

LALPIR POWER LIMITED

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

31 DECEMBER 2017

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **LALPIR POWER LIMITED** as at 31 December 2017 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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and present the above said statements in conformity with the approved accounting standards and the requirements of the repealed Companies Ordinance, 1984.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

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

- (a) in our opinion, proper books of account have been kept by the company as required by the repealed Companies Ordinance, 1984;
- (b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the repealed Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

Riaz Ahmad & Company

Chartered Accountants

- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the repealed Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 31 December 2017 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We draw attention to note 10.1.2 to the financial statements which explains the uncertainty regarding outcome of claims lodged by Central Power Purchasing Agency (Guarantee) Limited (CPPA-G), which have been disputed by the company. Our opinion is not modified in respect of this matter.

RIAZ AHMAD & COMPANY
Chartered Accountants 

Name of engagement partner:
Mubashar Mehmood

Date:

LAHORE

LALPIR POWER LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2017

	2017 (Rupees in thousand)	2016 (Rupees in thousand)	Note
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital 500,000,000 (2016: 500,000,000) ordinary shares of Rupees 10 each	5,000,000	5,000,000	
Issued, subscribed and paid-up share capital	3,798,387	3,798,387	3
Capital reserve	107,004	107,004	4
Revenue reserve - un-appropriated profit	8,898,912	8,713,239	
Total equity	12,804,303	12,618,630	
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term financing	230,423	783,438	5
Employee benefit - gratuity	38,280	19,207	6
	268,703	802,645	
CURRENT LIABILITIES			
Trade and other payables	1,274,361	1,116,226	7
Accrued mark-up / profit	108,270	95,424	8
Short term borrowings	8,664,776	8,631,862	9
Current portion of long term financing	553,015	553,015	5
Total liabilities	10,600,422	10,396,527	
	10,869,125	11,199,172	10
CONTINGENCIES AND COMMITMENTS			
TOTAL EQUITY AND LIABILITIES	23,673,428	23,817,802	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9,018,793	9,868,334	11
Investment property	10,118	10,201	12
Long term investment	-	842	13
Long term loans to employees	64,118	54,076	14
Long term security deposit	300	300	
	9,093,329	9,933,753	
CURRENT ASSETS			
Stores, spare parts and other consumables	947,439	976,655	15
Fuel stock	299,334	349,471	16
Trade debits	10,849,196	8,596,673	17
Loans, advances and short term prepayments	439,597	1,101,782	18
Other receivables	246,449	237,654	19
Sales tax recoverable	1,797,462	2,120,067	20
Cash and bank balances	622	501,747	
	14,580,099	13,884,049	
TOTAL ASSETS	23,673,428	23,817,802	

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


DIRECTOR


CHIEF FINANCIAL OFFICER

LALPIR POWER LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 (Rupees in thousand)	2016
REVENUE	21	18,313,076	15,366,041
COST OF SALES	22	<u>(16,508,376)</u>	<u>(13,510,090)</u>
GROSS PROFIT		1,804,700	1,855,951
ADMINISTRATIVE EXPENSES	23	(187,067)	(165,229)
OTHER EXPENSES	24	(17,388)	(7,590)
OTHER INCOME	25	<u>111,321</u>	<u>29,806</u>
PROFIT FROM OPERATIONS		1,711,566	1,712,938
FINANCE COST	26	(739,226)	(718,114)
SHARE OF LOSS FROM ASSOCIATED COMPANY	13	<u>-</u>	<u>(127)</u>
PROFIT BEFORE TAXATION		972,340	994,697
TAXATION	27	-	-
PROFIT AFTER TAXATION		<u>972,340</u>	<u>994,697</u>
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT AND LOSS ACCOUNT		-	-
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT AND LOSS ACCOUNT:			
LOSS ON REMEASUREMENTS OF DEFINED BENEFIT PLAN		(26,989)	(2,452)
OTHER COMPREHENSIVE LOSS		(26,989)	(2,452)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>945,351</u>	<u>992,245</u>
EARNINGS PER SHARE - BASIC AND DILUTED (RUPEES)	28	<u>2.56</u>	<u>2.62</u>

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


 CHIEF EXECUTIVE


 DIRECTOR


 CHIEF FINANCIAL OFFICER

LALPIR POWER LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

Note	2017 (Rupees in thousand)	2016	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	29	1,649,919	334,457
Finance cost paid		(726,380)	(759,573)
Gratuity paid		(19,845)	(16,993)
Net increase in long term loans to employees		(11,828)	(699)
Interest income received		56,628	20,499
Income tax paid		(13,532)	(12,001)
Net cash generated from / (used in) operating activities		<u>934,962</u>	<u>(434,310)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure on property, plant and equipment		(176,473)	(456,617)
Proceeds from disposal of operating fixed assets		19,930	1,475
Net cash used in investing activities		<u>(156,543)</u>	<u>(455,142)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term financing		(553,015)	(553,015)
Dividend paid		(759,443)	(759,181)
Net cash used in financing activities		<u>(1,312,458)</u>	<u>(1,312,196)</u>
Net decrease in cash and cash equivalents		<u>(534,039)</u>	<u>(2,201,648)</u>
Cash and cash equivalents at beginning of the year		<u>(8,130,115)</u>	<u>(5,928,467)</u>
Cash and cash equivalents at end of the year		<u><u>(8,664,154)</u></u>	<u><u>(8,130,115)</u></u>
CASH AND CASH EQUIVALENTS			
Cash in hand		121	197
Cash at banks		501	501,550
Short term borrowings		(8,664,776)	(8,631,862)
		<u>(8,664,154)</u>	<u>(8,130,115)</u>

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


 CHIEF EXECUTIVE

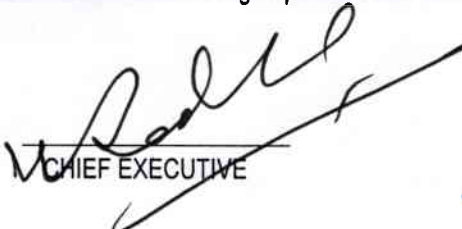

 DIRECTOR


 CHIEF FINANCIAL OFFICER

LALPIR POWER LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

SHARE CAPITAL	RESERVES		TOTAL EQUITY	
	Capital	Revenue		
	Retained payments reserve	Un-appropriated profit		
(----- Rupees in thousand -----)				
Balance as at 31 December 2015	3,798,387	107,004	8,480,672	12,386,063
Transactions with owners:				
Final dividend for the year ended 31 December 2015 @ Rupee 1 per share	-	-	(379,839)	(379,839)
Interim dividend for the year ended 31 December 2016 @ Rupee 1 per share	-	-	(379,839)	(379,839)
Transactions with owners of the Company recognised directly in equity	-	-	(759,678)	(759,678)
Profit for the year ended 31 December 2016	-	-	994,697	994,697
Other comprehensive loss for the year ended 31 December 2016	-	-	(2,452)	(2,452)
Total comprehensive income for the year ended 31 December 2016	-	-	992,245	992,245
Balance as at 31 December 2016	3,798,387	107,004	8,713,239	12,618,630
Transactions with owners:				
Final dividend for the year ended 31 December 2016 @ Rupee 1 per share	-	-	(379,839)	(379,839)
Interim dividend for the year ended 31 December 2017 @ Rupee 1 per share	-	-	(379,839)	(379,839)
Transactions with owners of the Company recognised directly in equity	-	-	(759,678)	(759,678)
Profit for the year ended 31 December 2017	-	-	972,340	972,340
Other comprehensive loss for the year ended 31 December 2017	-	-	(26,989)	(26,989)
Total comprehensive income for the year ended 31 December 2017	-	-	945,351	945,351
Balance as at 31 December 2017	3,798,387	107,004	8,898,912	12,804,303

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


 CHIEF EXECUTIVE


 DIRECTOR


 CHIEF FINANCIAL OFFICER

LALPIR POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. THE COMPANY AND ITS OPERATIONS

Lalpir Power Limited ("the Company") was incorporated in Pakistan on 08 May 1994 under the Companies Ordinance, 1984 (now Companies Act, 2017). The registered office of the Company is situated at 53-A, Lawrence Road, Lahore. The ordinary shares of the Company are listed on Pakistan Stock Exchange Limited. The principal activities of the Company are to own, operate and maintain an oil fired power station ("the Complex") having gross capacity of 362 MW in Mehmood Kot, Muzaffargarh, Punjab, Pakistan. The Company has a Power Purchase Agreement (PPA) with its sole customer, Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) for 30 years which commenced from 06 November 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

a) Statement of compliance

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

The Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017 on 30 May 2017. However, the Securities and Exchange Commission of Pakistan (SECP) through its Circular No. 23 of 2017 dated 04 October 2017 has advised the Companies whose financial year closes on or before 31 December 2017 to prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 requires enhanced disclosures about Company's operations and has also enhanced the definition of related parties.

Securities and Exchange Commission of Pakistan (SECP) granted waiver to all companies from the requirements of International Financial Reporting Interpretation Committee (IFRIC) 4 'Determining Whether an Arrangement Contains a Lease' through its notification, S.R.O. 24(1)/2012 dated 16 January 2012. Therefore, the Company is not required to account for the portion of its Power Purchase Agreement (PPA) with Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) as a lease under International Accounting Standard (IAS) 17 'Leases'. Further, SECP also granted waiver for the requirements of IAS 21 'The Effects of Changes in Foreign Exchange Rates' in respect of accounting principle of capitalization of exchange differences to power sector companies.

However, if the Company followed IFRIC 4 and IAS 17, the effect on the financial statements would be as follows:

	2017 (Rupees in thousand)	2016 (Rupees in thousand)
De-recognition of property, plant and equipment	(8,918,088)	(9,754,114)
Recognition of lease debtor	4,122,337	4,193,464
	<u>(4,795,751)</u>	<u>(5,560,650)</u>
Decrease in un-appropriated profit at the beginning of the year	(5,560,650)	(5,871,209)
Increase in profit for the year	764,899	310,559
Decrease in un-appropriated profit at the end of the year	<u>(4,795,751)</u>	<u>(5,560,650)</u>

b) Accounting convention

These financial statements have been prepared on historical cost basis, except for recognition of employee benefits liabilities at present value and certain financial instruments at fair value.

c) Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

Taxation

In making the estimate for income tax payable by the Company, the Company takes into account the applicable tax laws and the decisions by appellate authorities on certain issues in the past.

Useful lives, pattern of economic benefits and impairment

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of the assets for possible impairments on an annual basis. If such indication exists assets recoverable amount is estimated in order to determine the extent of impairment loss, if any. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

Provision for obsolescence of stores, spare parts and other consumables

Provision for obsolescence of items of stores, spare parts and other consumables is made on the basis of management's estimate of net realizable value and ageing analysis prepared on an item-by-item basis.

Provisions for doubtful debts

The Company reviews its receivables against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

Retirement benefit

The cost of defined benefit retirement plan is determined using actuarial valuation. The actuarial valuation is based on the assumptions as mentioned in Note 6.12.

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

Following amendments to published approved accounting standards are mandatory for the Company's accounting periods beginning on or after 01 January 2017:

IAS 7 (Amendments), 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January 2017). Amendments have been made to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The aforesaid amendments have resulted in certain additional disclosures in the Company's financial statements.

IAS 12 (Amendments), 'Income Taxes' (effective for annual periods beginning on or after 01 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments have no significant impact on Company's financial statements.

The application of the above amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

There are other amendments to published standards that are mandatory for accounting periods beginning on or after 01 January 2017 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

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

Following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 January 2018 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2018). A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 'Financial Instruments: Recognition and Measurement'. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. It introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. The management of the Company is in the process of evaluating the impacts of the aforesaid standard on the Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contracts; and recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The aforesaid standard is not expected to have a material impact on the Company's financial statements.

IFRS 16 'Lease' (effective for annual periods beginning on or after 01 January 2019). IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16 approach to lessor accounting substantially unchanged from its predecessor, IAS 17 'Leases'. IFRS 16 replaces IAS 17, IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases—Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The management of the Company is in the process of evaluating the impacts of the aforesaid standard on the Company's financial statements.

IFRS 15 (Amendments), 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). Amendments clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The aforesaid amendments are not expected to have a material impact on the Company's financial statements.

IAS 40 (Amendments), 'Investment Property' (effective for annual periods beginning on or after 01 January 2018). The amendments clarify that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendment is not likely to have a significant impact on the Company's financial statements.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018). IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The amendment is not likely to have significant impact on the Company's financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 01 January 2019). The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Company's financial statements.

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

There are other standard and amendments to published approved standards that are mandatory for accounting periods beginning on or after 01 January 2018 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

2.2 Property, plant and equipment

2.2.1 Operating fixed assets

Operating fixed assets, except freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at cost less impairment loss, if any. Residual values and estimated useful lives are reviewed at each reporting date, with the effect of changes in estimate accounted for on prospective basis. The Company has reviewed the useful lives of its operating fixed assets and, as the expectations differed from previous estimates, the change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in the accounting estimate, the profit after tax for the year ended 31 December 2017 would have been higher by Rupees 113.414 million and carrying value of operating fixed assets as at that date would have been higher by the same amount.

Depreciation is charged to income applying the straight line method whereby cost of an asset less its residual value is written off over its estimated useful life at the rates given in Note 11.1. Depreciation on additions is charged for the full month in which the asset is available for use and on deletion up to the month immediately preceding the deletion.

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

The Company assesses at each reporting 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 amounts, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated remaining useful life.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 recognized as an income or expense.

2.2.2 Capital work-in-progress

Capital work-in-progress is stated at cost less identified impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to operating fixed assets as and when these are available for use.

2.3 Investment property

Land and buildings held for capital appreciation or to earn rental income are classified as investment property. Investment property except land, are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Land is stated at cost less accumulated impairment loss, if any. Depreciation on buildings is charged to profit and loss account applying the straight line method so as to write off the cost of buildings over their estimated useful lives at a rate of 5% per annum.

2.4 Leases

The Company is the lessee:

2.4.1 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to income on a straight line basis over the lease term.

2.5 Investments

Classification of an investment is made on the basis of intended purpose for holding such investment. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on regular basis.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for "Investment at fair value through profit or loss" which is initially measured at fair value.

The Company assesses at the end of each reporting period whether there is any objective evidence that investments are impaired. If any such evidence exists, the Company applies the provisions of IAS 39 'Financial Instruments: Recognition and Measurement' to all investments, except investment accounted for under equity method for associate, which is tested for impairment in accordance with the provisions of IAS 36 'Impairment of Assets'.

2.5.1 Investment at fair value through profit or loss

Investments classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if these are acquired for the purpose of selling in the short term. Gains or losses on investments held-for-trading are recognized in profit and loss account.

2.5.2 Held-to-maturity

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initially recognized amount and the maturity amount. For investments carried at amortized cost, gains and losses are recognized in profit and loss account when the investments are de-recognized or impaired, as well as through the amortization process.

2.5.3 Investment in associate - (with significant influence)

Investment in associate is valued using equity method in accordance with the IAS 28 "Investments in Associates and Joint Ventures".

2.5.4 Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to need for liquidity, or changes to interest rates or equity prices are classified as available-for-sale. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognized directly in other comprehensive income until the investment is sold, de-recognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit and loss account. These are sub-categorized as under:

Quoted

For investments that are actively traded in organized capital markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date. Fair value of investments in open-end mutual funds is determined using redemption price.

Unquoted

Fair value of unquoted investments is determined on the basis of appropriate valuation techniques as allowed by IAS 39 'Financial Instruments: Recognition and Measurement'.

2.6 Foreign currency translation

These financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency. Transactions in foreign currency are converted in Pak Rupees at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies at the reporting date are translated into Pak Rupees at the rate of exchange prevailing on that date. Net exchange differences are recognized as income or expense in the period in which they arise.

2.7 Employee benefits

2.7.1 Defined contribution plan

The Company operates a contributory provident fund scheme covering all regular employees. Equal monthly contributions are made by the Company and employees to the fund at the rate of 10 % of basic salary of employees.

2.7.2 Defined benefit plan

The Company operates a funded gratuity scheme for all of its employees who have completed the qualifying period as defined under the scheme. As per gratuity scheme, employees of the Company are entitled to gratuity equivalent to last drawn salary multiplied by the numbers of year of service up to the date of leaving the Company. The liability recognised in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The charge for the year is based on actuarial valuation. The latest actuarial valuation was carried out as at 31 December 2017 using projected unit credit method. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the periods in which they occur. Past-service costs are recognised immediately in income.

2.8 Inventories

Inventories, except in transit are stated at lower of cost and net realizable value. Cost is determined as follows:

2.8.1 Fuel stock

Cost is determined on the basis of first-in-first-out method.

2.8.2 Stores, spare parts and other consumables

Cost is determined on the basis of average cost method, less allowance for obsolete and slow moving items. Cost in relation to items in transit comprises of invoice value and other charges incurred thereon up to the reporting date.

Net realizable value signifies the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2.9 Financial instruments

2.9.1 Recognition and de-recognition

Financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de- recognition of financial assets and financial liabilities is included in the profit and loss account.

Financial instruments carried on the balance sheet include long term loans to employees, deposits, trade debts, other receivables, cash and bank balances, long-term financing, short-term borrowings, accrued mark-up / profit and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

2.9.2 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash, balance with banks in current, saving and deposit accounts and short-term borrowings under mark-up arrangements.

2.11 Provision

A provision is 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 obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

2.12 Taxation

2.12.1 Current

Income (profit and gains) of the Company derived from power generation are exempt from income tax under Clause 132 of Part I and Clause 11A of Part IV of Second Schedule to the Income Tax Ordinance, 2001. This exemption is available till the term of Power Purchase Agreement (PPA). However, full provision is made in the profit and loss account on income from sources not covered under the above clauses at current rates of taxation after taking into account, tax credits and rebates available, if any.

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

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

Deferred tax has not been provided in these financial statements as the management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the Company remains exempt from taxation under Clause 132 of Part I and Clause 11A of Part IV of Second Schedule to the Income Tax Ordinance, 2001.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method. Finance costs are accounted for on an accrual basis and are reported under accrued mark-up / profit to the extent of the amount remaining unpaid.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.14 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the profit and loss account in the period in which they arise.

2.15 Trade debts and other receivables

Trade debts and other receivables are recognized initially at invoice value, which approximates fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade debts and other receivables is established when there is objective evidence that the Company will not be able to collect the entire amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, 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 profit and loss account. When a trade debt is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

2.16 Trade and other payables

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

2.17 Loans and receivables

Loans and receivables 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. Loans and receivables comprise loans, deposits, trade debts, other receivables and cash and bank balances in the balance sheet.

2.18 Impairment

2.18.1 Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

2.18.2 Non-financial assets

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

2.19 Revenue

2.19.1 Sale of electricity

Revenue from sale of electricity to the CPPA-G, the sole customer of the Company, is recorded on the basis of output delivered and capacity available at rates specified under the Power Purchase Agreement (PPA). PPA is a contract over a period of 30 years.

2.19.2 Interest income

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

2.19.3 Rental income

Rental income is recognized on accrual basis.

2.20 Dividend and other appropriations

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

2.21 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.

3 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2017 (Number of shares)	2016		2017 (Rupees in thousand)	2016
342,458,215	342,458,215	Ordinary shares of Rupees 10 each fully paid-up in cash	3,424,582	3,424,582
2,849,724	2,849,724	Ordinary shares of Rupees 10 each issued as fully paid-up for consideration other than cash	28,497	28,497
34,530,794	34,530,794	Ordinary shares of Rupees 10 each issued as fully paid-up bonus shares	345,308	345,308
<u>379,838,733</u>	<u>379,838,733</u>		<u>3,798,387</u>	<u>3,798,387</u>

3.1 Ordinary shares of the Company held by the associated companies:

	2017 (Number of shares)	2016
Nishat Mills Limited	109,393,005	109,393,005
Adamjee Insurance Company Limited	27,348,388	27,348,388
Security General Insurance Company Limited	6,836,548	6,836,548
Engen (Private) Limited	69,011,922	69,011,922
	<u>212,589,863</u>	<u>212,589,863</u>

3.2 Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders keeping in view its cash flow requirements to maintain its operating capacity in terms of PPA. No changes were made in the objectives, policies or processes from the previous year. The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Company includes within net debt, long term financing, short term borrowings less cash and bank balances. Capital includes equity attributable to the equity holders.

	2017 (Rupees in thousand)	2016
Long term financing	783,438	1,336,453
Short term borrowings	8,664,776	8,631,862
Cash and bank balances	(622)	(501,747)
Net debt	<u>9,447,592</u>	<u>9,466,568</u>
Equity	12,804,303	12,618,630
Capital and net debt	<u>22,251,895</u>	<u>22,085,198</u>
Gearing ratio	<u>42.46%</u>	<u>42.86%</u>

4 CAPITAL RESERVE

This represents Retained Payments Fund ("the reserve") maintained under clause 9.11 of the PPA. Initially the reserve was established at one twenty fourth of the annual operating and maintenance budget of the Company's first year of operations less fuel expenses. The reserve can only be utilized to pay expenses on major maintenance for proper operation of the Complex in case of non-availability of sufficient funds. The reserve fund needs to be replenished for the monies utilized by the Company.

2017 **2016**
(Rupees in thousand)

5 LONG TERM FINANCING

From banking company - secured

Long term loan (Note 5.1)	783,438	1,336,453
Less: Current portion shown under current liabilities	553,015	553,015
	230,423	783,438

5.1 This represents syndicated medium term finance facility obtained through Standard Chartered Bank (Pakistan) Limited (lead arranger) for the purpose of financing the change of turbine rotors for the Complex. This facility consists of two parts, Rupees 78.218 million (2016: Rupees 133.430 million) on mark-up basis whereas remaining Rupees 705.220 million (2016: Rupees 1,203.023 million) represents Islamic facility (Diminishing Musharakah Finance). This carries mark-up at the rate of one month KIBOR plus 0.50% per annum payable monthly. The effective rate of mark-up charged during the year ranged from 6.75% to 9.02% (2016: 8.93% to 9.27%) per annum. This finance is repayable in forty five equal monthly installments with a grace period of fifteen months and is secured by the way of parri passu charge over present and future fixed assets (excluding land and buildings) of the Company amounting to Rupees 4,000 million.

6 EMPLOYEE BENEFIT - GRATUITY

The latest actuarial valuation of the defined benefit plan as at 31 December 2017 was carried out using the Projected Unit Credit Method. Details of the plan as per the actuarial valuation are as follows:

2017 **2016**
(Rupees in thousand)

6.1 Balance sheet reconciliation:

Present value of defined benefit obligation (Note 6.2)	173,049	144,337
Fair value of plan assets (Note 6.3)	(134,769)	(125,130)
Liability recognized at balance sheet date	38,280	19,207

6.2 Movement in present value of defined benefit obligation:

Present value of obligation at the beginning of the year	144,337	113,624
Current service cost	23,089	22,524
Interest cost	11,044	9,922
Benefits paid	(12,566)	(6,760)
Remeasurement	7,145	5,027
Present value of obligation at the end of the year	173,049	144,337

6.3 Movement in fair value of plan assets:

Fair value of plan assets at the beginning of the year	125,130	91,633
Contributions	19,207	21,990
Interest income	10,276	8,932
Benefits paid on behalf of fund	12,566	6,760
Benefits paid by fund	(12,566)	(6,760)
Remeasurement	(19,844)	2,575
Fair value of plan assets at the end of the year	134,769	125,130

6.4 Actual return on plan assets

	(9,568)	11,507
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6.5 Plan assets consist of the followings:

Term deposit receipts	47,394	30,996
Units of mutual funds	50,520	58,942
Cash at banks	36,855	35,192
	134,769	125,130

	2017	2016
	(Rupees in thousand)	
6.6 Net movement in liability:		
Opening liability	19,207	21,991
Charge for the year (Note 6.7)	23,857	23,514
Remeasurements recognized in other comprehensive income (Note 6.9)	26,989	2,452
Contributions	(19,207)	(21,990)
Benefits paid on behalf of fund	(12,566)	(6,760)
Closing liability	<u>38,280</u>	<u>19,207</u>

6.7 Charge for the year recognized in profit and loss account:

Current service cost	23,089	22,524
Interest cost - net	768	990
Charge for the year	<u>23,857</u>	<u>23,514</u>

6.8 The charge for the year is shared with Pakgen Power Limited - associated company on fifty-fifty basis in accordance with "Shared Facilities Agreement".

6.9 Remeasurements recognised in other comprehensive income:

Experience losses	7,145	5,027
Remeasurement of fair value of plan assets	19,844	(2,575)
Remeasurements	<u>26,989</u>	<u>2,452</u>

6.10 Plan assets held in the trust are governed by local regulations which mainly includes the Trust Act, 1882, the Companies Act, 2017, the Income Tax Rules, 2002 and Rules under the Trust Deed of the plan. The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the plan obligations. The Company has not changed the processes used to manage its risks from previous periods. The Company does not use derivatives to manage its risk. Investments are diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. Responsibility for governance of the plan, including investment decisions and contribution schedules, lies with the Board of Trustees. The Company appoints the trustees and all trustees are employees of the Company.

6.11 Amounts for the current and previous four years:

	2017	2016	2015	2014	2013
	(----- Rupees in thousand -----)				
Present value of defined benefit obligation	173,049	144,337	113,624	85,326	63,011
Fair value of plan assets	(134,769)	(125,130)	(91,633)	(67,389)	(42,789)
Deficit	<u>38,280</u>	<u>19,207</u>	<u>21,991</u>	<u>17,937</u>	<u>20,222</u>
Remeasurement loss on obligation	<u>7,145</u>	<u>5,027</u>	<u>883</u>	<u>6,229</u>	<u>2,403</u>
Remeasurement gain / (loss) on plan assets	<u>(19,844)</u>	<u>2,575</u>	<u>(1,576)</u>	<u>(2,500)</u>	<u>(415)</u>

6.12 Principal actuarial assumptions used:

	2017	2016
	(% per annum)	
Discount rate	8.25	8.00
Expected rate of increase in salary	8.25	8.00
Expected rate of return on plan assets	8.25	8.00

- 6.13 Mortality was assumed to be based on SLIC 2001-05 ultimate mortality rates, rated down by one year.
- 6.14 The expected charge to profit and loss account of the Company for defined benefit plan obligation for the next year is Rupees 28.066 million.
- 6.15 The Company's contribution to defined benefit plan in 2018 is expected to Rupees 22.571 million. There are no minimum funding requirements to the defined benefit plan. The actuary conducts separate valuations for calculating contribution rates and the Company contributes to the gratuity fund according to the actuary's advice. Expense of the defined benefit plan is calculated by the actuary.
- 6.16 The weighted average duration of the defined benefit plan is 8.05 years.

6.17 Sensitivity analysis for actuarial assumptions:

The sensitivity of the defined benefit obligation as at reporting date to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Changes in assumption (%)	Increase in assumption (Rupees in thousand)	Decrease in assumption
Discount rate	1	160,168	188,043
Future salary increases	1	188,720	159,357

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- 6.18 The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the plan, at the beginning of the period, for returns over the entire life of related obligation. The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on term deposits are based on gross redemption yields as at the balance sheet date.

- 6.19 Expected maturity profile of undiscounted defined benefit obligation:

Less than a year	Between 1 - 2 years	Between 3 - 5 years	Between 6 - 10 years	Over 10 years	Total
(----- Rupees in thousand -----)					
29,242	22,470	34,689	63,048	272,771	422,220
				2017	2016
				(Rupees in thousand)	

7 TRADE AND OTHER PAYABLES

Creditors	1,086,931	894,503
Accrued liabilities	103,960	143,334
Workers' profit participation fund payable (Note 7.1)	48,617	49,735
Unclaimed dividend	2,775	2,540
Income tax deducted at source	4,287	972
Payable to provident fund trust	7,849	7,309
Others	19,942	17,833
	<u>1,274,361</u>	<u>1,116,226</u>

2017 **2016**
(Rupees in thousand)

7.1 Workers' profit participation fund payable

Opening balance	49,735	42,493
Allocation for the year (Note 24.2)	48,617	49,735
Payments made to the fund during the year	<u>(49,735)</u>	<u>(42,493)</u>
Closing balance	<u>48,617</u>	<u>49,735</u>

8 ACCRUED MARK-UP / PROFIT

Long term financing	1,701	2,613
Short term borrowings	106,569	92,811
	<u>108,270</u>	<u>95,424</u>

9 SHORT TERM BORROWINGS

From banking companies and financial institution:

Working capital finances - secured (Note 9.1)	7,815,827	7,818,460
Running musharakah (Note 9.2)	848,949	813,402
	<u>8,664,776</u>	<u>8,631,862</u>

9.1 The Company has total working capital finance facilities of Rupees 15,114 million (2016: Rupees 15,114 million) available from commercial banks and financial institution out of which Rupees 6,450 million (2016: Rupees 6,483 million) remained unutilized at year end. These facilities carry mark-up at average offer rate for 1 month to 6 months KIBOR plus 0.20% to 2.50% (2016: 1 month to 6 months KIBOR plus 0.20% to 2.50%) per annum payable monthly / quarterly / semi-annually (2016: monthly / quarterly / semi-annually). The effective mark-up rate charged during the year ranged from 6.30% to 8.79% (2016: from 6.25% to 8.76%) per annum. These facilities are secured by way of charge to the extent of Rupees 17,785 million (2016: Rupees 17,573 million) on the present and future current assets of the Company.

9.2 This represents running musharakah facility obtained from Meezan Bank Limited to meet short term working capital requirements. This facility carries profit at the rate of 3 months KIBOR plus 0.30% (2016: 3 months KIBOR plus 0.30%) per annum payable quarterly. The effective profit rate charged during the year ranged from 6.42% to 6.45% (2016: 6.40%) per annum. This facility is secured by way of first charge on current assets amounting to Rupees 2,500 million (2016: Rupees 2,500 million).

10 CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Up to the year ended 31 December 2002, the Company had recorded and paid to the Federal Treasury contributions on its annual profit as per the provisions of the Companies Profits (Workers' Participation) Act, 1968 (the Act).

Based on legal advice, the Company filed a petition on 15 April 2004 in the Lahore High Court challenging the application of the Act to the Company on the grounds that since inception the Company has not employed any person who falls within the definition of the term "Worker" as per the provisions of the Act. The Company asserts that it had erroneously deposited in the past certain sums with Federal Treasury as contributions of Workers' Profit Participation Fund (WPPF) and Workers' Welfare Fund (WWF), although it was not obligated to make such payments. The petition was filed subsequent to the Company's receipt of the Federal Board of Revenue's Income Tax / Wealth Tax Circle's letter dated 30 March 2004 directing the Company to allocate five percent of its net profit towards the WPPF and deposit the un-utilized amount of the WPPF in the Federal Treasury. The petition had been filed against the Labour, Manpower and Overseas Pakistani Division of Ministry of Labour, Manpower and Overseas Pakistanis.

The management, based on legal advice, asserts that if the Company does not succeed in the above petition and it is held that the scheme is applicable to the Company, any payments that the Company is ultimately required to make under the provision of the Act are considered as pass through items recoverable from Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) under the provisions of the Power Purchase Agreement (PPA). Consequently, there will be no impact on its financial position and its results of operations, even if it does not succeed in the above petition.

Consequent to the amendments that have been made in the Act through the Finance Act, 2006, the Company is required to pay 5% of its profits to WPPF from the financial year 2006. The Company established a workers' profit participation fund to comply with the requirements of the Companies Profit (Workers' Participation) Act, 1968. The changes to the law will not affect the aforementioned petition filed by the Company. The Company expects a favourable outcome of the matter.

- 10.1.2** Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) has raised invoices for liquidated damages to the Company from 11th to 20th (up to December 2017) agreement year (after taking into account forced outage allowance stipulated under the terms of Power Purchase Agreement - PPA) on account of short supply of electricity by the Company, which was due to cash constraints of the Company as a result of default by CPPA-G in making timely payments. Liquidated damages invoiced to the Company amounts to Rupees 3,343 million (2016: Rupees 3,341 million). Out of these, the Company has accepted and paid Rupees 34.82 million (2016: Rupees 22.13 million). The Company disputes and rejects balance claims on account of liquidated damages that are raised by CPPA-G on the premise that its failure to despatch electricity was due to CPPA-G's non-payment of dues on timely basis to the Company and consequential inability of the Company to make timely payments to its fuel supplier that resulted in inadequate level of electricity production owing to shortage of fuel. Against these the Company has raised invoice dispute notices to CPPA-G. The Company appointed mediation expert under the mechanism given in the PPA. On 22 June 2017, the mediation expert gave his decision in favour of the Company. However, this decision is not binding on either party. The Company is in the process of negotiation with CPPA-G to settle the issue. The ultimate outcome of the matter cannot presently be determined, and consequently, no provision for such liquidated damages has been made in these financial statements.
- 10.1.3** During the year, CPPA-G issued a notice on 20 March 2017, disputing all the invoices of the Company on the grounds that the Company was in default of its obligations under the PPA and accordingly not eligible for the cost of working capital claimed and adjustment on account of heat rate savings. The Company challenged the dispute notice in the Honourable Lahore High Court ("the Court"). The Court issued a stay order restraining CPPA-G from disputing any invoice of the Company. The management is of the view that there are meritorious grounds available to defend the dispute notice and consequently, no provision has been made in these financial statements.
- 10.1.4** Deputy Commissioner Inland Revenue (DCIR) issued order to the Company in which sales tax refund claims amounting to Rupees 910.122 million for the tax periods from November 2008 to July 2012 were rejected by apportioning input sales tax between capacity invoices and energy invoices and allowed input sales tax allocated to energy invoices only. Against aforesaid order, the Company filed appeal before Commissioner Inland Revenue (Appeals) [CIR(A)] which was decided in favour of the Company. Against the order of CIR(A), tax department filed appeal before the Appellate Tribunal Inland Revenue (ATIR). ATIR decided the case in favour of tax department and vacated the order passed by CIR(A). Against the decision of ATIR, the Company has filed reference application in the Honourable Lahore High Court ("the Court") which has been decided in favour of the Company by the Court. However, department has filed petition for leave to appeal before Supreme Court of Pakistan. Further, DCIR issued show cause notice to the Company for the tax periods from August 2009 to December 2012 declaring refund claims amounting to Rupees 1,971.516 million being inadmissible on aforesaid grounds. The Company challenged the show cause notice before the Court along with reply of the show cause notice to DCIR. The Court has decided the case in favour of the Company. However, tax department has filed petition for leave to appeal before Supreme Court of Pakistan as well as review application before the Court. The management is of the view that there are meritorious grounds available to defend the foregoing rejection. Consequently, no provision for such rejection has been made in these financial statements.

- 10.1.5** The tax authorities have completed assessment proceedings under section 122(5A) of the Income Tax Ordinance, 2001 for the tax years 2009 to 2014 creating a demand of Rupees 971.329 million on account of interest on delayed payments by CPPA-G not been offered for tax. As per tax authorities, interest on delayed payments falls under the head income from other sources and is not exempt from tax as the same is not covered under Clause 132, Part I of the Second Schedule to the Income Tax Ordinance, 2001. The Company filed appeals against foregoing assessment proceedings before Commissioner Inland Revenue (Appeals) [CIR(A)], which were decided in favour of the Company. Against the orders of CIR(A), tax authorities have filed appeals before the Appellate Tribunal Inland Revenue (ATIR) which are in the process of hearing. Based on tax advisor's opinion and CIR(A)'s decision in favour of the Company, the management is confident that the matter will be decided in favour of the Company and accordingly no provision has been made in these financial statements.
- 10.1.6** The Deputy Commissioner Inland Revenue (DCIR), through an assessment order, rejected the deferred sales tax refund claims of different tax periods amounting to Rupees 81.850 million on the grounds that the Company has failed to prove admissibility of refund claims in the light of objection raised by Sales Tax Automated Refund Repository (STARR). The Company filed an appeal before CIR(A) whereby CIR(A) has granted relief to the Company and directed the department to allow Company's refund claim after proper verification of underlying documents and refund should be curtailed if the Company failed to provide the proof. The management is of the view that there are meritorious grounds available to prove the genuineness of the refund claims. Consequently, no provision has been made in these financial statements.
- 10.1.7** The banks of the Company have issued letters of credit in favour of CPPA-G amounting to Rupees 596 million (2016: Rupees 596 million) to meet its obligations under the Power Purchase Agreement (PPA).
- 10.1.8** The bank of the Company has issued a letter of guarantee in favour of Siemens (Pakistan) Engineering Company Limited for an amount of Rupees 87 million (2016: Rupees Nil).
- 10.1.9** The banks of the Company have issued letters of guarantee in favour of Pakistan State Oil Company Limited (PSO) - fuel supplier for an amount of Rupees 1,500 million (2016: Rupees 1,000 million).

10.2 Commitments

- 10.2.1** The Company has entered into a contract for a period of thirty years for purchase of fuel from Pakistan State Oil Company Limited (PSO). Under the terms of Fuel Supply Agreement (FSA), the Company is not required to buy any minimum quantity of fuel from PSO.

	2017	2016
	(Rupees in thousand)	
10.2.2 Commitments in respect of letters of credit for capital expenditure	<u>37,899</u>	<u>34,251</u>
10.2.3 Commitments in respect of other than capital expenditure	<u>234,797</u>	<u>291,260</u>

2017 **2016**
(Rupees in thousand)

11 PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets (Note 11.1)	8,793,917	9,632,917
Capital work-in-progress (Note 11.2)	224,876	235,417
	<u>9,018,793</u>	<u>9,868,334</u>

11.1 Reconciliation of carrying amounts of operating fixed assets at the beginning and at the end of the year is as follows:

Description	Freehold land	Buildings on freehold land	Improvements on leasehold property	Plant and machinery	Furniture and fittings	Vehicles	Office equipment	Electric equipment and appliances	Telephone installations	Clinical equipment	Total
Rupees in thousand											
At 31 December 2015											
Cost	10,399	1,214,527	41,342	13,682,991	21,063	89,762	67,751	73,428	1,817	1,393	15,204,473
Accumulated depreciation	-	(491,228)	(17,876)	(4,886,230)	(15,861)	(46,962)	(45,287)	(48,668)	(1,400)	(1,393)	(5,554,905)
Net book value	10,399	723,299	23,466	8,796,761	5,202	42,800	22,464	24,760	417	-	9,649,568
Year ended 31 December 2016											
Opening net book value	10,399	723,299	23,466	8,796,761	5,202	42,800	22,464	24,760	417	-	9,649,568
Additions	-	2,354	-	784,716	532	20,542	5,040	4,583	4	-	817,771
Disposals / derecognitions:											
Cost	-	-	-	(39,657)	-	(3,222)	-	-	-	-	(42,879)
Accumulated depreciation	-	-	-	34,363	-	2,128	-	-	-	-	36,491
Depreciation charge	-	(42,124)	(4,134)	(751,414)	(990)	(1,094)	(6,571)	(7,636)	(75)	-	(6,388)
Closing net book value	10,399	683,529	19,332	8,824,769	4,744	47,158	20,933	21,707	346	-	9,632,917
At 31 December 2016											
Cost	10,399	1,216,881	41,342	14,428,050	21,595	107,082	72,791	78,011	1,821	1,393	15,979,365
Accumulated depreciation	-	(533,352)	(22,010)	(5,603,281)	(16,851)	(59,924)	(51,858)	(56,304)	(1,475)	(1,393)	(6,346,448)
Net book value	10,399	683,529	19,332	8,824,769	4,744	47,158	20,933	21,707	346	-	9,632,917
Year ended 31 December 2017											
Opening net book value	10,399	683,529	19,332	8,824,769	4,744	47,158	20,933	21,707	346	-	9,632,917
Additions	-	39,953	-	104,755	42	36,196	2,571	3,437	-	60	187,014
Disposals / derecognitions:											
Cost	-	-	-	(32,467)	-	(22,634)	-	(1,067)	-	-	(56,168)
Accumulated depreciation	-	-	-	18,169	-	3,173	-	1,027	-	-	22,369
Depreciation charge	-	(66,254)	(4,134)	(889,641)	(861)	(19,461)	(7,164)	(8,007)	(75)	(1)	(33,799)
Closing net book value	10,399	657,228	15,198	8,025,585	3,925	47,815	16,340	17,097	271	59	8,793,917
At 31 December 2017											
Cost	10,399	1,256,834	41,342	14,500,338	21,637	120,644	75,362	80,381	1,821	1,453	16,110,211
Accumulated depreciation	-	(599,606)	(26,144)	(6,474,753)	(17,712)	(72,829)	(59,022)	(63,284)	(1,550)	(1,394)	(7,316,294)
Net book value	10,399	657,228	15,198	8,025,585	3,925	47,815	16,340	17,097	271	59	8,793,917
Annual rate of depreciation (%)		3.33-20	10	4.89-33.3	10-20	20	10-33.3	10-33.3	10	10	

- 11.1.3 Property, plant and equipment include operating fixed assets costing Rupees 279.607 million (2016: Rupees 216.029 million) which are fully depreciated but still in the use of the Company.
- 11.1.4 These represent operating fixed assets derecognized during the year due to replacement of assets as per requirement of IAS 16 "Property, Plant and Equipment".
- 11.1.5 Improvements on leasehold property represent costs of improvements incurred on rented property which is owned by Nishat (Aziz Avenue) Hotels and Properties Limited - associated company.

	2017 (Rupees in thousand)	2016
11.2 Capital work-in-progress		
Civil works	-	39,588
Plant and machinery	216,097	195,829
Others	8,779	-
	<u>224,876</u>	<u>235,417</u>

12 INVESTMENT PROPERTY

Land	Building	Total
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-----Rupees in thousand-----

At 31 December 2016

Cost	9,388	1,653	11,041
Accumulated depreciation	-	(840)	(840)
Net book value	<u>9,388</u>	<u>813</u>	<u>10,201</u>

Year ended 31 December 2017

Opening net book value	9,388	813	10,201
Depreciation charge (Note 24)	-	(83)	(83)
Closing net book value	<u>9,388</u>	<u>730</u>	<u>10,118</u>

At 31 December 2017

Cost	9,388	1,653	11,041
Accumulated depreciation	-	(923)	(923)
Net book value	<u>9,388</u>	<u>730</u>	<u>10,118</u>

Annual rate of depreciation (%)

5

- 12.1 This represents house rented out, the market value of which is estimated at Rupees 104.400 million (2016: Rupees 77.834 million) by M/s Al-Hadi Financial & Legal Consultants, an independent valuer. Fair value of land and building is based on market value and present depreciated cost of construction respectively. No expenses directly related to investment property were incurred during the year.

2017
(Rupees in thousand)

13 LONG TERM INVESTMENT

Associated company - under equity method

Nishat Energy Limited - unquoted

250,000 (2016: 250,000) fully paid ordinary shares of Rupees 10 each

Equity held 25% (2016: 25%) at cost

2,500

2,500

Share of reserve

As at 01 January

(1,658)

(1,531)

Less: Share of loss

-

(127)

As at 31 December

(1,658)

(1,658)

Less: Impairment loss (Note 24)

(842)

-

Carrying amount under equity method

-

842

13.1 Summary of financial information of associated company as per un-audited financial statements for the year:

	2017	2016
	(Rupees in thousand)	
Non-current assets	12	3,037
Current assets	454	474
Total assets	<u>466</u>	<u>3,511</u>
Liabilities	2,574	146
Net assets	<u>(2,108)</u>	<u>3,365</u>
Loss for the year (Note 13.5)	<u>5,473</u>	<u>508</u>

13.2 Nishat Energy Limited (NEL) is a public limited company incorporated in Pakistan. The principal activity of NEL was to build, own, operate and maintain coal power station. NEL had submitted an upfront tariff petition which was pending for receipt of Purchase Acquisition Request from Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). On 14 October 2016, existing upfront tariff for power generation on imported / local coal expired and National Electric Power Regulatory Authority (NEPRA) has decided not to extend the existing upfront tariff beyond 14 October 2016. In view of the aforesaid reasons, NEL is not considered a going concern. Therefore, investment of the Company in NEL has been fully impaired in these financial statements.

13.3 NEL is an unlisted company therefore, no quoted market price is available for its shares.

13.4 There are no contingent liabilities relating to the Company's interest in NEL.

13.5 Provision for taxation is Nil in the financial statements of NEL.

	2017	2016
	(Rupees in thousand)	

14 LONG TERM LOANS TO EMPLOYEES

Considered good:

Executives (Note 14.1)	90,608	79,579
Other employees	3,092	2,293
	<u>93,700</u>	<u>81,872</u>
Current portion shown under current assets (Note 18)		
Executives	(28,502)	(27,227)
Other employees	(1,080)	(569)
	<u>(29,582)</u>	<u>(27,796)</u>
	<u>64,118</u>	<u>54,076</u>

14.1 Reconciliation of carrying amount of loans to executives:

Balance as at 01 January	79,579	79,673
Add: Disbursements	77,393	45,898
	<u>156,972</u>	<u>125,571</u>
Less: Repayments	66,364	45,992
Balance as at 31 December	<u>90,608</u>	<u>79,579</u>

14.1.1 Maximum aggregate balance due from executives at the end of any month during the year was Rupees 90.608 million (2016: Rupees 79.579 million).

14.2 Loans given to employees are in accordance with the Company's policy. These loans are interest free and are repayable in equal monthly instalments within a maximum period of five years. These loans are provided for purchase of vehicles and are secured against those vehicles.

14.3 Fair value adjustment in accordance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' arising in respect of employees' loans is not considered material and hence not recognized.

2017 **2016**
(Rupees in thousand)

15 STORES, SPARE PARTS AND OTHER CONSUMABLES

Stores, spare parts and other consumables (Note 15.1)	1,012,492	1,041,708
Less: Provision for slow moving / obsolete items	(65,053)	(65,053)
	<u>947,439</u>	<u>976,655</u>

15.1 These include stores in transit of Rupees 7.675 million (2016: Rupees 48.753 million). Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

2017 **2016**
(Rupees in thousand)

16 FUEL STOCK

Furnace oil	294,245	344,009
Diesel	5,089	5,462
	<u>299,334</u>	<u>349,471</u>

17 TRADE DEBTS

Other than related parties - considered good	<u>10,849,196</u>	<u>8,596,673</u>
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17.1 These represent receivables from Central Power Purchasing Agency (Guarantee) Limited (CPPA-G), the Company's sole customer, and are backed by sovereign guarantee of Government of Pakistan. This includes an overdue amount of Rupees 6,729 million (2016: Rupees 4,326 million) on which a penal mark-up at the rate of State Bank of Pakistan (SBP) discount rate plus 2% per annum compounded semi-annually is charged in case the amounts are not paid within due dates. The penal mark-up rate charged during the year is 6.25% (2016: 6.25% to 6.50%) per annum.

2017 **2016**
(Rupees in thousand)

17.2 As at 31 December, age analysis of trade debts is as follows:

Neither past due nor impaired	2,803,751	3,185,445
Past due but not impaired:		
- 26 to 90 days	3,686,573	2,018,891
- 91 to 180 days	1,674,885	1,066,610
- 181 to 365 days	1,912,670	1,488,004
- Above 365 days	771,317	837,723
	<u>8,045,445</u>	<u>5,411,228</u>
	<u>10,849,196</u>	<u>8,596,673</u>

2017 **2016**
(Rupees in thousand)

18 LOANS, ADVANCES AND SHORT TERM PREPAYMENTS

Current maturity of long term loans to employees (Note 14)	29,582	27,796
Advances - considered good, unsecured		
- to employees for expenses	4,019	1,243
- to suppliers	31,959	55,962
Advance income tax - net	371,338	357,806
Other advances	-	656,500
Short term prepayments	2,699	2,475
	439,597	1,101,782

19 OTHER RECEIVABLES

Recoverable from CPPA-G as pass through item:		
Workers' profit participation fund (Note 19.1)	245,243	236,413
Workers' welfare fund (Note 19.2)	-	-
Others	1,206	1,241
	246,449	237,654

19.1 Workers' profit participation fund

Balance as at 01 January	236,413	186,678
Allocation for the year (Note 24.2)	48,617	49,735
Amount received during the year	39,787	-
Balance as at 31 December	245,243	236,413

19.2 Workers' welfare fund

Considered doubtful	13,216	13,216
Provision for doubtful receivable	(13,216)	(13,216)
	-	-

19.2.1 Provision for Workers' Welfare Fund (WWF) has not been made in these financial statements based on the advice of legal counsel of the Company. However, in case the Company pays WWF, the same is recoverable from CPPA-G as a pass through item under PPA with CPPA-G.

2017 **2016**
(Rupees in thousand)

20 CASH AND BANK BALANCES

Cash in hand	121	197
Cash with banks on:		
Saving accounts (Note 20.1)	417	501,550
Current accounts	84	-
	501	501,550
	622	501,747

20.1 Saving accounts carry mark-up at the rates ranging from 3.75% to 4% (2016: from 3.75% to 4%) per annum.

	2017	2016
	(Rupees in thousand)	
21 REVENUE		
Energy	16,516,123	13,245,780
Less: Sales tax	(2,357,662)	(1,922,640)
	<u>14,158,461</u>	<u>11,323,140</u>
Capacity	4,154,615	4,042,901
	<u>18,313,076</u>	<u>15,366,041</u>
22 COST OF SALES		
Fuel cost (Note 22.1)	14,548,041	11,761,499
Operation and maintenance costs (Note 22.2)	554,429	521,534
Insurance	437,208	433,334
Depreciation (Note 11.1.2)	955,895	793,538
Liquidated damages to CPPA-G	12,803	185
	<u>16,508,376</u>	<u>13,510,090</u>
22.1 Fuel cost		
Opening stock	349,471	406,970
Purchased during the year	14,497,904	11,704,000
	<u>14,847,375</u>	<u>12,110,970</u>
Closing stock	(299,334)	(349,471)
	<u>14,548,041</u>	<u>11,761,499</u>
22.2 Operation and maintenance costs		
Salaries, wages and other benefits (Note 22.2.1)	233,522	212,454
Repair and maintenance	112,171	117,568
Fee and subscription	5,281	5,123
Stores and spare parts consumed	163,920	154,657
Electricity consumed in-house	39,535	31,732
	<u>554,429</u>	<u>521,534</u>
22.2.1	Salaries, wages and other benefits include provident fund contribution and provision for gratuity of Rupees 12.488 million (2016: Rupees 11.611 million) and Rupees 9.151 million (2016: Rupees 9.087 million) respectively.	
23 ADMINISTRATIVE EXPENSES		
Salaries and other benefits (Note 23.1)	69,165	55,865
Travelling, conveyance and entertainment	10,938	12,154
Office rent	6,280	8,380
Communication and utilities	1,234	1,209
Insurance	5,308	5,231
Repair and maintenance	5,997	4,297
Printing and stationery	2,100	1,820
Advertisement and publicity	278	363
Legal and professional charges	32,345	19,839
Depreciation (Note 11.1.2)	36,320	34,496
Community welfare	3,776	3,592
Security services	123	222
General expenses	13,203	17,761
	<u>187,067</u>	<u>165,229</u>
23.1	Salaries and other benefits include provident fund contribution and provision for gratuity of Rupees 3.790 million (2016: Rupees 3.396 million) and Rupees 2.777 million (2016: Rupees 2.657 million) respectively.	

2017 **2016**
(Rupees in thousand)

24 OTHER EXPENSES

Auditors' remuneration (Note 24.1)	2,594	2,594
Depreciation on investment property (Note 12)	83	83
Workers' profit participation fund (Note 24.2)	-	-
Loss on disposal / derecognition of operating fixed assets (Note 11.1.1)	13,869	4,913
Impairment loss on investment in associated company (Note 13)	842	-
	<u>17,388</u>	<u>7,590</u>

24.1 Auditors' remuneration

Statutory audit	1,906	1,906
Half yearly review	550	550
Other certifications and reporting	50	50
Out of pocket expenses	88	88
	<u>2,594</u>	<u>2,594</u>

24.2 Workers' profit participation fund

Allocation for workers' profit participation fund (Note 7.1)	48,617	49,735
Allocation to workers' profit participation fund recoverable from CPPA-G (Note 19.1)	(48,617)	(49,735)
	<u>-</u>	<u>-</u>

25 OTHER INCOME

Income from financial assets

Interest income	56,628	20,499
Credit balances written back	27,706	-

Income from non-financial assets

Rental income (Note 25.1)	4,836	4,510
Scrap sales	22,151	4,797
	<u>111,321</u>	<u>29,806</u>

25.1 This includes rental income amounting to Rupees 2.958 million (2016: Rupees 2.753 million) from investment property.

26 FINANCE COST

Mark-up / profit on:

Long term financing	81,813	148,229
Short term borrowings	641,640	562,277
Bank charges and commission	15,773	7,608
	<u>739,226</u>	<u>718,114</u>

27 TAXATION

Provision for taxation has not been made in these financial statements as the total income of the Company except other income is exempt from levy of income tax under Clause 132 of Part I and Clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. No provision for taxation is required against other income due to availability of tax credits. The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements being impracticable.

	2017	2016
28 EARNINGS PER SHARE - BASIC AND DILUTED		
There is no dilutive effect on the basic earnings per share which is based on:		
Profit attributable to ordinary shareholders (Rupees in thousand)	972,340	994,697
Weighted average number of shares (Number)	379,838,733	379,838,733
Earnings per share - basic (Rupees)	2.56	2.62

	2017	2016
	(Rupees in thousand)	
29 CASH GENERATED FROM OPERATIONS		
Profit before taxation	972,340	994,697
Adjustments for non-cash charges and other items:		
Depreciation on operating fixed assets	992,215	828,034
Depreciation on investment property	83	83
Provision for gratuity	11,929	11,757
Loss on disposal / derecognition of operating fixed assets	13,869	4,913
Share of loss from associated company	-	127
Impairment loss on investment in associated company	842	-
Interest income	(56,628)	(20,499)
Finance cost	739,226	718,114
Cash flows from operating activities before working capital changes	2,673,876	2,537,226

Working capital changes

(Increase) / decrease in current assets:

Stores, spare parts and other consumables	29,216	(43,243)
Fuel stock	50,137	57,499
Trade debts	(2,252,523)	(1,919,347)
Loans, advances and short term prepayments	677,503	(347,435)
Other receivables	(8,795)	(49,832)
Sales tax recoverable	322,605	(573,720)
	(1,181,857)	(2,876,078)
Increase in trade and other payables	157,900	673,309
	1,649,919	334,457

29.1 There are no non-cash investing and financing activities during the year.

29.2 Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities from financing activities		Total
	Long term financing	Unclaimed dividend	
..... (Rupees in thousand)			
Balance as at 01 January 2017	1,336,453	2,540	1,338,993
Repayment of long term financing	(553,015)	-	(553,015)
Dividend declared	-	759,678	759,678
Dividend paid	-	(759,443)	(759,443)
Balance as at 31 December 2017	783,438	2,775	786,213

30 **TRANSACTIONS WITH RELATED PARTIES**

Related parties of the Company comprise of associated companies, key management personnel and staff retirement benefit plans. The Company in the normal course of business carries out transactions with various related parties. Detail of significant transactions with related parties other than those which have been specifically disclosed elsewhere in these financial statements, except for remuneration to key management personnel as disclosed in note 31, are as follows:

Associated company	Nature of transaction	2017	2016
		(Rupees in thousand)	
Nishat Mills Limited	Dividend	218,786	218,786
	Share of expenses	496	-
Adamjee Insurance Company Limited	Dividend	54,697	54,697
	Insurance premium	12,666	12,303
	Insurance claims received	1,975	2,965
Security General Insurance Company Limited	Dividend	13,673	13,673
	Insurance premium	506,459	501,981
Nishat Hospitality (Private) Limited	Boarding and lodging services	731	392
Engen (Private) Limited	Dividend	138,024	138,024
Pakgen Power Limited	Share of expenses	329,290	356,171
	Share of rental income	1,688	1,688
	Stores and spare parts transferred to	25,963	11,987
	Stores and spare parts transferred from	8,539	6,595
	Loan given	1,000,000	656,500
	Loan repaid by Pakgen Power Limited	1,656,500	-
	Interest charged	55,846	20,378
Pakistan Aviators and Aviation (Private) Limited	Flying services	-	105
Nishat Hotels and Properties Limited	Boarding and lodging services	565	-
Nishat (Aziz Avenue) Hotels and Properties Limited	Rent expense	6,280	6,280
D.G Khan Cement Company Limited	Purchase of goods	321	1,944
Staff retirement benefit plans			
Provident fund	Contributions	16,278	15,007
Gratuity fund	Contributions	19,207	21,990

30.1 The Company shares premises, employees and other common costs with its associated company, Pakgen Power Limited on fifty-fifty basis in accordance with "Shared Facilities Agreement".

31 **REMUNERATION OF CHIEF EXECUTIVE, EXECUTIVE DIRECTOR AND EXECUTIVES**

Aggregate amounts charged in these financial statements for the year in respect of remuneration, including all benefits to the director and executives of the Company are as follows:

	2017		2016	
	Executive Director	Executives	Executive Director	Executives
(..... Rupees in thousand)				
Managerial remuneration	5,650	179,473	5,403	159,495
Medical expenses	80	5,751	75	4,388
Bonus	1,702	39,981	1,530	41,689
Retirement benefits	514	31,469	491	14,082
	7,946	256,674	7,499	219,654
Number of persons	1	147	1	139

31.1 No expense was charged in these financial statements against salary to Chief Executive of the Company during the year. The Company provides to director and certain executives with free use of the Company maintained cars.

31.2 Meeting fee of Rupees 575,000 (2016: Rupees 250,000) was paid to non-executive directors of the Company during the year.

32 PROVIDENT FUND RELATED DISCLOSURES

The following information is based on un-audited financial statements of the provident fund trust for the year ended 31 December 2017 and audited financial statements of the provident fund trust for the year ended 31 December 2016:

	2017	2016
	(Rupees in thousand)	
Size of the fund - total assets	413,219	403,586
Cost of investments	312,645	321,438
Percentage of investments made	76.74%	80.62%
Fair value of investments	317,122	325,367

32.1 The break-up of fair value of investments is as follows:

	2017	2016	2017	2016
	Percentage		(Rupees in thousand)	
Units of mutual funds	44.84%	47.71%	142,210	155,248
Term deposit receipts and certificate of investment of scheduled banks	50.15%	41.94%	159,050	136,468
Saving bank accounts	5.00%	10.34%	15,862	33,651
	<u>100%</u>	<u>100%</u>	<u>317,122</u>	<u>325,367</u>

32.2 As at the reporting date, the provident fund trust is in the process of regularizing its investments in accordance with section 218 of the Companies Act, 2017 and the rules formulated for this purpose in terms of SRO 770(1)/2016 issued by Securities and Exchange Commission of Pakistan on 17 August 2016 which allows transition period of two years for bringing the provident fund trust in conformity with the requirements of rules.

	2017	2016
33 NUMBER OF EMPLOYEES		
Number of employees as on 31 December	<u>199</u>	<u>195</u>
Average number of employees during the year	<u>198</u>	<u>192</u>

34 FINANCIAL RISK MANAGEMENT

34.1 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 Board). The Company's finance department evaluates and hedges financial risks. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk, liquidity risk and investment of excess liquidity. 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 will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Great Britain Pound (GBP) and Euro. As on reporting date, the Company's foreign exchange risk exposure is restricted to payables only. The Company's exposure to currency risk was as follows:

	2017	2016
Trade and other payables		
- USD	(109,363)	(20,231)
- GBP	(6,298)	(2,668)
- Euro	(13,973)	-
Net exposure - USD	(109,363)	(20,231)
Net exposure - GBP	(6,298)	(2,668)
Net exposure - Euro	(13,973)	-

The following significant exchange rates were applicable during the year:

Rupees per US Dollar

Average rate	105.58	104.69
Reporting date rate	110.50	104.80

Rupees per GBP

Average rate	136.92	140.67
Reporting date rate	148.72	128.73

Rupees per Euro

Average rate	119.93	115.44
Reporting date rate	131.79	110.32

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD, GBP and Euro (2016: USD and GBP) with all other variables held constant, the impact on profit after taxation for the year would have been Rupees 0.743 million (2016: Rupees 0.123 million) respectively lower / higher, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. The sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity price risk since there are no investments in equity securities traded in the market at the reporting date. 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's interest rate risk arises from bank balances in saving accounts, past due trade debts, long-term financing and short-term borrowings. Financial instruments at variable rates expose the Company to cash flow interest rate risk. Financial instruments, if any, at fixed rate expose the Company to fair value interest rate risk.

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

	2017	2016
	(Rupees in thousand)	
Fixed rate instruments		
Floating rate instruments		
Financial assets		
Bank balances- saving accounts	417	501,550
Trade debts - past due	6,729,021	4,325,633
	<u>6,729,438</u>	<u>4,827,183</u>
Financial liabilities		
Long term financing	(783,438)	(1,336,453)
Short term borrowings	(8,664,776)	(8,631,862)
	<u>(9,448,214)</u>	<u>(9,968,315)</u>
Net exposure	<u><u>(2,718,776)</u></u>	<u><u>(5,141,132)</u></u>

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the reporting date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 27.188 million (2016: Rupees 51.411 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of assets and liabilities outstanding at reporting dates were outstanding for the whole year.

(b) Credit risk

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

	2017 (Rupees in thousand)	2016 (Rupees in thousand)
Long term loans to employees	93,700	81,872
Long term security deposit	300	300
Trade debts	10,849,196	8,596,673
Loans and advances	-	656,500
Other receivables	246,449	237,654
Bank balances	501	501,550
	<u>11,190,146</u>	<u>10,074,549</u>

Age analysis of trade debts as at reporting date is given in note 17.2.

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

	Rating			2017 (Rupees in thousand)	2016 (Rupees in thousand)
	Short Term	Long term	Agency		
CPPA-G	Not available			2,803,751	3,185,445
National Bank of Pakistan	A1+	AAA	PACRA	296	460
Habib Bank Limited	A-1+	AAA	JCR-VIS	2	2
MCB Bank Limited	A1+	AAA	PACRA	4	9
United Bank Limited	A-1+	AAA	JCR-VIS	2	1
The Bank of Punjab	A1+	AA	PACRA	3	36
Allied Bank Limited	A1+	AA+	PACRA	2	1
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	110	501,041
Askari Bank Limited	A1+	AA+	PACRA	55	-
Bank Alfalah Limited	A1+	AA+	PACRA	25	-
BankIslami Pakistan Limited	A1	A+	PACRA	2	-
				<u>2,804,252</u>	<u>3,686,995</u>

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.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As 31 December 2017, the Company had Rupees 6,450 million (2016: Rupees 6,483 million) available borrowing limits from financial institutions and Rupees 0.622 million (2016: Rupees 501.747 million) cash and bank balances to meet the short-term funding requirements due to delay in payments by CPPA-G. Management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including mark-up / profit payments. The amounts disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 31 December 2017:

Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	More than 2 years
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----- Rupees in thousand -----

Non-derivative financial liabilities:

Long term financing	783,438	818,462	297,368	288,096	232,998	-
Trade and other payables	1,213,608	1,213,608	1,213,608	-	-	-
Accrued mark-up / profit	108,270	108,270	108,270	-	-	-
Short term borrowings	8,664,776	8,688,502	8,688,502	-	-	-
	<u>10,770,092</u>	<u>10,828,842</u>	<u>10,307,748</u>	<u>288,096</u>	<u>232,998</u>	<u>-</u>

Contractual maturities of financial liabilities as at 31 December 2016:

Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 Years	More than 2 Years
-----------------	------------------------	------------------	-------------	-----------	-------------------

----- Rupees in thousand -----

Non-derivative financial liabilities:

Long term financing	1,336,453	1,474,720	328,613	316,353	595,925	233,829
Trade and other payables	1,058,210	1,058,210	1,058,210	-	-	-
Accrued mark-up / profit	95,424	95,424	95,424	-	-	-
Short term borrowings	8,631,862	8,781,722	8,754,092	27,630	-	-
	<u>11,121,949</u>	<u>11,410,076</u>	<u>10,236,339</u>	<u>343,983</u>	<u>595,925</u>	<u>233,829</u>

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 31 December. The rates of mark-up / profit have been disclosed in note 5 and 9 to these financial statements.

34.2 Offsetting financial assets and financial liabilities

As on balance sheet date, recognized financial instruments are not subject to off setting as there are no enforceable master netting arrangements and similar agreements.

Loans and receivables

2017 2016
(Rupees in thousand)

34.3 Financial instruments by categories

Assets as per balance sheet

Long term loans to employees	93,700	81,872
Long term security deposit	300	300
Trade debts	10,849,196	8,596,673
Loans and advances	-	656,500
Other receivables	246,449	237,654
Cash and bank balances	622	501,747
	<u>11,190,267</u>	<u>10,074,746</u>

Financial liabilities at amortized cost

2017 2016
(Rupees in thousand)

Liabilities as per balance sheet

Long term financing	783,438	1,336,453
Trade and other payables	1,213,608	1,058,210
Accrued mark-up / profit	108,270	95,424
Short term borrowings	8,664,776	8,631,862
	<u>10,770,092</u>	<u>11,121,949</u>

35 RECOGNIZED FAIR VALUE MEASUREMENTS - FINANCIAL INSTRUMENTS

(i) Fair value hierarchy

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

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

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which 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.

36 FAIR VALUE MEASUREMENTS - NON-FINANCIAL ASSETS

(i) Fair value hierarchy

Judgements and estimates are made for non-financial assets not measured at fair value in these financial statements but for which the fair value is described in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its non-financial assets into the following three levels.

At 31 December 2017	Level 1	Level 2	Level 3	Total
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----- Rupees in thousand -----

Investment property	-	104,400	-	104,400
Total non-financial assets	-	104,400	-	104,400

At 31 December 2016	Level 1	Level 2	Level 3	Total
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----- Rupees in thousand -----

Investment property	-	77,834	-	77,834
Total non-financial assets	-	77,834	-	77,834

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

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

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

The Company obtains independent valuations for its investment properties at least annually. At the end of each reporting period, the management updates the assessment of the fair value of each property, taking into account the most recent independent valuations. The management determines a property's value within a range of reasonable fair value estimates. The best evidence of fair value is current prices in an active market for similar properties.

Valuation processes

The Company engages external, independent and qualified valuers to determine the fair value of the company's investment properties at the end of every financial year. As at 31 December 2017, the fair values of the investment properties have been determined by M/s Al-Hadi Financial & Legal Consultants.

Changes in fair values are analysed at each reporting date during the annual valuation discussion between the chief financial officer and the valuers. As part of this discussion, the team presents a report that explains the reason for the fair value movements.

2017	2016
MWH	MWH

37 CAPACITY AND ACTUAL PRODUCTION

Installed capacity based on 8,760 (2016: 8,760) hours	3,171,120	3,171,120
Actual energy delivered	1,399,502	1,601,149

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

38 UNUTILIZED CREDIT FACILITIES

	Non-funded		Funded	
	2017	2016	2017	2016
	(Rupees in thousand)		(Rupees in thousand)	
Total facilities	5,482,643	3,095,643	15,114,410	15,114,410
Utilized at the end of the year	2,440,121	1,661,751	8,664,776	8,631,862
Unutilized at the end of the year	3,042,522	1,433,892	6,449,634	6,482,548

39 SEGMENT INFORMATION

These financial statements have been prepared on the basis of single reportable segment. Revenue from sale of electricity relates to CPPA-G, the Company's sole customer in Pakistan. All non-current assets of the Company as at reporting date are located in Pakistan.

40 EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Company has proposed final cash dividend for the year ended 31 December 2017 of Rupees _____ per share (2016: Rupee 1 per share). However, this event has been considered as non-adjusting event under IAS 10 'Events after Reporting Period' and has not been recognized in these financial statements.

41 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purpose of comparison. However, no significant rearrangement and reclassification have been made in these financial statements.

42 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on _____ by the Board of Directors of the Company.

43 GENERAL

Figures have been rounded off to the nearest thousand Rupees, unless otherwise stated.



CHIEF EXECUTIVE



DIRECTOR



CHIEF FINANCIAL OFFICER