY OF SIGNIFICANT TRANSACTIONS AND EVENTS**

All significant transactions and events that have affected the Company's financial position and performance during the year have been adequately disclosed in the notes to these financial statements.

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## 46 IMPACT OF COVID -19 ON THE FINANCIAL STATEMENTS

In March 2020, the World Health Organization ("WHO") declared the outbreak of the novel coronavirus (known as COVID-19) as a global pandemic. The rapid spread of the virus has caused governments around the world to implement stringent measures to help control its spread, including, without limitation, quarantines, "stay-at-home" or "shelter-in-place" orders, social distancing mandates, travel restrictions, and closures or reduced operations for businesses, governmental agencies, schools and other institutions. The industry, along with global economic conditions generally, has been significantly disrupted by the pandemic.

The COVID-19 pandemic and associated impacts on economic activity had certain effect on the operational and financial condition of the recovery for the year ended June 30, 2020 due to overall slowdown in economic activity and continuity of business operations. However, to reduce the impact on the performance of the Company, government have introduced a host of measures on both the fiscal and economic fronts by issuing certain circulars and notifications from time to time. The Company, however, believes that these events would not fundamentally impact the operations of the Company in ensuring periods. The management had analysed the events as these are indicative of conditions for a review of recoverable amounts of assets of the Company and consequently concluded that there is no change in recoverable amounts of Company's assets at the reporting date. The management considers presently this outbreak does not have any impact on the amounts being reported in the Company's statement of financial position as at June 30, 2020. While this is still an evolving situation as at the time of issuing these financial statements yet, to date the operations of the Company have continued uninterrupted during this pandemic, future effects cannot be predicted. However, the management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

The management of the Company is also closely monitoring the situation, and in response to the developments, taking all possible precaution and measures to safeguard health and safety of employees and other stakeholders, and also implemented a number of measures to minimise the impact to the extent possible.

## 47 EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

No significant events have occurred subsequent to June 30, 2020 other than those mentioned elsewhere in the financial statements.

## 48 EARNINGS PER SHARE

		2020	2019
Profit for the year	Rupees in thousand	<u>2,467,475</u>	<u>1,786,121</u>
Weighted average number of ordinary shares	Number	<u>380,978</u>	<u>380,978</u>
Earnings per share	Rupees	<u>6.48</u>	<u>4.69</u>



#### 48.1 Diluted earnings per share

Diluted earnings per share has not been presented as the Company does not have any convertible instrument in issue as at June 30, 2020 and June 30, 2019 which would have any effect on the earnings per share if the option to convert is exercised.

#### 49 DATE OF AUTHORIZATION OF ISSUE

These financial statements were authorized for issue on 30 APR 2021 by the Board of Directors of the Company.

#### 50 GENERAL

50.1 Figures have been rounded off to the nearest rupee in thousand unless otherwise stated.

50.2 A notification No. IPP-01(12)/2017 dated August 07, 2019 issued by Ministry of Energy (Power Division), under directions of the Prime Minister of Pakistan to identify and examine the causes of high cost of electricity in the country, including review of private power producers, ways to resolve circular debt and inefficiencies in the transmission and distribution sector and suggest a future roadmap for the power sector structure. The Report has been issued on the subject dated March 16, 2020.

Based on the Report, the Government of Pakistan-Ministry of Energy (Power Division) constituted a committee based on CCoE's decisions vide case No.CCE-29/7/2020 dated May 20, 2020 for negotiations with Independent Private Power Producers (IPPs) to discuss various aspects of the Report. Based on this Ministry of Energy (Power Division) vide its letter No. IPPs -10(18)/2020 dated October 06, 2020 has conveyed that decision of the Cabinet Committee on Energy (CCoE) to the Company which was ratified by the Cabinet in case No. 468/35/2020 dated September 08, 2020 regarding reduction in Return on Equity (ROE) of the Government Owned power project including the Company from 17% IRR with Dollar Indexation to 12% along with direction to approach NEPRA for revision of ROE component by submission of tariff revision petition with NEPRA.

The Company has submitted the revised tariff petition to NEPRA as mentioned and requested to revised the tariff dated January 12, 2021. NEPRA has communicated its decision on petition for revision of upfront tariff determination through letter dated February 18, 2021 and reduced ROE component on the basis of 12% IRR (Rs. 3.2473 KWh) which will be effective from October 06, 2020. This will impact the Company revenue stream in future.



CHIEF EXECUTIVE

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DIRECTOR