

PESHAWAR ELECTRIC SUPPLY COMPANY **Director's Report to the Members**

The Directors of your Company take pleasure in presenting the 19th Annual Report and the Audited Accounts of the Company for the year ended 30th June, 2017.

a- The Board of Directors has complied with relevant principles of corporate governance, and has identified the rules if any that have not been complied along with the reason for such noncompliance are mentioned separately in the Statement of Compliance.

b- As far as information required by the Companies Ordinance 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2017 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year.

c- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;

d- The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety objectivity, integrity and honesty, and relationship with the stakeholders in the manner prescribed in the Rules.

Principal Activities

The principal activities of the Company are to own, operate and maintain the power distribution network located within licensee jurisdiction area to provide reliable and uninterrupted electric power to approximately 3.184 Million consumers of Khyber Pakhtunkhwa.

Operating Results

During the year ended on 30th June, 2017 your Company sold 8,432 Million units (2016: 7,782 million units) showing an increase of 8.35 %. The comparison of category wise units sold during the year under review with that of last year is appended below:

Consumer Category	FY 2016-17	FY 2015-16
Domestic	4,882	4,482
Commercial	739	703
Industrial	2,132	1,956
Bulk & Other	583	547
Agriculture	83	82
Public lighting	13	12
Total	8,432	7,782

As compared to the sales, the purchase of power during the year under review remained at 12,511 million units (2016: 11,802 Million units). T&D losses during 2016-17 were 32.6% as compared to the last year (2015-16: 34.1%) The main reason of high T&D losses is worst law and order situation in Bannu, Khyber & Peshawar Circles. Furthermore, high percentage of technical losses, due to outdated distribution and grid system, also undermined PESCO's performance.

Consumption Behavior

It has been observed that during the year under review as compared to the previous year, there has been no major shift in the share of consumption by each category of consumers in the overall sales. The table appended below shows the category wise pattern of consumption during the year ended on 30th June, 2017 as compared to the previous year:

Category	FY 2016-17		FY 2015-16	
	Consumption	Share (%)	Consumption	Share (%)
Domestic	2,805,422	88.09%	2,703,406	88.08%
Commercial	321,802	10.11%	309,919	10.10%
Industrial	32,023	1.01%	31,204	1.02%
Bulk & Other	852	0.03%	851	0.03%
Agriculture	23,289	0.73%	23,371	0.76%
Public lighting	1,088	0.03%	1,105	0.04%
Total	3,184,576	100%	3,069,896	100%

The table below shows the category wise pattern of consumption during the year ended on 30th June, 2017 as compared to previous year.

(Consumers in "thousand's and Billing in "Million Rs.)

Category	FY 2016-17		FY 2015-16	
	Cons	Billing	Cons	Billing
Domestic	2,805	47,057	2,703	44,407
Commercial	322	14,035	310	12,988
Industrial	32	29,560	31	26,196
Bulk & Other	1	7,841	1	6,785
Agriculture	23	946	23	1,163
Public lighting	1	235	1	133
Total	3,185	98,674	3,069	91,672

Financial Results

Abstract of financial results for the year ended on 30th June, 2017 compared with the previous year is appended as below:

(Rs in Million)

Description	Year Ended June 30	
	2017	2016
Profit / (Loss) before Depreciation, financial charges & tax provision	(18,030)	(10,202)
Depreciation	(2,293)	(2,009)
Financial Charges	(2,461)	(3,163)
Other Income	4,240	3,729
Taxation	(827)	-
Profit / (loss) for the year	(19,371)	(11,644)
Acc: (loss) b/f	(157,730)	(154,733)
Measurement of staff liability	-	(2,997)
Prior Year Adjustment		
Acc: (loss) c/f	(177,102)	(157,730)

During the year, as a result of increase in capacity charges, the Power Purchase Price showed increasing trend. The cost of power purchase for the year ended 30th June, 2017 averaged Rs. 8.64 per Kwh (2016; Rs. 7.60 per KWh).

While we note that cost of power purchase constitutes over 74% of the total cost of PESCO, NEPRA has made determination of Tariff of PESCO for FY 2015-16 on 29th February, 2016. The Tariff Determined by NEPRA was not enough as per PESCO's Revenue Requirement and accordingly PESCO filed review motion against NEPRA decision on 10th March, 2016, the hearing of the same was held on 7th April, 2016. NEPRA while Reviewing its earlier decision had allowed Rs. 326 million on account of actual payment made to Ex- WAPDA Pensioners during FY 2014-15, Rs. 232 million on account of Replacement Hiring, Rs. 1637 million on account of prior period adjustment (LPC) and Rs.7 million on account of Trade Debts written off during FY 2014-15 in its Review Motion Decision dated 13th May, 2016.

However, it was still not enough as per company's requirement and PESCO filed a petition in the Islamabad high Court against the NEPRA Tariff Determination for FY 2015-16 and its Review Motion Decision, Reconsideration Request of Ministry of Water & Power and Biannual Adjustment on 29th August, 2016 and the court has issued stay order on 2nd September, 2016 on the same.

The subsidy claims of PESCO amounting to Rs. 33 Billion for the period July 2012 to April 2014 on account of late notification of Tariff has partially been released/adjusted by Ministry of Finance via non-cash adjustment of Rs. 16.316 billion. PESCO has not filed Tariff Petition during FY 2016-17 because of the reason that the NEPRA Determination for FY 2015-16 has been challenged in Islamabad high Court and the matter is subjudice.

Subsequently the detailed judgment on the said Petition was issued on 12th July 2017 and the Honorable court held that:

- a) The Authority did not provide adequate opportunity to the Federal Govt. as well as to the petitioners, which they should have, as they are the Stakeholders in fixation/ redetermination of the tariff.

Under the Act, NEPRA has the power to review its orders, decisions, determinations therefore, to follow procedure, whereby permission is to be obtained to follow a review, negates the referred power / right of the affected person and is contrary to the afore noted decision of the honorable Supreme Court of Pakistan reported as 'NEPRA Vs. Faisalabad Electric Supply Company Limited'.

- b) The policies framed and regulated by the Council of common interests have a binding effect under the scheme of the Constitution and should be kept in regard by the concerned functionaries.

Pursuant to the Islamabad High Court Judgment dated 12.07.2017 with respect to Petition No. 2771/2016, NEPRA conducted hearing on Federal Government Reconsideration Request on the grounds of setting Recovery target, Losses target and Prior Year Adjustment. Moreover, PESCO was also given an opportunity to present its case w.r.t other issues like Distribution Margin etc.

Accordingly after hearing, the Authority issued its Redetermination on the reconsideration request of Ministry of Water & Power on 18th September, 2017, however the same has yet to be notified by the Federal Govt.

Comparative position of various components of total revenue is given in table below for information:

Revenue Component	FY 2016-17		FY 2015-16	
	Mln Rs	Rs/Kwh	Mln Rs	Rs/ Kwh
Sale of energy	73,472	9.31	73,292	9.42
Tariff Diff Subsidies	31,664	3.76	27,932	3.59
Total Revenue	110,136	13.06	101,225	13.01
Rental & Service Income	44	0.01	43	0.01
Amortized deferred Credits	1,291	0.15	1,084	0.14
Other Income	4,240	0.50	3,729	0.48
Non-Tariff Rev	5,575	0.66	4,856	0.62
Total Revenue	115,711	13.72	106,081	13.63

The tariff differential subsidy worth Rs. 31,664 million (2016; Rs. 27,932 million) mentioned above is the difference between the tariff determined by NEPRA and the tariff notified by GOP.

Having the account of revenues, the Comparison of cost components, given as below would be equally helpful in better understanding of the Financial facts of PESCO:

Cost Component	FY 2016-17		FY 2015-16	
	Mln Rs	Rs/Kwh	Mln Rs	Rs/Kwh
Power purchase	108,053	12.81	86,580	11.12
Salaries & wages	13,621	1.62	17,634	2.27
General & Admn Exp	908	0.11	828	0.11
R&M	736	0.09	736	0.09
Elec: Bill Collection	77	0.01	126	0.02
Insurance of GS	18	0.00	50	0.01
Bad Debts Provision	6,090	0.72	6,600	0.85
Depreciation	2,292	0.27	2,009	0.26
Financial Charges	2,461	0.29	3,163	0.41
Prov for Taxation	827	0.10		
Total Cost	135,081	16.02	117,725	15.13

Thus the resultant profit / (loss) for respective year has emerged as under:

Profit Component	FY 2016-17	FY 2015-16
	Min Rs	Min Rs
Total Revenue	115,711	106,081
Total Cost	(135,081)	(117,725)
Net Profit/(Loss)	(19,371)	(11,644)

The summarized six years of Profit and Loss and Balance Sheet is as under:

Description	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Sales Revenue	53,293	60,151	69,628	82,889	73,292	78,472
Subsidy from GoP on sale electricity	25,225	36,326	37,636	29,411	27,932	31,664
Total Revenue	78,518	96,977	107,264	112,300	101,224	110,136
Cost of Electricity	(106,473)	(107,936)	(118,565)	(105,576)	(86,580)	(108,053)
Gross Profit/(Loss)	(27,955)	(10,959)	(11,301)	6,724	14,644	2,083
Rental and Service Income	90	58	42	46	43	44
Amortization of Deffered Credit	687	737	879	958	1,084	1,291
	777	795	921	1,004	1,127	1,335
Operating Cost	(27,178)	(10,164)	(10,380)	7,728	15,771	3,418
Other Operation Cost Excluding Depreciation	(24,591)	(17,631)	(16,767)	(20,143)	(25,974)	(21,449)
Depreciation of Property Plant & Equipment	(1,457)	(1,556)	(1,773)	(1,901)	(2,009)	(2,293)
	(26,048)	(19,187)	(18,540)	(22,044)	(27,983)	(23,742)
Operating Profit/(Loss)	(53,226)	(29,351)	(28,920)	(14,316)	(12,212)	(20,324)
Other Income	6,698	3,225	3,386	3,682	3,729	4,240
Financial Income/expense net	(3)	(6,382)	(8,869)	(4,472)	(3,163)	(2,461)
Net Profit Before Taxation	(46,531)	(32,508)	(34,403)	(15,106)	(11,646)	(18,545)
Taxation						(827)
Net Loss After Taxation	(46,531)	(32,508)	(34,403)	(15,106)	(11,646)	(19,372)

Balance Sheet	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Share Capital & Liabilities						
Share Capital	0.01	0.01	0.01	0.01	0.01	0.01
Accumulated Loss	(132,036.52)	(165,172.42)	(208,340.50)	(143,068.00)	(157,730.00)	(177,102.00)
Grant In Aid (Subsidy)	-	-	43,721.90	-	-	-
Deposit for Shares	18,082.00	18,082.00	18,082.00	18,082.00	18,082.00	18,082.00
Total Equity	(113,954.51)	(147,090.41)	(147,036.99)	(125,005.99)	(139,647.99)	(159,019.99)
Deferred Credit	14,777.89	15,463.89	18,640.13	19,721.99	21,566.86	26,190.00
Liability Against Government Loans	-	-	82,145.00	82,145.00	82,145.00	82,145.00
Long Term Loans	2,455.07	42,096.25	57,008.77	21,983.75	13,207.03	9,999.56
Employees Retirement Benefits/Deferred Liability	16,521.19	19,240.60	28,098.01	30,556.92	40,536.87	41,997.02
Long term Liabilities	33,754	76,801	185,892	154,408	157,456	160,332
Current Liabilities						
Creditors, Accrued on long term financing	214,281.99	235,558.19	114,902.26	165,301.19	185,381.98	222,185.10
Current Portion of long term financing	333.12	929.34	14,530.74	20,599.68	30,476.42	34,375.19
Total Current Liabilities	214,615.10	216,487.53	129,433.00	185,900.86	215,858.39	256,560.29
Total Liabilities	134,414.75	146,197.86	168,287.92	215,302.53	233,666.16	257,875.57
Operating Fixed Assets						
Long term loans to employees	35,131.06	33,901.82	44,201.49	47,554.12	53,167.08	59,240.52
Long term loans to employees	161.33	126.26	77.65	89.51	47.85	29.30
Total Fixed Assets	35,292.39	40,028.08	44,279.14	47,643.63	53,214.93	59,269.82
Current Assets						
Stores and Spares	3,036.98	3,252.83	3,704.63	3,554.06	5,239.36	3,519.06
Trade Debts	24,766.06	29,592.52	37,316.02	42,110.09	47,029.89	52,711.00
Loans and Advances considered good	361.44	471.36	286.04	184.21	576.93	934.84
Interest Accrued	35.42	5.68	-	-	-	-
Other Receivables	45,688.96	56,128.28	95,597.60	71,048.10	75,509.10	80,109.19
Receivable from Government	23,367.37	16,099.72	14,801.41	50,470.95	49,842.18	57,641.97
Cash and Bank Balances	1,865.57	629.42	2,303.57	291.63	1,254.53	3,689.69
Total Current Assets	99,121.79	106,169.80	124,009.27	167,658.96	180,451.99	198,605.76
Total Assets	134,414.18	146,197.88	168,288.41	215,302.60	233,666.91	257,875.57

Development Program

During the year under review, despite the hard financial and liquidity position, your Company has successfully managed to continue investing in expansion and renovation of system through System Augmentation Program (SAP). During the year an amount of Rs. 8,366 million (2015: Rs. 7,622 million) was invested in the system. Also the management of your company has made significant progress on Grid system construction projects.

The net fixed asset base of PESCO has increased from Rs.28,249 million as on June 30th, 2012 to Rs. 42,871 million as on June 30th, 2017 i.e approximately 52% increase in five years span.

Long Term Loans

At the time of creation of PESCO, all assets transferred to PESCO were financed by WAPDA through self-financing and long term loans. Proportionate long term loans of WAPDA were also transferred to PESCO. After even creation, PESCO continued receiving loan through WAPDA. As of 30th June, 2007 all loans appearing on PESCO's Balance Sheet consisted of Relent Foreign Loans and Cash Development Loans from Government of Pakistan. Toward the end of FY 2007-08, the Government of Pakistan decided to pay off the tariff subsidies outstanding against GOP through adjustment against the said GoP loans. As such at the end of FY 2016-17 the following loans were outstanding.

	Rs.in Million
a. ADB ERRA Loan	839
b. ADB Loan Trench-I	1,933
c. ADB Loan Trench-II	1,261
d. ADB Loan Trench-III	1,127
e. ADB Loan Trench-IV	1,340
f. GoP ERRA Loan	126
g. TFC Loan through PHPL (HBL)-I	22,462
h. TFC Loan through PHPL (NBP)-II	2,364
i. TFC Loan - PHPL (OGDCL)-III	12,923

Taxation

As per clause 86(XI) of Part 1 of the second Schedule of the Income Tax Ordinance 2001 (Ordinance), the corporate entities of WAPDA were exempted from levy of income tax from the date of incorporation till the corporatization process was completed. Consequently the charge for current taxation is based on the taxable income / Net Income at the current rate of taxation after taking into account applicable tax credits, rebates and exemptions available, if any.

Since the company has net loss during the Financial Year 2016-17 and as per FBR interpretation, tax under section 113 of the "Ordinance" will be applicable at the rate of 1%.

Company has filed a sales tax refund claim of Rs. 2,590 million, in another case, Appellate Tribunal IR (ATIR) has decided an appeal in favour of the company, resultantly the sales tax refund claim was adjudged. However, the decision of ATIR has been challenged by the FBR before the Peshawar High Court, Peshawar and the proceeding in the case is still under-process.

Future Outlook

Your Company is now all set to take the challenges of future through vesting of more autonomy to corporate entities created out of restructuring of WAPDA. Despite the current scenarios of the insufficient consumer end tariff and increasing cost, the management of your Company is confident to keep the company financial afloat. The management of your company believes that the years ahead would be profitable subject to determination of required Tariff by NEPRA and its timely implementation by GoP. In order to ensure its going concern status however the company needs its consumer end tariff to commensurate to the input cost or the matching subsidy from GOP. The revision in consumer end tariff, along with monthly tariff adjustment mechanism, would expectedly take the company towards better financial prospects. This however requires that regulatory delays in tariff adjustment do not happen.

The continued guidance and help from NEPRA and GOP would be needed like always to sail through the transitory phase of financial losses and regain the financial health. With on track implementation of STG program, PESCO will be able to remove local system bottlenecks causing load shedding situation due to over loading of Grids & Transmission lines. With this PESCO will be able to extend more connections to the consumers and besides increasing sales would help in economic uplift of the jurisdiction area.

Earnings Per Share

The earning per shares (EPS) of the Company for the year ended on 30th June, 2017 has been Rs.(19.371) Million.

Pattern of Share Holding

Out of 1000 ordinary shares of Rs.10/- each, 993 shares are held in the name of President Islamic Republic of Pakistan whereas 7 shares (@ 1 share each) are in the name of directors.

Changes in the Board of Directors

The Prime Minister has reconstituted the Board Of Directors vide Ministry of Water & Power Government of Pakistan Islamabad Notification No. 6(6)/2010/PESCO/Bod dated 17-02-2017. Mr. Anwar-ul-Haq Yousafzai was the Chief Executive Officer of the Company till 20-02-2017, Mr. Shabbir Ahmed was posted as CEO PESCO vide Ministry of Water and Power notification no. 01(01)/2016-DISCO-II dated 20-02-2017. The reconstituted Board is as under:

1. Mr.Ahmed Dildar	Independent
2. Mr.Zulfiqar Ahmad	Independent
3. Sardar Muhammad Tariq	Independent
4.Mr. Tahir Bin Yamin	Independent
5. Mr.Nasir Khan Musazai	Independent
6. Mr.Arsallah Khan	Independent
7. Chief Executive Officer	Executive
8. Mr.Omer Rasul, Addl Sec Power M/o W&P Islamabad	Non-Executive
9. Secretary Energy Dept .KPK	Non-Executive

Later on Mr.Omer Rasul Addl: Secretary Power was replaced by Dr.Aamer Ahmad Addl:Sec Power vide Ministry of Water and power Islamabad letter No.6(6)/2010-DISCO-II dated 19th April 2017.

Total 08 No. meetings have been held during 2016-17.

Meetings attended by the Previous Board and present board during FY 2016-17 is as under:

Name of Directors	Meeting Attended	Total
Malik Muhammad Asad Khan	109,110,111,112,113	5
Col @ Jehanzeb Khan	109,111,112,113,	4
Col. @ Alamzeb	111,112,113	3
Dr. Amjadullah	109,110,111,112,113	5
Syed Mussawer Shah	109,110,111,112,113	5
Iftikhar Ahmad Khan	109,110,111,112,113	5
Qamar Zaman	109,110,111,112,113	5
Anwar-ul-haq Yousafzai CEO	109,110,111,112,113	5
Hassan Nasir Jami	-	

Present Board

Name of Directors	Meeting Attended	Total
Mr.Arsallah Khan	114,115,116	3
Ahmad Dildar	114,115,116	3
Zulfiqar Ahmad	114,115,116	3
Sardar Mohd Tariq	114,115,116	3
Tahir Bin Yamin	114,115,116	3
Nasir khan Musazai	114,115,116	3

Omer Rasul	114,115	2
Dr.Aamer Ahmad	116	1
Shabir Ahmed Jilani	114,115,116	3

There are 04 No Sub committees of Board of Directors i.e HR, Audit & Finance , Procurement and Risk Management committee. Detail of meetings held is given as under.

HR Committee	07
Audit & Finance Committee	08
Procurement committee	05
Risk Management committee	

As for as fee/remuneration to the Board of Directors is concerned, an amount of Rs. 35,000/- (including taxes) for BoD meetings and committee meetings is paid. Hotel claim with receipt of Rs.15,000/- per night and hotel claim without receipt of Rs.10,000/- per night for maximum of 02 nights is allowed and it includes meal charges but exclude taxes. Air travel by economy class and in case of use of own road transport, Rs.15/- per KM Both ways is also allowed / paid.

Auditors

The Company was unable to recover receivables from Government of Azad Jammu and Kashmir (GoAJK) amounting to PKR. 16,521 million for current and prior years in spite of various efforts. In auditor's opinion, the Company should have recorded impairment against receivable balance of PKR. 13,749 million from GoAJK up to 30 June 2016 and should have reversed the receivable balance of PKR. 2,772 million recognized during the year against sale of electricity to GoAJK. If the above mentioned impairment had been recorded, sale of electricity would have been reduced by PKR. 2,772 million and net loss for the current year would have increased by PKR 2,772 million, whereas accumulated loss would have increased by PKR. 16,521 million with a corresponding deduction in receivable balance by PKR 16,521 million as at balance sheet date. As discussed in note 16.2, the management maintains that PESCO currently charges PKR. 12.20 per unit as determined by Government of Pakistan (GoP). However GoAJK currently settles its dues at PKR 2.59 per unit which is in accordance with the tariff that has been determined by the sub-committee constituted at the time of presentation given to Chief Executive of Pakistan in September 2002. However, PESCO management is of the view that the amount is most likely recoverable and as the case is under consideration at Federal Govt. level, therefore sale of electricity could not be reduced by said amount.

The Company has not recognized supplemental charges of PKR. 30,570 million from the year 2010 to 2016 and PKR. 2,340 million in current year in its book of accounts. These are charged by Central Power Purchasing Agency (CPPA). In our opinion, the accumulated loss and payable to CPPA would have increased by PKR. 32,910 million at the balance sheet date, had these supplemental charges been accounted for in these financial statements. However, management is of the view that these charges are not related to PESCO and are delayed payment charges for Power Producers, which is the liability of CPPA. Accordingly, these expenses are not accounted for in these financial statements by the management.

In Auditor's opinion, except for the effects of matters discussed in preceding paragraph, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

In their opinion:

- (i) Except for the effects of the matters. Reported in preceding paragraphs, the Balance Sheet and Profit and Loss Account together with the Notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of 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;

Except for the effects on the financial statements of the matters stated in preceding paragraphs, in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity together with the Notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2017 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and

In their opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980. (XVIII of 1980).

Without further modifying their opinion, the auditors has drawn attention to the following:

- As fully explained in Note 1.2 of financial statements shows the company has suffered a net loss of PKR.19,372 million for the year ended June 30, 2017 and at that date, the accumulated losses were PKR. 177,102 million. Similarly, the current liabilities exceed the current assets by PKR. 57,954 million as at the balance sheet date. However, the financial statements have been prepared on going concern basis as the company has managed to continue its operations due to continuous support from GoP and WAPDA. The support is likely to be continued in future and therefore these financial statements have not been adjusted under the "Going Concern Assumption".
- b) The note 18.1.1 of the financial statements shows PKR. 33,314 million (2016: PKR. 31,416 million) as receivable from TESCO. However as explained in note 18.1.1 the management believes that since TESCO is a Government entity there is no likelihood of default by TESCO in paying its dues and is confident of recovering the debts; and
 - c) As explained in note 5.4, effective June 30, 2008, closing has been notified by WAPDA, however company has not yet issued shares equivalent to share deposit money of PKR. 18.082 billion.

Acknowledgement

The Directors wish to praise all the Executive Officers, Finance, Administrative and Technical staff members for the contribution and dedication for the smooth running of the Company Operations.

**For and on behalf of
The Board of Directors**


**(Arsallah Khan)
CHAIRMAN BOD PESCO**