

PESHAWAR ELECTRIC SUPPLY COMPANY

Directors' Report to the Members

The Board of Directors of Peshawar Electric Supply Company (PESCO) takes pleasure in presenting the 24th Directors' Report and Audited Financial Statements together with Auditors' Report of the Company for the year ended June 30, 2022.

1. PRINCIPAL ACTIVITIES

The principal activities of the Company are to own, operate and maintain the power distribution network located within licensee's jurisdiction area to provide reliable and uninterrupted electric power to approximately 4.038 Million consumers of Khyber Pakhtunkhwa.

2. OPERATIONAL REVIEW

During the year ended on 30th June, 2022, the Company sold 10,355 Million units (2021: 9,608 million units) showing an increase of 8%. The comparison of category wise units sold during the year under review with that of last year is appended below:

Consumer Category	FY 2021-22	FY 2020-21
Domestic	5,689	5,373
Commercial	874	802
Industrial	2,528	2,274
Bulk & Other	1,175	1,067
Agriculture	77	79
Public lighting	12	13
Total	10,355	9,608

As compared to sales, the purchase of power during the year under review was 16,562 million units (2021: 15,542 Million units). T&D losses during 2021-22 were 37.5% as compared to the last year 2020-21: 38.2%.

Consumption Behavior

It has been observed that during the year under review, variation in the consumption behavior is noted in all categories of consumers. The table appended below shows the category wise pattern of consumers during the year ended on 30th June, 2022 as compared to the previous year:

Category	FY 2021-22		FY 2020-21	
Domestic	3,546,157	87.81%	3,374,867	87.50%
Commercial	393,995	9.76%	377,986	9.92%
Industrial	28,205	0.70%	27,591	0.74%
Bulk & Other	45,631	1.13%	44,298	1.18%
Agriculture	23,121	0.57%	23,049	0.63%
Public lighting	1,203	0.03%	1,163	0.03%
Total	4,038,313	100%	3,848,954	100%

Total consumption increased by 33% as compared to the previous year mainly because of increase in tariff and sale growth. The table below shows the category wise pattern of consumption during the year ended on 30th June, 2022 as compared to the previous year.

(Consumers in “thousand’s and Billing in “Million Rs.)

Category	FY 2021-22		FY 2020-21	
	Consumers	Billing	Consumers	Billing
Domestic	3,546	97,402	3,375	74,681
Commercial	394	30,683	378	23,815
Industrial	28	69,379	28	49,849
Bulk & Other	46	34,244	44	25,927
Agriculture	23	1,470	23	1011
Public lighting	1	415	1	368
Total	4,038	233,592	3,849	175,651

3. FINANCIAL REVIEW

a) Financial Performance/ Profit & Loss FY 2021-22

The company has suffered a net loss of Rs. 102,128 million for the year under consideration as against the loss of Rs. 22,746 million in the previous year. The main reason for excess loss in 2021-22 was the unprecedented increase in Power Purchase Cost due to increase in prices of Furnace Oil together with exchange rate parity, Revised Tariff notified by GoP in February, 2021 and revised PESCO T&D Losses Target to 21.33% from 31.95%. The per unit purchase price for the year 2021-22 was Rs. 17.4 per KWh against Rs. 12.0 per KWh in FY 2020-21.

The tariff differential subsidy worth Rs. 51,390 million (2021: Rs. 61,816 million) is the difference between the tariff determined by NEPRA and the tariff notified by Govt. of Pakistan. Overall, the subsidies of PESCO has been decreased by 17% with respect to the last year, which is due to the revision of rates as determined by NEPRA for FY 2019-20 and notified by GoP.

Number of Consumers has been increased by 5% (2021: 4,038, 2021:3,849) and units sold during the year were 10,355 Kwh at an average rate of Rs. 16.59 per Kwh (2021: 13.91 per Kwh). During the year under consideration, Transmission and Distribution Losses have decreased by 0.7%.

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

Revenue Component	FY 2021-22		FY 2020-21	
	Mln Rs	Mln Rs	Mln Rs	Rs/Kwh
Sale of energy	171,782	16.59	133,645	13.91
Tariff Diff Subsidies	51,390	4.96	61,816	6.43
Total Revenue	223,172	21.55	195,461	20.34
Rental & Service Income	49	0.005	59	0.006
Amortized deferred Credits	2,071	0.20	1,852	0.19
Other Income	7,735	0.75	7,744	0.81
Non-Tariff Rev	9,855	0.95	9,655	1.00
Total Revenue	233,027	22.50	205,116	21.35

The account of revenues and comparison of cost components given below would be helpful in better understanding of the financial facts of the company:

Cost Component	FY 2021-22		FY 2020-21	
	Mln Rs	Rs/Kwh	Mln Rs	Rs/Kwh
Power purchase	292,803	28.28	188,258	19.59
Salaries & wages	23,617	2.28	22,162	2.31
General & Admin Exp	1,517	0.15	1,402	0.15
R&M	1,039	0.10	1,177	0.12
Elec: Bill Collection	215	0.02	235	0.02
Insurance of GS	18	0.00	30	0.00
Bad Debts Provision	8,060	0.78	8,428	0.88
Depreciation	3,709	0.36	3,296	0.34
Financial Charges	1,914	0.18	708	0.07
Provision for Taxation	2,263	0.22	2,166	0.23
Total Cost	335,155	32.37	227,862	23.72

Since the company has a net loss during the Financial Year 2021-22, therefore, tax under Section 113 of the "Ordinance" was applicable on the company's Turnover at the rate of 1.25%.

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

Profit Component	FY 2020-21	FY 2020-21
	Mln Rs	Mln Rs
Total Revenue	233,027	205,116
Total Cost	(335,155)	(227,862)
Net Profit/(Loss)	(102,128)	(22,746)

The summarized six years Profit and Loss position is as under:

Description	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Sales Revenue	78,472	87,312	107,567	127,504	133,645	171,782
Subsidy from GoP on sale of electricity	31,664	34,745	58,484	73,409	61,816	51,390
Total Revenue	110,136	122,057	166,051	200,914	195,461	223,172
Cost of electricity	(108,053)	(142,942)	(169,014)	(199,594)	(188,258)	(292,803)
Gross profit/ (Loss)	2,083	(20,885)	(2,963)	1,320	7,203	(69,630)
Rental and service income	44	44	46	46	59	49
Amortization of deferred credit	1,291	1,490	1,603	1,708	1,852	2,071
Profit before operating cost	3,418	(19,351)	(1,314)	3,074	9,114	(67,511)
Other operating cost excluding depreciation	(21,449)	(21,360)	(26,448)	(25,651)	(33,434)	(34,466)
Depreciation on property, plant and equipment	(2,293)	(2,644)	(2,871)	(3,026)	(3,296)	(3,709)
	(23,741)	(24,005)	(29,319)	(28,677)	(36,730)	(38,175)
Operating Profit/(Loss)	(20,324)	(43,356)	(30,633)	(25,603)	(27,616)	(105,686)
Other income	4,240	4,952	5,757	13,674	7,744	7,735
Financial expense	(2,461)	(335)	(2,870)	(842)	(708)	(1,914)
Net Loss before taxation	(18,544)	(38,738)	(27,746)	(12,772)	(20,580)	(99,866)
Taxation	(828)	(1,183)	(1,517)	(1,851)	(2,166)	(2,263)
Net loss after taxation	(19,372)	(39,921)	(29,263)	(14,622)	(22,746)	(102,128)

a) Financial Performance/ Balance Sheet FY 2021-22

Equity Injection

Ministry of Energy (Power Division) has issued various directions during FY 2021-22 to book GoP Equity amounting to Rs. 72,676 Million in PESCO books of accounts.

Staff Retirement Benefit

Based on the actuarial valuation results for FY 2021-22, Staff Retirement benefit provision have been increased by 22.26%.

Trade and Other Payables

The significant change in Trade Payables is due to the increase in Payables to CPPA amounting Rs. 24 billion.

Growing Receivables

The continuous accumulation of PESCO's receivables from Govt of Pakistan has remained a major concern for the Company and has had a significant impact on the Company's working capital position. As on 30 June 2022, PESCO's net receivables from Govt of Pakistan in respect of Subsidy stand at around Rs. 42.901 Billion and Receivables from consumers are 171 Billion. On the issue of receivables and payables in relation to government entities, the Company remains in continuous engagements with relevant stakeholders to seeks a fair and amicable resolution, with all settlements whether Federal or Provincial, tabled together under one umbrella.

UPDATE ON TARIFF RELATED MATTERS

While we note that cost of power purchase constitutes over 87.36% of the total cost of PESCO, the Tariff Petition for FY 2018-19 and FY 2019-20 was filed on 30th August, 2019 in light of NEPRA letter No.NEPRA/SAT-I/TRF-330/PESCO-2015/9863 dated 3rd June, 2019, wherein, it was intimated that the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the NEPRA Act) has been amended vide the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2018 (the Amendment Act) and PESCO was required to file separate Tariff Petitions for power supply (sale of electric power) and distribution (all other non-sale elements) with the Authority. NEPRA has issued determination in respect of PESCO request in December, 2020 and the same has been notified by GoP on 12th February, 2021. Moreover, NEPRA issued directions in its determination to PESCO to file Multi Year Tariff Petition for a period of 5 years (FY 2020-21 to FY 2024-25). Accordingly, PESCO filed Multi Year Tariff Petition for FY 2020-21 to FY 2024-25 dated 03-06-2021 and hearing of the same was held on 10-08-2021. NEPRA has issued determination in respect of PESCO request in June, 2022, however the GoP has not notified the same during FY 2021-22. As per Audited Accounts of FY 2021-22 Distribution Margin was not recovered due to the non-notification of Tariff for FY 2021-22 by GoP and the same was recovered on the basis of FY 2019-20 tariff.

RISK MANAGEMENT

The Company is facing challenge of increasing payables because of energy purchased due to unprecedented increase in Power Purchase Cost, Technical & Distribution Losses and low recovery. At operational level, the Company's main concern is to minimize Line Losses, improve recovery against billing and to attain accuracy in the meter reading. The Company is also facing challenges in the areas of credit and liquidity risks in respect of financial risks. The Board is determined to effectively combat these challenges through' intensive planning, timely decision-making and strategic load management.

SAFETY MANAGEMENT SYSTEM

Safety Management System has been introduced and the Safety KPIs have been assigned to the employees. The Company has revisited safety procedures and practices for earthing and grounding to make them less prone to theft. In addition, the Company is also undertaking revalidation of earthing and grounding of its network by examining each and every pole with tagging of the same in the system and combing of the feeders is also being carried out to reduce loss. The Company has prepared a robust safety plan, which includes up-gradation of protection system, replacement of bare conductors with ABC, rehabilitation of stolen or damaged grounding on HT and LT network and other related projects along with extensive public awareness campaigns. Safety walks and safety talks are held with pictorial view. Safety Committees are constituted at Circle, Division and Sub Division Level. The committees point out /plug the loop holes in the current safety management system and monitor the safety of line staff and public in the Top Priority. Safety Trainings (formal, informal)/Safety Seminars/ parade are conducted regularly and surprise visits are also conducted by the senior management. Safety Department has been withdrawn from Chief Operation Officer and is reporting to the CEO of the company.

INVESTMENT AND DEVELOPMENT PROGRAM

Aligned with vision to provide uninterrupted power supply along with improved system reliability and service levels, the Company is making continuous investments in capacity addition, technological advancements for improved network performance and safety and protection of its network.

During the year under review, despite the hard financial and liquidity position, the 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. 19,965 million (2021: Rs. 13,997 million) was invested in the system. The net fixed asset base of PESCO has increased from Rs. 59,241 million as on June 30th, 2017 to Rs. 101,917 million as on June 30th, 2022 i.e approximately 72% increase in five years' span.

ERP & BILLING SYSTEM

PESCO was provided computers and Oracle software, for ERP and billing, in the shape of grant by USAID in 2014. Due to sustained efforts of the Board of Directors, the Management has finally operationalized the billing system (IBS provided by PITC)

on the same system and has operationalized the ERP comprising Financial Management, Human Resources and Material Management including Procurement.

ELIMINATION OF OVERBILLING AND RECOVERY OF LEGITIMATE ARREARS

Due to growing concern with regard to accumulation of huge amount of arrears PESCO on the directions of Ministry of Energy (Power Division) duly endorsed by the BoD has planned to start a pilot project for outsourcing of revenue collection.

Further with the help of Provincial Govt Task Force at District and Tehsil level has been established to improve the recovery of legitimate outstanding electricity dues and eliminating the menace of theft of electricity.

It is expected that fruitful results will be achieved in coordination with Provincial Govt.

PERFORMANCE MANAGEMENT SYSTEM:

In order to introduce performance based culture, PESCO has embarked on a journey where a paradigm shift is being brought about the working of the company. To ensure focus and direction "Performance Management System" has been introduced, where the senior management have been given annual targets (KPIs) and their performance is measured against the achievements of targets at the year end. Performance Evaluation Reports have been revised and made quantifiable to bring about a system of transparency, accountability and merit. Performance has been linked to the individual's promotion and the promotion policy has been revised. The new developed system has been broadcasted and communicated throughout the company and the master trainers have been developed who are providing training for better comprehension. The board has also the vision to introduce proper reward and reprimand system in the company to encourage those who perform well and non-performer would be brought to book.

FUTURE OUTLOOK

PESCO is adjusting its long term business plan and strategy to adopt new technology based solution for the long standing issues related to its financial health, customer services and supply of reliable power to its customers. The company is in the process of up-gradation, rehabilitation, extension and renovation of Transmission and Distribution Network i.e Grid Stations, Transmission Lines and Feeders during the year to improve the voltage profile of its system. For FY 2022-23, PESCO has a plan to invest Rs. 11,097 million from its own resources as well as PSDP budget allocated by the GOP to improve its transmission and distribution system to ensure uninterrupted power supply to the consumers. Despite of all the challenges PESCO is being facing i.e T&D loss above NEPRA target, less than 100% Recovery, Severe shortage of staff, geographical issues etc. the Board has a strong belief & confidence to turnaround PESCO into a good performing DISCO. Strategic plan has been drawn which includes;

- Bifurcation and Combing of 11kv feeders
- Area Planning of Overloaded i-e high loss and high voltage drop feeders
- Conversion of LT lines on 130 feeders from Lt bare conductor to ABC for elimination of theft through direct hooks. Furthermore, Asset Performance management system (APMS) will be installed on 100 & 200 KVA transformers in 60 feeders selected for ABC installation.
- Outsourcing revenue collection & bill distribution function through pilot project.
- Conversion of all consumers having load 5KW & above to AMR meters.
- Use of Insulated conductor for transformer jumpering and in narrow streets to ensure safety.
- Up-gradation of PESCO's GIS Infrastructure through deployment of Arc-GIS Enterprise.
- Extension of HT Lines, LT Lines, Distribution Transformers, HT and LT Feeders.
- Creation of Task force and involvement of local administration to reduce losses and improve recovery.
- Installation of Shunt Capacitors.
- Creation of Model Sub-Divisions/Circles to reduce loss and improve recovery
- Revamping of Internal Audit Department to ensure Operating Effectiveness of Internal Controls in accordance with Institute of Internal Audit (IIA) standards.
- Operationalization of Payroll and Pension Payment System
- Optimum use of new Billing and ERP systems to bring efficiency and transparency in PESCO's operations.
- Replacement of Non-Static Energy Meters with Static Energy Meters.
- Bifurcations of circles/divisions/subdivision for better services to consumers.

EARNINGS PER SHARE

The Earnings per Share (EPS) of the company for the year ended on 30th June 2022 has been Rs. (102.13) Million.

PATTERN OF SHARE HOLDING

Out of 1,000 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 07 directors nominated by the Ministry of Energy (Power Division).

BOARD OF DIRECTORS

The Ministry of Energy (Power Division) reconstituted the Board vide Notification No.7(1)2018-DISCOs dated 28-12-2020 and No.2(1)2018-DISCOs dated 07-05-2021.

Presently the Company's Board consists of eleven (11) Directors; of which one is an Executive Director with the following detail;

S.No	Name of Directors	Status
01	Amir Zafar	Independent
02	Muhammad Hafeez-ur-Rehman	Independent
03	Syed Karamat Ali Rizvi	Independent
04	Muhammad Mohsin Khan	Independent
05	Dilroze Khan	Independent
06	Sadiq Hussain	Independent
07	Arbab Khudadad Khan	Independent
08	Alam Zeb Khan, Rep: MoE (Power Division)	Non-Executive
09	Syed Shahid Raza Zaidi, Rep: MoF	Non-Executive
10	Tashfeen Haider, Rep: Energy Deptt. KPK	Non-Executive
11	Engr. Gul Nabi Syed	Executive

Note: Mr. Sultan Mazhar Sher resigned from PESCO Board dated 01-08-2021

In line with Public Sector Companies (Corporate Governance) Rules, 2013, the positions of Chairman and Chief Executive Officer are kept separate. The Chairman of the Board is an independent Director. The Board has constituted different Sub-Committees which give their best input and expert opinion on different strategic issues, for final approval by the Board. Detail of the meetings attended by the Board of Directors during FY 2021-22 is as follows;

Meeting detail of the Board during FY 201-22 (Reconstituted and Notified on 28.12.2020):-

Name of Directors	Meeting Attended	Total
Amir Zafar	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,177,178	19
Muhammad Hafeez-ur-Rehman	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,177,178	19
Syed Karamat Ali Rizvi	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,177,178	19
Sultan Mazhar Sher	160,162,	02
Muhammad Mohsin Khan	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,177,178	19
Dilroze Khan	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,177,178	19
Sadiq Hussain	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,178	18
Arbab Khudadad Khan	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175,176,177,178	19
Alam Zeb Khan	161,162,163,164,165,166,167,168,169,170,171,172,173,174	14
Hasan Raza Saeed	175,176,177,178	04
Syed Shahid Raza Zaidi	161,162,163,165,166,167,168,169,170,171,173,174,175,176,177,178	16
Zafar-ul-Islam	160,161,162,163,164,165,166,167,168,169,170,171,172,173,174,175	16
Sami Ulah	177,178	02
Tashfeen Haider		00
Muhammad Jabbar Khan	160,161,162,163,164,166,169,171,172,173,174,175,176,177,178	15

There are seven committees of the present Board of Directors PESCO. Detail of meetings held during the year is given as under.

Audit & Legal Committee	06
Technical Up-Gradation, Automation & Special Projects Committee	07
Finance, Procurement & Risk Management Committee	05
HR & Nomination Committee	09
Policy, Strategy & Market Reforms Committee	04
Marketing & Customer Services Committee	00
Health Safety Environment & Quality Assurance Committee	03

Remuneration

Board of Directors have a formal policy and transparent procedure for remuneration of Directors in accordance with Companies Act, 2017 and Code of Corporate Governance (CCG). Details of aggregate amount of remuneration are available in Note 30 of the Financial Statements. An amount of Rs. 60,000/- (Rs. 48,000 net of Taxes) is paid for attending BoD meetings and Committee meetings to each member. Moreover, reimbursement is made regarding expenditure on account of travelling, boarding and lodging.

CORPORATE GOVERNANCE & COMPLIANCE WITH COMPANIES ACT

The Board of Directors hereby declares that for the year ended June 30, 2022:

The financial statements give true and fair view of the state of the company's affairs as at June 30, 2022 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year as stated in the Auditors' Report.

The Board of Directors has complied with relevant principles of Corporate Governance, and has identified the rules, if any, have not been complied along with the reason for such noncompliance in the Statement of Compliance.

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

Proper Books of Accounts of the company have been maintained.

System of internal controls is regularly monitored by the Audit & Legal Committee and reported to the Board of Directors, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty in the manner prescribed in the rules.

The principal activities and the development and performance of the Company's business during the financial year are covered in preceding pages of this Directors' Report.

No change occurred during the financial year concerning the nature of the business of the Company or of its subsidiaries, or any other company in which the Company has interest.

There has been no material departure from the best practices of Corporate Governance as detailed in Code of Corporate Governance.

International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of Financial Statements.

The main trends and factors likely to affect the future development, performance and position of the company's business are described under "Future Outlook".

The details of contingencies and commitments are available under Note 14 and 20.2 of the Financial Statements.

Key Operational and Financial data of the last six years in summarized form is a part of this Directors' Report.

The company is not operating Employee's Retirement Fund Bank Account due to losses.

All statutory payments on account of taxes, duties, levies and charges in the normal course of business, payable as on June 30, 2022, have been cleared subsequent to the year end.

As at June 30, 2022 the principal and markup due has aggregated to Rs. 10,011 million and Rs. 3,179 million against GOP, ADB and PSDP loans mentioned in Note 07 and 13 due to non-finalization of Repayment Schedule.

The Auditors Report to the Shareholders for the financial year ended 30.06.2022 is qualified on account of non-recording of supplemental charges and reproduced as under:

"The Company has not recorded supplemental charges since 2010 being charged Central Power Purchasing Agency (CPPA) which are delayed payment charges of Independent Power Producers (IPPs). In our view, had these charges been recorded, trade and other payables and negative equity would have been higher by Rs. 99.556 billion (2021: Rs. 76.369) and loss for the year would have been higher by Rs. 23.187 billion (2021: Rs. 17.006 billion)".

These supplemental charges are delayed payment charges for Power Producers and PESCO has taken up the said matter with NEPRA who have not allowed the same to PESCO, rather asked PESCO to adjust the same against the late payment charges received from consumers. Considering the quantum of supplemental charges, these cannot be adjusted against late payment charges received from consumers being on lower side, therefore, this matter has been taken up with NEPRA. However, NEPRA has not allowed the same to PESCO and has directed CPPA to file separate petition regarding supplemental charges of the whole system.

Further, as explained in note 1.2 of the financial statements, the auditors have reported material uncertainties relating to going concern. The Company has prepared the financial statements on going concern basis as the Company has managed to

continue its operations due to continuous support from GoP. The management is of the view that support is likely to be continued in future, therefore, these financial statements have not been adjusted under the "Going Concern Assumption".

Financial statements shows PKR. 44,916 million (2020: PKR. 42,817 million) as receivable from TESCO. 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 Company has not yet issued shares equivalent to share deposit money of PKR. 18.082 billion.

ACKNOWLEDGEMENT

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



Engr. Gul Nabi Syed
Chief Executive Officer
PESCO

For and on behalf of
The Board of Directors



(Amir Zafar)
Chairman, BoD, PESCO.