# LSG HYDRO POWER LIMITED
# FINANCIAL STATEMENTS
# FOR THE YEAR ENDED
# DECEMBER 31, 2022

Grant Thornton

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# INDEPENDENT AUDITOR'S REPORT

**To the members of LSG Hydro Power Limited**
**Report on the Audit of the Financial Statements**

## Opinion

We have audited the annexed financial statements of **LSG Hydro Power Limited**, which comprise the statement of financial position as at December 31, 2022, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2022 and of the loss and comprehensive loss, the changes in equity and its cash flows for the year then ended.

## Basis for Opinion

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

## Emphasis of matter

We draw attention to note 1 to the financial statements which describes the status of implementation of 496 MW Lower Spat Gah hydro power project. Our opinion is not modified in respect of this matter.

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

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

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

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

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) no zakat was deductible at source under the Zakat and Usher Ordinance, (XVIII of 1980).

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

Grant Thornton Anjum Rah

**Grant Thornton Anjum Rahman**
Chartered Accountants
Islamabad
April 3, 2023
UDIN: AR20221016441ulpb07Y

**LSG HYDRO POWER LIMITED**
**STATEMENT OF FINANCIAL POSITION**
**AS AT DECEMBER 31, 2022**

| | Note | 2022 Rupees | 2021 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Bank balance - current account | | **204,655,864** | 105,984 |
| **EQUITY AND LIABILITIES** | | | |
| **Share capital and reserves** | | | |
| Share capital | 4 | **100,000** | 100,000 |
| Accumulated losses | | **(3,201,756)** | (1,362,797) |
| Advance against equity | 5 | **204,555,100** | - |
| | | **201,453,344** | (1,262,797) |
| **Current liabilities** | | | |
| Trade and other payables | 6 | **3,202,520** | 1,368,781 |
| **Total equity and liabilities** | | 204,655,864 | 105,984 |
| **Contingencies and commitments** | 7 | | |

*The annexed notes from 1 to 14 form an integral part of these financial statements.*



**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

**LSG HYDRO POWER LIMITED**
**STATEMENT OF PROFIT OR LOSS ACCOUNT**
**FOR THE YEAR ENDED DECEMBER 31, 2022**

| | Note | Year ended December 31, 2022 Rupees | For the period from March 26, 2021 to December 31, 2021 Rupees |
|---|---|---|---|
| Revenue | | - | - |
| Cost of revenue | | - | - |
| **Gross loss/profit** | | - | - |
| Administrative and general expenses | 8 | (1,838,959) | (1,362,797) |
| **Operating loss before taxation** | | (1,838,959) | (1,362,797) |
| Taxation | | - | - |
| **Loss after taxation** | | (1,838,959) | (1,362,797) |

*The annexed notes from 1 to 14 form an integral part of these financial statements.*



**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

**LSG HYDRO POWER LIMITED**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2022**

| | Year ended December 31, 2022 | For the period from March 26, 2021 to December 31, 2021 |
|---|---|---|
| | **Rupees** | Rupees |
| **Loss after taxation** | **(1,838,959)** | (1,362,797) |
| **Other comprehensive income** | - | - |
| **Total comprehensive loss** | **(1,838,959)** | (1,362,797) |

*The annexed notes from 1 to 14 form an integral part of these financial statements.*



**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

**LSG HYDRO POWER LIMITED**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2022**

| | Share capital | Advance against equity | Accumulated loss (Revenue reserves) | Total |
|---|---|---|---|---|
| | Rupees | | | |
| **Balance as at March 26, 2021** | - | - | - | - |
| Activity during the period | 100,000 | - | - | 100,000 |
| **Total comprehensive income** | | | | |
| Loss after taxation | - | - | (1,362,797) | (1,362,797) |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive loss** | - | - | (1,362,797) | (1,362,797) |
| **Balance at December 31, 2021** | 100,000 | - | (1,362,797) | (1,262,797) |
| Activity during the year | - | 204,555,100 | - | 204,555,100 |
| **Total comprehensive income** | | | | |
| **Loss after taxation** | - | - | (1,838,959) | (1,838,959) |
| **Other comprehensive income** | - | - | - | - |
| **Total comprehensive loss** | - | - | (1,838,959) | (1,838,959) |
| **Balance at December 31, 2022** | 100,000 | 204,555,100 | (3,201,756) | 201,453,344 |

*The annexed notes from 1 to 14 form an integral part of these financial statements.*

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

**LSG HYDRO POWER LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2022**

## 1 THE COMPANY AND ITS OPERATIONS

LSG Hydro Power Limited ("Company") was incorporated in Pakistan as a public unlisted company limited by shares, under the Companies Act, 2017, on March 26, 2021. The registered address of the Company is situated at Office 29, 3rd Floor, Executive Complex, G-8 Markaz Islamabad. The Company is a subsidiary of Korea Hydro and Nuclear Power Company Limited ("the Parent Company"), incorporated in the Republic of Korea and headquartered at Honggok-ro, Nam-gu, Busan, Korea.

The Company is formed to develop, construct, and operate 496 MW Lower Spat Gah hydro power project ("the Project") in public private partnership with the Government of KPK, through its executing arm Pakhtunkhwa Energy Development Organization ("PEDO"). In this regard government of KPK has issued a Letter of Intent (LOI) in favor of the Parent Company on June 29, 2021 whose conditions are required to be complied within 18 months of its issuance. In pursuance of the terms of LOI the Parent Company has successfully updated the Project's feasibility study that has been duly approved by PEDO on November 23, 2022. An Environmental and Social Impact Assessment (ESIA) report as also required by LOI has been submitted to the environmental protection agency (EPA) which is currently under its review. Similarly, the inclusion of the Project in the 'Indicative Generation Capacity Expansion Plan' (IGCEP) is being pursuit so that National Electric Power Regulatory Authority (NEPRA) could be applied for the issuance of generation license and the feasibility stage tariff being the important milestones of LOI. In connection with the development of the Project and pursuant to the LOI, the Parent Company has arranged a Performance Guarantee of USD 496,000 (2021: USD 496,000) expiring on June 24, 2024, in favor of PEDO, under the KPK Hydro Policy 2016. The management is fully committed and rigorously pursuing the compliance of the terms of LOI being the basic condition of letter of support to be issued by Pakistan Power and Infrastructure Board ("PPIB").

The parent company is fully committed in extending all the technical and financial support necessary for complying the terms of LOI and securing the letter of support (LOS) for setting up the Project. Based upon the parent's commitment and the Project development work that has been carried out to date the Company is confident to achieve the milestones indicated in LOI and secure LOS for Project development.

The Parent Company is directly incurring the development expenses of the Project and as of current reporting date expenses aggregating to USD 2,000,000 have been incurred in this respect, while, the determination of the extent and the mode of charging these expenses to the Company is contingent on signing of cost sharing agreement among the potential equity partners. Whereas, the cost sharing agreement is still in negotiations stage. Due to the above, the extend and the nature of future economic outflow from the Company against these expenses not being certain have not been recorded in these financial statements.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017 and provisions of and directives issued under the Companies Act, 2017. Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.

### 2.2 Basis of measurement

These financial statements have been prepared under "historical cost basis".

### 2.3 Significant accounting estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods.

## 2.4 New and revised standards and interpretation

### 2.4.1 New accounting standards, interpretations and amendments

There are new and amended standards and interpretations that are mandatory for accounting periods beginning 1 January 2022, are considered not to be relevant or do not have significant effect on the Company's financial statements.

| | | |
|---|---|---|
| IAS 16 | Property, Plant and Equipment: Proceeds before intended use – Amendments | January 1, 2022 |
| IFRS 03 | Business Combinations - Amendments | January 1, 2022 |
| IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract - Amendments | January 1, 2022 |

### 2.4.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective from the dates mentioned below:

| | | Effective date (annual periods beginning on or after) |
|---|---|---|
| IAS 12 | Deferred Tax related | January 1, 2023 |
| IAS 1 | Classification of Liabilities as Current or Non-current – Amendments | January 1, 2023 |
| IFRS 17 | Insurance Contracts | January 1, 2023 |
| IAS 2 & | Disclosure of Accounting Policies – Amendments | January 1, 2023 |
| IAS 8 | Definition of accounting estimates - Amendments | January 1, 2023 |
| IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture – Amendments | n/a* |

* The Effective date is not yet issued

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in these financial statements:

### 3.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is the Company's functional currency. All financial information presented in PKR has been rounded off to the nearest of PKR, unless otherwise stated.

### 3.2 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange ruling on the date of transaction. All monetary assets and liabilities in foreign currency are translated into Pakistani Rupees at the rate of exchange ruling at the statement of financial position date. Exchange differences are recognized in profit or loss.

### 3.3 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value are included as a component of cash and cash equivalents for the purpose of the statement of cash flow statement.

### 3.4 Trade and other payables

Trade and other payables are recognized initially at their fair value and subsequently measured at amortized cost using effective interest rate. They are presented as current liabilities unless payment is not due within 12 months after the reporting period.

### 3.5 Trade and other receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortized cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

### 3.6 Financial Instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All the financial assets are derecognized at the time when the Company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the statement of profit or loss.

### 3.6.1 Initial recognition

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of financial asset. Transaction costs of financial assets carried at FVTPL are expensed out in profit or loss. All financial liabilities of the Company are initially recognized at fair value and, in case of loans and borrowings and payables, net of directly attributable transaction costs.

### 3.6.2 Classification of financial assets

The Company classifies its financial instruments in the following categories:

- fair value through profit or loss (FVTPL);
- fair value through other comprehensive income (FVTOCI); and
- at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

### 3.6.3 Classification of financial liabilities

The Company classifies its financial liabilities in the following categories:

- at fair value through profit or loss ("FVTPL"); and
- at amortized cost.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

### 3.6.4 Subsequent measurement

- **Financial assets and liabilities at amortized cost**

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost, and in the case of financial assets, less any impairment.

- **Financial assets and liabilities at FVTPL**

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statement of profit or loss in the period in which they arise.

- **Financial assets at FVTOCI**

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains or losses arising from changes in fair value recognized in other comprehensive income / (loss).

**3.6.5 Impairment of financial assets**

The Company recognizes loss allowance for Expected Credit Losses (ECL) on all financial assets which are measured at amortized cost. The Company uses General 3-stage approach for deposits and other receivables, interest receivable on deposit account and cash and bank balances to measure ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instruments has not increased significantly since initial recognition.

12 months' ECL are portion of ECL that result from default events that are possible within 12 months after the reporting date.

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between cash flows due to the entity in accordance with the contract and cash flows that the Company expects to receive).

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

**General approach for loans, deposits and cash and bank balances**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information (adjusted for factors that are specific to the counterparty, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate). As for the exposure at default for financial assets, this is represented by the assets' gross carrying amount at the reporting date. Loss allowances are forward-looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognized when there is reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognized without a change in the expected cash flows, although typically expected cash flows do also change; and expected credit losses are rebased from 12 month to lifetime expectations.

**Simplified approach for trade debts**

The Company recognizes life time ECL on trade receivables and contract assets using the simplified approach. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

As the Company applies simplified approach in calculating ECLs for trade debts and contract assets the Company does not track changes in credit risk, but instead recognized a loss allowance based on life time ECLs at each reporting date. ECLs on these financial assets are estimated using a provision matrix approach adjusted for forward looking factors specific to the debtors and economic environment.

The Company recognizes an impairment gain or loss in the statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

**3.6.6 Derecognition**

**Financial assets**

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying value and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to statement of changes in equity.

**Financial liabilities**

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of profit or loss.

**3.6.7 Off-setting**

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or realize the asset and settle the liability simultaneously.

**3.7 Taxation**

Tax expense represent tax currently payable and deferred tax measurement for the current period. Tax is recognized in the statement of profit or loss account except that a change attributable to an item of income or expense recognized as other comprehensive income is also recognized directly in other comprehensive income.

**Current**

The profits and gains of the Company derived from electric power generation are exempt from tax in terms of clause 132 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the conditions and limitations provided therein. The exempted income is also excluded from the purview of Alternate Corporate Tax, applicable otherwise at 17% of accounting profit, under section 113C of the Ordinance. Under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001, the Company is also exempt from levy of minimum tax on 'turnover' under section 113 of the Ordinance.

**Deferred**

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

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

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to other comprehensive income or equity in which case it is included in other comprehensive income or equity.

Deferred tax has not been provided in these financial statements as the company's management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the profits and gains of the Company derived from electric power generation are exempt from tax subject to the conditions and limitations provided for in terms of clause 132 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

**9.2 Credit quality of financial assets**

The credit quality of the Company's financial assets comprising the bank balance only have been assessed below by reference to external credit ratings of counterparties determined by PACRA.

| | Rating | 2022 Rupees | 2021 Rupees |
|---|---|---|---|
| **Counterparties with external credit rating** | | | |
| Habib Metropolitan Bank Ltd | A1+ | **204,655,864** | 105,984 |

**9.3 FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and the currency risk. The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from bank balances. The carrying amount of financial assets represents the maximum credit exposure.

**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 USD bank balance. However there is USD 10 balance in USD account of the Company therefore the Company has negligible exposure to currency risk.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding to an adequate amount. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements. Company's parent (Korea Hydro and Nuclear Power Limited) is committed to provide all necessary financial support to enable the Company to fulfil its liquidity requirements.

## 10 REMUNERATION OF CHIEF EXECUTIVE, EXECUTIVES AND DIRECTORS

The chief executive and directors of the Company are not entitled for any remuneration or benefits.

## 11 NUMBER OF EMPLOYEES

Total and average numbers of the employees of the Company were Nil (2021:Nil) at reporting date.

## 12 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of the holding company, associated companies due to common directorships and directors. Transactions with related parties are disclosed below, while balances are reflected in relevant notes:

**Korea Hydro and Nuclear Power Company Limited (the Parent Company)**

Provided corporate services to the Company free of any charge.

Expenses of Rs. 320,661 (2021: Rs. 147,440) paid on behalf of the Company.

**DL E&C Co. Ltd. (Associated Company/Prospective equity partner)**

Provided consultancy charges of Rs. 1,063,285 to the Company free of any charge.

## 13 GENERAL

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

## 14 DATE OF APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Company in their meeting held on 15 MAR 2023

LSG HYDRO POWER LIMITED
LSG

CHIEF EXECUTIVE OFFICER

DIRECTOR