POWERING KARACHI, EMPOWERING THE NATION

HALF YEARLY REPORT
DECEMBER 2014

COMPANY INFORMATION

Board of Directors (BOD)

Chairman
Tabish Gauhar

Chief Executive Officer
Muhammad Tayyab Tareen

Independent Director
Khalid Rafi

Non-Executive Directors
Aziz Moolji
Frederic Sicre
Khaqan Murtaza
Mubasher H. Sheikh
Muhammad Zargham Eshaq Khan
Nayyer Hussain
Noor Ahmed
Omar Khan Lodhi
Shan A. Ashary

Executive Director
Syed Arshad Masood Zahidi

Board Audit Committee (BAC)

Khalid Rafi	Chairman
Aziz Moolji	Member
Mubasher H. Sheikh	Member
Nayyer Hussain	Member
Tabish Gauhar	Member

Board Human Resource & Remuneration Committee (BHR&RC)

Tabish Gauhar	Chairman
Shan A. Ashary	Member
Muhammad Tayyab Tareen	Member

Board Finance Committee (BFC)

Shan A. Ashary	Chairman
Muhammad Tayyab Tareen	Member
Nayyer Hussain	Member
Omar Khan Lodhi	Member

Chief Financial Officer
Syed Moonis Abdullah Alvi

Company Secretary
Muhammad Rizwan Dalia

Chief Internal Auditor
Khalilullah Shaikh

Legal Adviser
Abid S. Zuberi & Co.

External Auditors
KPMG Taseer Hadi & Company,
Chartered Accountants

Share Registrar
Central Depository Company of Pakistan Limited

Bankers
Albaraka Bank (Pakistan) Limited
Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Bank Islami Pakistan Limited
Barclays Bank Limited
Burj Bank Limited
Citibank N.A.
Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited
First Women Bank Limited
Habib Bank Limited
Industrial & Commercial Bank of China Limited
KASB Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Samba Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited
United Bank Limited

Registered Office
KE House, 39-B, Sunset Boulevard, Phase-II (Ext)
Defence Housing Authority, Karachi, Pakistan

Website
www.ke.com.pk

UAN
111-537-211

Brief Interim Review

I am pleased to present the Condensed Interim Financial Information (un-audited) of K-Electric Limited (KE) for the half year ended 31 December 2014 on behalf of the Board of Directors. Key operational and financial results are summarized below:

		JUL-DEC 2014	JUL-DEC 2013
		(UNITS - GWh)	
OPERATIONAL			
Units generated (net of auxiliary)		4,518	4,192
Units purchased		3,705	3,690
Total units available for distribution		8,223	7,882
Units billed		6,269	5,831
Transmission & Distribution Losses %		23.8%	26.0%
		(PKR IN MILLIONS)	
FINANCIAL			
Revenue		100,804	95,601
Profit before taxation		8,008	4,234
Taxation – net		5,267	484
Net Profit for the period		**13,275**	**4,718**
Earnings per share-BASIC/DILUTED	**(Rupees)**	0.48	0.17
Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)		18,159	14,625

FINANCIAL REVIEW:

Financial results for the reporting period continue to show positive trend as the Company posted a profit before tax of PKR 8,008 million and net profit for the period PKR 13,275 million including deferred tax assets recognized during the period. The increase in net profit was mainly attributed to revenue growth by 5.4%, constant reduction in Transmission and Distribution losses by 2.2% and improvement in plant efficiencies. It is very encouraging that despite the presence of challenges including gas allocation, economic environment and regulatory matters, the Company managed the operations smoothly and brought further improvements, resulting in earnings per share increase to PKR 0.48 from corresponding period of PKR 0.17.

Receivable from Government entities continued to climb, including dues from Karachi Water and Sewerage Board and City District Government Karachi amounting to PKR 34,535 million and PKR 8,079 million respectively. Failure on the part of Federal Government in resolving the circular debt issue timely is hampering the ability of the Company to enhance the pace of investment in Company's infrastructure.

FINANCING – DEBT RESTRUCTURING

KE SUKUK LAUNCH – Pre Payment of Long Term Debt

On 13 February 2015, the Company made prepayment of respective long term loans to senior lenders, including International Finance Corporation (IFC) and Asian Development Bank (ADB), amounting to approximately PKR 18 billion. The pre-payment was out of proceeds of SUKUK Pre-IPO of PKR 15 billion invested by leading commercial banks of Pakistan in KE's PKR 22 billion SUKUK Issue. The balance portion of the SUKUK issue amounting to PKR 7 billion including a green shoe option of PKR 2 billion will be offered to General Public with the approval of SECP and Stock Exchanges which are in advance stages and likely to be accorded shortly.

The proposed Listed, Rated and Secured 7 (seven) year SUKUK of up to PKR twenty-two (22) billion, including green shoe option of up to PKR two (2) billion has been given instrument rating of AA+ by JCR-VIS Credit Rating Company Limited. In December 2014, the JCR-VIS upgraded the entity ratings of K-Electric Limited (KE) from 'A+/A-2' (Single A Plus / A-Two) to 'AA/A-1' (Double A / A-one) evidencing Company's continuous improvement across various operational and financial matrix.

This strategic initiative will result in conversion of majority of long term debt from conventional mode to Islamic financing. Further, this will have far reaching benefits for KE including significant reduction in financing cost due to improved debt pricing with a positive impact on Company's profitability and much needed room in cash flow resulting from extended debt maturity profile and will help execute long term business strategy and future investment plans of the Company essentially based on generation capacity addition & efficiency improvement and transmission & distribution network augmentation, system reliability and execution of loss reduction projects. It will also help promote Islamic capital market in Pakistan.

ACTIVITIES UNDER REVIEW

GENERATION EXPANSION and REHABILITATION

During the review period, BQPS-II utilization improved, it generated 2114 GWh as compared to 2025 GWh in the corresponding period. Curtailed gas supply from SSGC to highly efficient power stations adversely affected the performance of other generating stations (KCCP, SGTPS-II and KGTPS-II) notwithstanding the fact that total gas supplied during review period was 187 MMCFD as compared to 177 MMCFD in corresponding period last year. However, the gas supply to KE's highly efficient gas fired plants was short by 41 MMCFD of the required consumption of these plants.

Alongside, SGTPS and KGTPS plants acquired international QMS certification of ISO 9001:2008 for achieving and maintaining high Quality standards.

Moreover, a number of Performance and Reliability improvement initiatives have been executed during the review period including amendment in Contractual Service Agreement (CSA) with GE for the 560MW BQPS-II plant to install Advance Gas Path (AGP) in Gas Turbine which would increase efficiency and output of the Gas Turbines and simultaneously expand GTs maintenance intervals.

Closing of Open Cycle GTs-Korangi Combined Cycle Power Plant (KCCPP)

EPC contract for the project was signed with Istroenergo Group (IEG) of Slovakia on 7 November 2012 to close open cycle GT-1 and GT-2 at KCCPP by installing Heat Recovery Steam Generator (HRSG) and a second Steam Turbine. Notice to Proceed (NTP) was issued on 28 January 2013, 100% plant construction has been completed during the review period and commissioning is in progress. Steam Turbine synchronization is scheduled by 3rd week of February 2015.

GE Jenbacher Plant – KGTPS and SGTPS – Closing open cycle

The project to convert open cycle Gas Engine plants at KGTPS and SGTPS into combined cycle by installation of 32 HRSGs and one Steam Turbine at each station was awarded to M/s Descon Engineering Ltd along with additional 5 bays for the new Grid. At KGTPS, 80% design work has been completed and progress of civil works along with the mechanical erection jobs is as per plan, whereas at SGTPS project civil work activities have started.

The commercial operation dates (COD) are June and August 2015 for KGTPS and SGTPS respectively.

BQPS-I Rehabilitation

Due to deterioration in the quality and quantity of raw water supply from KWSB, enough availability of demineralized water is a continuous challenge at BQPS-1 especially in view of the full complex operation in upcoming summer. In order to address the issue, a Brackish Water Reverse Osmosis (BWRO) Plant project was conceived which will be completed on a fast track basis ensuring efficient utilization of KWSB raw water and the project is likely to be completed by April 2015.

TRANSMISSION NETWORK

In order to enhance and improve the capacity, stability and reliability of EHT network and to meet the long term load evacuation requirement, progress achieved during review period is as follows:

Transmission Project:

The technical evaluation of bids is in Progress, Environmental Impact Assessment (EIA) has been executed and NOCs (no objection certificates) have been obtained for the construction of the proposed sites of 132kV grid stations.

Agha Khan Grid Project:

Grid installation work is complete, testing and commissioning is in progress and expected to be completed by 3rd Week of February 2015. 132kV XLPE cable circuit 500mm^2 have been laid for the AKHMCF Part-B project. Grid energization is scheduled by March 2015.

DISTRIBUTION

Transmission & Distribution Loss

During the review six month period ended 31 December 2014, the Company continued its journey towards reducing T&D losses and achieved a sizeable reduction of 2.2% over corresponding period last year. This was made possible despite external challenges in the city.

The Company continued its strict focus to achieve a sustained T&D loss reduction in high loss areas through the installation of Aerial Bundled Cabling (ABC). During the review period ABC was successfully rolled-out on an additional fifty eight (58) Pole Mounted Transformers (PMTs) cumulating to a total of two hundred and twenty six (226) resulting in significant loss reduction on those PMTs.

Furthermore, an initiative targeting technical loss reduction was undertaken on certain feeders through network optimization. The reduction in technical loss arrears on these feeders ranges from 30% to 50% coupled with declining consumer complaints related to faults and tripping owing to improved High Tension: Low Tension ratio of the distribution system. To date the pilot project has been implemented on seven (7) feeders yielding encouraging results and the project is being rolled out across the distribution network.

Recovery Ratio

The recovery ratio, excluding Public Sector Consumers (PSC), during the period under review stood at 92.6% while recoveries from PSC stood at 71.5%. The recovery has been sustained through a number of measures for the low income groups like Rebate/Amnesty Scheme, easy installments of arrears and recovery camps which have yielded significant success to reduce the recovery gap. The low recovery ratio from PSC was mainly due to non-payment by Karachi Water and Sewerage Board (KWSB) despite consistent efforts of the management. However, there is a positive development as Government of Sindh is trying to provide financial assistance to KWSB for payment of its current dues and for this purpose an allocation of PKR 5.0 billion has been kept in the budget of the current financial year. However, no payment has been received to date from KWSB or Government of Sindh. This will help in easing the liquidity crunch and give a significant boost to the overall recovery ratio of the Company.

Customer Facilitation

KE became the first-ever distribution company in Pakistan to earn ISO 9001-2008 Certification for its Integrated Business Center (IBC). KE continues its customer-centric approach towards quality services to its consumers and to date has earned the certification for five IBCs namely SITE, Korangi, Gulshan, Clifton and Defence. The remaining IBCs are working towards the same goal to align business processes with business objectives in order to further improve customer services.

The Company is working with local financial institutions for the implementation of utility bills payment solution. This is an efficient and cost-effective initiative which will help reduce consumer complaints and improve cash update mechanism and enable KE for quick fund transfers thus saving precious time and reduce financial costs.

The Company is taking forward its resolve to provide seamless quality service to its valued customers through an exclusive online customer portal. The bandwidth of services offered at this portal will be broadened to include more options of online payment, prior information of customized outages and load shed schedule, and priority handling of complaints relating to billing and technical issues.

Network Health

System improvement and upkeep of distribution network are on-going processes. The Company is consistently adding capacity to the distribution system alongside preventive maintenance program being conducted on Low Tension and High Tension networks. During the period the Company effectively executed preventive maintenance on selected feeders resulting in significant reduction in feeder tripping.

STRATEGY AND BUSINESS DEVELOPMENT

In line with Company's vision to provide affordable, reliable and smooth power supply to the citizens of Karachi, parts of interior Sindh & Baluchistan, KE has embarked upon several long term, sustainable and economical alternative options of generation. KE is in the process of converting its 1,260 MW (210 MW x 6) Bin Qasim Power Plant to Coal in phases under an IPP structure, starting with 420 MW in the first phase of the project. K-Electric has been granted approval on license modification by NEPRA. The application for generation license of project company, K-Energy is in process with NEPRA.

KE has also initiated development of a Greenfield 2x350 MW coal fired power plant in the strategic location of Port Qasim. Land has been identified and EPC contractors and financial investors/sponsors are being finalized. Project studies including the feasibility and ancillary studies are underway and expected to be completed in the first quarter of 2015.

In pursuit of adding more megawatts to its generation base to bridge the demand-supply gap in the city, KE is looking to purchase power from new IPP's and CPP's and has signed a term sheet for power purchase with The Sind Nooriabad Power Company (Pvt.) Limited (SNPCL), which is in the process of developing a 100 MW (2 X 50 MW) gas fired power project at Nooriabad, Sind. The project is expected to come online in 2016. On the same note, KE has also signed a Term Sheet with Fauji Fertilizer Bin Qasim Limited (FFBL) for power off-take of up to 52 MW. The project is expected to come online by early 2017. KE is also in advance stages of discussion with Al-Abbas, Lotte Chemicals and Engro Polymer bringing a total of 70 MW of captive power into the system from the three projects.

In the spirit of the company's Climate Change Policy, KE has issued LOI's to three reputable solar companies/joint groups for setting up of solar-based IPP(s). Currently, KE and the potential developers are finalizing land options and reviewing the possible interconnection scheme for the project. Efforts are being put up to bring Wind and upcoming Hydro Power into KE system via NTDC through wheeling mechanism. Due diligence of two such Wind Power Projects of 50 MWs each is in progress.

CORPORATE SOCIAL RESPONSIBILITY (CSR) and Sustainability Management

Under SOCIAL INVESTMENT PROGRAM, KE signed its 12th MoU under the Empowerment program with APWA Ra'ana Liaquat Craftsmen Colony. KE has pledged to provide 100% free electricity which will empower the primary school, health center and vocational skill center operated by the institution. The institution's annual direct impact is on 42,000 individuals.

EMERGENCY RESPONSE INITIATIVE: KARACHI TIMBER MARKET FIRE INCIDENT, KE has always stepped forward as the only corporate entity to provide support to victims of these tragic events and has created an example for others to follow. KE came forward to support the victims of Timber market fire incident. Monthly electricity bills for the current and next six months were waived for the affectees of the tragedy.

YOUTH KNOWLEDGE SHARING PLATFORM: AIESEC's interactive session with the CEO, AIESEC is an international student body that strives to create linkages between academia and the industry across the world. CEO KE was invited for a one on one mentoring session with the office bearers of AIESEC Pakistan chapter. The session focused on KE's turnaround case and the challenges which were overcome to create an exemplary organization in the power sector.

K-Electric was the FIRST EVER CORPORATE IN PAKISTAN TO POSE A REAL TIME DATA MINING CHALLENGE in the Pakathon Data and Design Connect 2014. The event in collaboration with the MIT Enterprise Forum of Pakistan was launched in May 2014. Universities which participated this year included IBA, IVS, FAST, MIT, Boston University , Karachi University, Bahria University, NED and Szabist.

SCHOOL INTERACTIVE SESSIONS IN PARTNERSHIP WITH TCF AND SCHOOLS LOCATED AT HIGH LOSS AREAS, A SCHOOL PILOT PROGRAM was initiated in collaboration with The Citizens' Foundation and other schools located in underprivileged areas of Karachi. The students from 3-6 grades were engaged in specially designed theatrical performance to raise awareness about theft, non-payments and safety pertaining to electricity. 3000 students and their parents were reached out through this program.

AUDITORS' OBSERVATIONS

With respect to Auditors' observations mentioned in the review report to the members as emphasis of matter without qualifying their report, it is informed that:

> As explained in note 13.1.1 of this condensed interim financial information, the issue of late payment surcharge/ interest on delayed payments to / from government entities, which are part of the circular debt situation, is likely to be settled on net receivable / payable basis without accounting for any delayed payment surcharge / interest. The contention of the Company is duly supported by legal opinions in this respect. However, being prudent, the Company has made due provision on net basis in these financial statements.

BOARD OF DIRECTORS (BOD)

Effective from 27 November 2014, Mr. Muhammad Tayyab Tareen assumed the position of Chief Executive Officer (CEO) of the Company in place of Mr. Nayyer Hussain. Mr. Nayyer Hussain shall continue to be a non-executive director on KE BOD. During the review period, a KES Power (KESP) nominee on KE BOD, Mr. Wahid Hamid resigned and in his place Mr. Aziz Moolji was appointed as a Director of the Company, whereas one of the GOP nominees on KE BOD Mr. Sohail Akber Shah, Additional Secretary (Power), Ministry of Water & Power was replaced and substituted by Mr. Khaqan Murtaza, Joint Secretary (Entities & Discos), Ministry of Water & Power. The Board appreciates services of the outgoing CEO and Directors and welcomes the new CEO and incoming Directors of the Company.

ACKNOWLEDGEMENTS

The Board wishes to extend its gratitude to the shareholders and customers of the Company for their cooperation and support and extends its appreciation to the employees of the Company.

Muhammad Tayyab Tareen
Chief Executive Officer

Karachi, 17 February 2015

KPMG Taseer Hadi & Co.
Chartered Accountants
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Beaumont Road
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Independent Auditor's Report to the Members on Review of Condensed Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of K-Electric Limited ("the Company") as at 31 December 2014 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts for the six-month period then ended (here-in-after referred as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter

We draw attention to:

> note 13.1.1 to the accompanying interim financial information which describes that in view of the continuing circular debt situation and non recovery from various consumers in the public sector, the management considers that late payment surcharge / interest on delayed payment will ultimately be settled on net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge / interest. The Company has also obtained legal opinions in this respect. Accordingly, the Company as described in the aforesaid note has instead of accruing interest on payables separately has accounted for interest on receivables and payables on a net basis.

Our conclusion is not qualified in respect of above matters.

Other matters

The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarter ended 31 December 2014, have not been reviewed and we do not express a conclusion on them.

Date: 17 February 2015

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Mahmood Hussain

K-ELECTRIC LIMITED
Condensed Interim Balance Sheet
As at 31 December 2014

	Note	December 2014 (Un-Audited)	June 2014 (Audited)
		(Rupees in '000)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	**170,220,122**	170,286,970
Intangible assets		**254,966**	376,230
		170,475,088	170,663,200
Long-term investments	20.6	**-**	-
Long-term loans to employees		**28,768**	29,376
Long-term deposits		**6,080**	105,816
Deferred tax assets	6	**7,140,158**	2,345,773
		177,650,094	173,144,165
CURRENT ASSETS			
Stores, spare parts and loose tools		**6,195,678**	5,968,300
Trade debts	7	**78,093,466**	75,704,095
Loans and advances		**1,513,006**	1,485,855
Trade deposits and short term prepayments		**4,901,683**	2,218,028
Other receivables	8	**33,847,558**	44,240,998
Derivative financial assets		**1,750,405**	1,862,728
Taxation-net		**1,165,005**	1,037,924
Cash and bank balances		**1,435,446**	653,473
		128,902,247	133,171,401
TOTAL ASSETS		**306,552,341**	306,315,566
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital		**125,000,000**	125,000,000
Issued, subscribed and paid up capital		**96,261,551**	96,261,551
Reserves			
Capital reserves		**509,172**	509,172
Share premium		**1,500,000**	1,500,000
Revenue reserves		**5,372,356**	5,372,356
Other reserve		**(294,098)**	(359,552)
		7,087,430	7,021,976
Accumulated losses		**(45,729,668)**	(59,742,221)
		57,619,313	43,541,306
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		**26,547,355**	27,425,967
LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term financing	9	**8,283,469**	18,231,391
Long-term deposits		**6,299,784**	5,865,741
Employee retirement benefits	10	**5,131,552**	4,946,221
Deferred revenue		**16,632,101**	16,303,048
Deferred tax liability		**14,294,832**	14,767,933
		50,641,738	60,114,334
CURRENT LIABILITIES			
Current maturity of long term financing	9.1	**19,701,931**	9,928,007
Trade and other payables	11	**94,863,620**	108,739,560
Accrued mark-up		**5,849,076**	5,719,543
Short term borrowings	12	**44,778,694**	44,953,130
Short term deposits		**6,540,636**	5,883,741
Provisions		**9,978**	9,978
		171,743,935	175,233,959
CONTINGENCIES AND COMMITMENTS	13		
TOTAL EQUITY AND LIABILITIES		**306,552,341**	306,315,566

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen Chief Executive Officer	Mubasher H. Sheikh Director

K-ELECTRIC LIMITED
CONDENSED INTERIM PROFIT & LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2014

	Note	Six Months Period Ended		Three Months Period Ended	
		31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
		(Rupees in '000)			
REVENUE					
Sale of energy – net	14	**74,643,712**	68,413,331	**33,049,029**	34,727,155
Tariff adjustment		**26,051,018**	27,078,743	**11,839,920**	11,552,248
Rental of meters and equipment		**110,022**	108,953	**55,180**	54,494
		100,804,752	95,601,027	**44,944,129**	46,333,897
EXPENDITURE					
Purchase of electricity	15	**(37,872,727)**	(40,065,495)	**(17,162,677)**	(21,226,988)
Consumption of fuel and oil	16	**(33,277,639)**	(32,958,909)	**(11,824,670)**	(13,145,475)
		(71,150,366)	(73,024,404)	**(28,987,347)**	(34,372,463)
Expenses incurred in generation, transmission and distribution		**(7,774,228)**	(7,353,562)	**(3,958,568)**	(3,485,410)
GROSS PROFIT		**21,880,158**	15,223,061	**11,998,214**	8,476,024
Consumers services and administrative expenses		**(10,297,904)**	(7,289,275)	**(5,200,807)**	(3,992,873)
Other operating expenses		**(1,151,296)**	(575,356)	**(508,357)**	(494,857)
Other income		**3,016,350**	2,701,749	**1,515,910**	1,702,656
		(8,432,850)	(5,162,882)	**(4,193,254)**	(2,785,074)
OPERATING PROFIT		**13,447,308**	10,060,179	**7,804,960**	5,690,950
Finance cost	17	**(5,439,462)**	(5,826,533)	**(2,702,294)**	(2,961,512)
PROFIT BEFORE TAXATION		**8,007,846**	4,233,646	**5,102,666**	2,729,438
Deferred taxation	18	**5,267,484**	484,354	**5,025,890**	241,312
NET PROFIT FOR THE PERIOD		**13,275,330**	4,718,000	**10,128,556**	2,970,750
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)		**18,159,015**	14,624,824	**10,150,342**	7,991,812
		(Rupees)			
EARNINGS PER SHARE - BASIC / DILUTED		**0.48**	0.17	**0.37**	0.11

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen
Chief Executive Officer

Mubasher H. Sheikh
Director

K-ELECTRIC LIMITED
Condensed Interim Statement of Comprehensive Income (Un-audited)
For the six months period ended 31 December 2014

	Six Months Period Ended		Three Months Period Ended	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
	----------------------------- (Rupees in '000) -----------------------------			
Net profit for the period	**13,275,330**	4,718,000	**10,128,556**	2,970,750
Items that are or may be reclassified to profit and loss account				
Net changes in fair value of cash flow hedges reclassified to profit and loss account	**65,454**	65,454	**32,727**	32,727
Items that will never be reclassified to profit and loss account				
Remeasurement of defined benefit liabilities (actuarial gains and losses)	**(141,390)**	-	**(141,390)**	-
Total comprehensive income for the period	**13,199,394**	4,783,454	**10,019,893**	3,003,477

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen
Chief Executive Officer

Mubasher H. Sheikh
Director

K-ELECTRIC LIMITED

Condensed Interim Statement of Changes in Equity (Un-audited)

For the six months period ended 31 December 2014

	Issued, Subscribed and Paid-up Capital				Reserves					
					Capital reserves		Revenue reserves			
	Ordinary shares	Redeemable preference shares	Transaction costs	Total share capital	Capital reserves	Share premium	Revenue reserves	Other reserves	Accumulated losses	Total
	(Rupees in '000)									
Balance as at 30 June 2013	**96,653,179**	**-**	**(391,628)**	**96,261,551**	**509,172**	**1,500,000**	**5,372,356**	**(490,460)**	**(74,674,804)**	**28,477,815**
Total comprehensive income for the six month period ended 31 December 2013										
Net Profit for the period	-	-	-	-	-	-	-	-	4,718,000	4,718,000
Other comprehensive income										
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	65,454	-	65,454
Total comprehensive income for the period	-	-	-	-	-	-	-	65,454	4,718,000	4,783,454
Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	-	899,511	899,511
Balance as at 31 December 2013	**96,653,179**	**-**	**(391,628)**	**96,261,551**	**509,172**	**1,500,000**	**5,372,356**	**(425,006)**	**(69,057,293)**	**34,160,780**
Total comprehensive income for the six months period ended 30 June 2014										
Net profit for the period	-	-	-	-	-	-	-	-	8,169,235	8,169,235
Other comprehensive income										
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	65,454	-	65,454
Remeasurements of defined benefit liabilities	-	-	-	-	-	-	-	-	250,455	250,455
Total comprehensive income for the period	-	-	-	-	-	-	-	65,454	8,419,690	8,485,144
Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	-	895,382	895,382
Balance as at 30 June 2014	**96,653,179**	**-**	**(391,628)**	**96,261,551**	**509,172**	**1,500,000**	**5,372,356**	**(359,552)**	**(59,742,221)**	**43,541,306**
Total comprehensive income for the six month period ended 31 December 2014										
Net profit for the period	-	-	-	-	-	-	-	-	13,275,330	13,275,330
Other comprehensive income										
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	65,454	-	65,454
Remeasurements of defined benefit liabilities	-	-	-	-	-	-	-	-	(141,390)	(141,390)
Total comprehensive income for the period	-	-	-	-	-	-	-	65,454	13,133,940	13,199,394
Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	-	878,613	878,613
Balance as at 31 December 2014	**96,653,179**	**-**	**(391,628)**	**96,261,551**	**509,172**	**1,500,000**	**5,372,356**	**(294,098)**	**(45,729,668)**	**57,619,313**

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen
Chief Executive Officer

Mubasher H. Sheikh
Director

K-ELECTRIC LIMITED
Condensed Interim Cash Flow Statement (Un-audited)
For the six months period ended 31 December 2014

	31 December 2014	31 December 2013
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**8,007,846**	4,233,646
Adjustments for non-cash charges and other items:		
Depreciation and amortization	**4,711,707**	4,564,645
Provision for retirement benefits	**459,884**	424,139
Provision for slow moving stores	**40,653**	-
Provision for debts considered doubtful	**4,750,109**	3,001,613
Gain on sale of fixed assets	**(38,133)**	(56,062)
Finance costs	**5,439,462**	5,826,533
Amortization of deferred revenue	**(639,047)**	(597,106)
Return on bank deposits	**(185,274)**	(164,073)
Operating profit before working capital changes	**22,547,207**	17,233,335
Working capital changes		
(Increase) / decrease in current assets		
Stores, spares parts and loose tools	**(268,031)**	(206,135)
Trade debts	**(7,139,480)**	(7,266,077)
Loans and advances	**(27,151)**	(75,390)
Trade deposits and short term prepayments	**(2,683,655)**	667,900
Other receivables	**10,393,440**	(4,964,205)
	275,123	(11,843,907)
Increase / (decrease) in current liabilities		
Trade and other payables	**(13,875,944)**	7,798,391
Short-term deposits	**656,895**	(347,753)
	(13,219,049)	7,450,638
Cash generated from operations	**9,603,281**	12,840,066
Retirement benefits paid	**(415,943)**	(418,106)
Income tax paid	**(127,081)**	(77,252)
Receipts in deferred revenue	**968,100**	804,979
Finance cost paid	**(5,272,433)**	(5,635,475)
Interest received on bank deposits	**185,274**	164,073
	(4,662,083)	(5,161,781)
Net cash generated from operating activities	**4,941,198**	7,678,285
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure incurred	**(4,560,272)**	(2,875,440)
Proceed from disposal of fixed assets	**74,810**	126,700
Long term loans to employees	**608**	7,485
Long-term deposits	**99,736**	(561)
Net cash used in investing activities	**(4,385,118)**	(2,741,816)
CASH FLOWS FROM FINANCING ACTIVITIES		
Syndicated loan for PKR 7,700 million term facility	**5,428,826**	-
Payment of long term financing - net	**(5,462,541)**	(7,058,039)
Short term borrowing (repaid) / acquired	**(1,974,879)**	1,999,256
Security deposit from consumers	**434,043**	381,781
Net cash used in financing activities	**(1,574,551)**	(4,677,002)
Net (decrease) / increase in cash and cash equivalent	**(1,018,471)**	259,467
Cash and cash equivalent at beginning of the period	**(3,177,811)**	(6,927,479)
Cash and cash equivalent at end of the period	**(4,196,282)**	(6,668,012)

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen
Chief Executive Officer

Mubasher H. Sheikh
Director

1. THE COMPANY AND ITS OPERATIONS

1.1 K-Electric Limited "the Company" was incorporated as a limited liability company on 13 September 1913 under the repealed Indian Companies Act, 1882 (now Companies Ordinance, 1984). The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges.

The Company is principally engaged in the generation, transmission and distribution of electric energy to industrial and other consumers under the Electricity Act, 1910 and Nepra Act, 1997, as amended, to its licensed areas.

The registered office of the Company is situated at KE House, 39-B, Sunset Boulevard, Phase II, DHA, Karachi. KES Power Limited (the holding company) holds 69.20 percent (30 June 2014: 69.20 percent) shares in the Company. Subsequent to condensed interim financial information reporting date, KES Power Limited divested 774.639 million ordinary shares whereby the holding percentage has reduced to 66.40 percent.

1.2 During the period, the Company has registered a profit of Rs. 13,275 million (31 December 2013: Profit of Rs. 4,718 million), resulting in accumulated losses of Rs. 45,729 million (30 June 2014: Rs 59,742 million) as of the balance sheet date. The Management of the Company is continuing with the operational and infrastructure rehabilitation program commenced after the privatization of the Company, with the objective of converting and sustaining the Company as a profitable entity and has taken operational and financial measures to support such rehabilitation program. The program include:

1.2.1 Generation – Expansion and Rehabilitation

a) Operational and financial measures taken in prior years for expansion, rehabilitation of generation capacity included:

- Commission of first fast track plant of 90 MW capacity at SITE (SGTP) in June 2009.
- Commission of second fast track power plant of 90 MW capacity at Korangi (KGTP) in 2010.
- Commission of first combine cycle power plant (CCPP-1) with ISO capacity of 220 MW including the steam turbine in financial year 2010.
- Overhaul of existing Bin Qasim Power Station to increase its reliability, capacity and efficiency.
- Commission of second combine cycle power plant (BQPS II) having ISO capacity of 560 MW in 2012.

b) In addition to above, the Company has also taken further measures to:

- Enhance the capacity and efficiency through installation of steam turbines at SGTP, KGTP and two units of CCPP-I. This will add 47 MW to the capacity and have significant impact on the overall fuel efficiency and profit margins of the Company.
- Convert two units of BQPS-I into coal (cheaper fuel), commercial operation from this project is expected within a period of 2 and half years.

1.2.2 Transmission and Distribution Network – Expansion and Rehabilitation

The Management has been following a comprehensive plan focused towards the transmission and distribution network to improve reliability and reduce technical and distribution losses. This has also enhanced monitoring and control of the grid and expanded the existing network. Proper network planning, maintenance and capital expenditure has also led to reduced outages and prevented network damage. Some of the transmission and distribution projects which are in progress include constructions of new grid stations and launching of Integrated Business Centers (IBCs).

1.2.3 Financial measures

The financial measures which the Company has embarked upon included loan agreements with foreign lenders including International Financial Corporation (IFC), Asian Development Bank (ADB) and Oesterreichische Kontrol Bank (Oekb) Austria - ECA as well as local lenders. The loans have been obtained for the purpose of capital expenditure on power generation, transmission and network improvement projects.

International Finance Corporation (IFC) and Asian Development Bank (ADB) had exercised their options to convert certain portion of their debt into ordinary shares pursuant to subscription agreement entered between the Senior Lenders and the Company. Investment in the Company by these two international financial institutions reflects their confidence in the commitment shown by the Management in bringing a turnaround in the Company.

1.2.4 Sponsors Support

The Sponsors of the Company are committed to invest in the Company for its ongoing as well as future projects and also to meet its operating shortfalls. As part of the commitment, KES Power Limited (the Holding company) invested Rs. 30,598 million (USD 361 million) in the Company's capital (including subscription of unsubscribed minority shares) and the Government of Pakistan (GoP) has subscribed Rs. 10,567 million. Based on the support of the holding company, actions as outlined above and future projections, the Management is of the view that the Company has been moving in the right direction and would continue to achieve better results in future.

2.1 STATEMENT OF COMPLIANCE

This condensed interim financial information of the Company for the six month period ended 31 December 2014 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provision of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directive issued under the Companies Ordinance,1984 have been followed.

2.2 This condensed interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2014.

2.3 This condensed interim financial information is un-audited and is being submitted to the shareholders as required by listing regulations of Karachi, Lahore and Islamabad Stock Exchanges vide section 245 of the Companies Ordinance, 1984. The figures for the six months period ended 31 December 2014 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

2.4 This condensed interim financial information is presented in Pakistan Rupees which is also the Company's functional currency and all financial information presented has been rounded off to the nearest thousand.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation which have been used in the preparation of this condensed interim financial information are the same as those applied in preparation of the annual financial statements for the year ended 30 June 2014.

3.1 Empolyee retirement and other service benefits

3.1.1 Defined benefit gratuity scheme

During the current period, the defined benefit gratuity scheme became funded and now the company operates a funded gratuity scheme covering all its eligible employees. The gratuity scheme is now managed by trustees, all the other gratuity scheme benefits remain the same as disclosed in note 3.14.1 to the financial statement for the year ended 30 June 2014.

Contributions are made in accordance with the actuarial recommendations. Actuarial valuations are conducted by an independent actuary using projected unit credit method. The obligation at the balance sheet date is measured at the present value of the estimated future cash flows, the amount of the expected rate of return on the plan assets is calculated using the expected rate of return for the year and the market related values at the beginning of the year. Calculations are sensitive to changes in the underlying assumptions.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

4.1 The preparation of this condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgments and estimates made by the management in the preparation of this condensed interim financial information are the same as those that were applied to the financial statements as at and for the year ended 30 June 2014.

4.2 The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2014.

	Note	**31 December 2014 (Un-Audited)**	30 June 2014 (Audited)
		(Rupees in '000)	
5. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	5.1	**156,434,733**	158,984,712
Capital work-in-progress		**13,785,389**	11,302,258
		170,220,122	170,286,970

5.1 Operating fixed assets

Following are the additions and disposals of fixed assets during the current period:

	Additions	Disposals / adjustments	
		Cost	Accumulated depreciation
	(Rupees in '000)		
Building on freehold land	51,941	-	-
Plant and machinery	199,856	18,158	9,983
Transmission and distribution network	1,737,491	92,220	64,411
Others	87,851	5,046	4,353
	2,077,139	**115,424**	**78,747**

	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
	(Rupees in '000)	
6. DEFERRED TAX ASSETS		
Opening as at 01 July 2014	**2,345,773**	-
Due to deductible temporary differences (mainly on account of carryforward of tax losses)	**4,794,385**	2,345,773
	7,140,158	2,345,773

	Note	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
		(Rupees in '000)	

6.1 DEFERRED TAXATION

	Note	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
Deferred credits:			
- accelerated tax depreciation		**24,579,842**	25,389,395
Deferred tax debits:			
- available tax losses		**(142,593,093)**	(146,955,911)
- provision for gratuity and compensated absences		**(1,796,042)**	(1,731,177)
- others		**(11,699,722)**	(10,565,286)
		(156,088,856)	(159,252,374)
		(131,509,015)	(133,862,979)

6.1.1 As at 31 December 2014, the Company has deferred tax debit, amounted to Rs. 131,509.015 million (30 June 2014: Rs. 133,862.979 million) out of which deferred tax asset amounting to Rs. 7,140.158 million (30 June 2014: 2,345.773 million) has been recognized based on financial projections which indicate availability of taxable profits against which this asset is estimated to be realized. The balance amount will be recognized in future years to the extent and based on financial projections indicating availability of taxable profits. As at 31 December 2014, the Company's tax losses amounted to Rs. 407,408.836 million (30 June 2014: Rs. 419,874.030 million).

7. TRADE DEBTS

	Note	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
Considered good			
Secured – against deposits from consumers		**958,397**	1,066,956
Unsecured		**77,135,069**	74,637,139
	7.1	**78,093,466**	75,704,095
Considered doubtful		**32,650,408**	28,754,041
		110,743,874	104,458,136
Provision for impairment (against debts considered doubtful)	7.2	**(32,650,408)**	(28,754,041)
		78,093,466	75,704,095

7.1 This includes gross receivable of Rs. 46,837 million (30 June 2014: Rs. 42,289 million) due from Government and autonomous bodies, including Karachi Water and Sewerage Board and City District Government Karachi amounting to Rs. 34,535 million (30 June 2014: Rs. 30,244 million) and Rs. 8,079 million (30 June 2014: Rs. 7,797 million) less unrecorded late payment surcharge from them of Rs. 2,795 million (30 June 2014: Rs. 2,488 million) and Rs.1,188 million (30 June 2014: Rs. 1,070 million) respectively. It is Management's contention that the calculation of late payment surcharge on Public Sector Consumers should be made on the same basis as the accrued interest on delayed payments on account of circular debt situation. If the similar basis is adopted, then the above receivable amount would substantially increase.

	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
	(Rupees in '000)	
7.2 Provision for impairment (against debts considered doubtful)		
Opening balance	**28,754,041**	23,150,546
Provision made during the period / year	**4,750,109**	6,689,225
	33,504,150	29,839,771
Provision on debts written off during the period / year	**(853,742)**	(1,085,730)
	32,650,408	28,754,041

8. OTHER RECEIVABLES

	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
Considered good		
Sales tax - net	**4,754,048**	6,351,122
Due from the Government of Pakistan in respect of:		
- Tariff adjustment and Others	**28,774,666**	37,558,427
- Interest receivable from GoP on demand finance liabilities	**237,173**	237,173
	29,011,839	37,795,600
Others	**81,671**	94,276
	33,847,558	44,240,998
Considered doubtful		
Sales tax	**236,922**	236,922
Provision for impairment	**(236,922)**	(236,922)
	-	-
Due from a Consortium of Suppliers of Power Plant	**363,080**	363,080
Provision for impairment	**(363,080)**	(363,080)
	-	-
	33,847,558	44,240,998

8.1 Tariff adjustments receivable includes certain adjustments to account for items including where the final determinations have not been notified / finalized by NEPRA as part of its tariff determination process. The quarterly determination of Schedule of Tariffs have been finalized up to the quarter January-March 2014 except for the matters as discussed in note 13.1.2 and 13.1.3 of the condensed interim financial information. Management has recognized tariff differential for subsequent quarters based on the petitions submitted to NEPRA.

	Note	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
		(Rupees in '000)	
9. LONG-TERM FINANCING			
From banking companies and financial institutions - Secured			
International Finance Corporation (IFC)	9.1	**4,992,669**	5,641,821
Syndicate term loan	9.1	**1,920,000**	2,560,000
Asian Development Bank (ADB)	9.1	**6,374,575**	7,190,366
Foreign currency term loan		**-**	256,505
Syndicated commercial facility		**-**	236,111
Syndicated structured term finance facility	9.1	**4,250,000**	5,100,000
Structured Islamic Term Financing - Musharakah		**900,000**	1,200,000
Faysal Bank Limited - medium term loan		**1,125,000**	1,350,000
Syndicated Loan for PKR 7.7 bn term facility		**7,700,000**	2,271,175
		27,262,244	25,805,978
Current maturity shown under current liabilities		**(19,091,530)**	(7,947,606)
		8,170,714	17,858,372
Others - Secured			
Due to oil and gas companies		**610**	125,610
Current maturity shown under current liabilities		**(610)**	(125,610)
		-	-
Unsecured			
GoP loan for the electrification of Hub Area		**26,000**	26,000
Karachi Nuclear Power Plant		**89,263**	389,263
Gul Ahmed Energy Limited		**607,283**	867,547
		696,546	1,256,810
Current maturity thereof shown under current liabilities			
Due to Karachi Nuclear Power Plant		**(89,263)**	(389,263)
Due to Gul Ahmed Energy Limited		**(520,528)**	(520,528)
		(609,791)	(909,791)
Due to the Government and autonomous bodies - related parties		**-**	945,000
Current maturity thereof shown under current liabilities		**-**	(945,000)
		-	-
		8,283,469	18,231,391

9.1 Except for the matter discussed herein, all the other matters remain same as disclosed in note 21 of the annual financial statements for the year ended 30 June 2014. The Company subsequent to the condensed interim financial reporting date, in accordance with the loan agreements and pursuant to all regulatory approvals, has prepaid the outstanding loan balances of International Finance Corporation, Asian Development Bank and Local Commercial Banks on 13 February 2015, through subscription of SUKUK pre-Initial Public Offer (IPO) of Rs.15 billion, out of total proposed SUKUK proceeds of Rs. 22 billion including green shoe option of Rs. 2 billion. Considering this, the outstanding amount of these loans at the condensed interim financial reporting date has been shown under the current maturity of long term financing under current liabilities. The balance amount of Rs. 7 billion will be raised through public issuance / IPO, formalities of which are in process and will be finalized in due course of time.

	31 December 2014 (Un-Audited)	30 June 2014 (Audited)
	(Rupees in '000)	

10. EMPLOYEE RETIREMENT BENEFITS

Gratuity	**4,128,210**	3,973,534
Post retirement medical benefits	**659,093**	635,102
Post retirement electricity benefits	**344,249**	337,585
	5,131,552	4,946,221

10.1 Actuarial valuation of retirement benefits

Assumptions used for the valaution as of 31 December 2014, are the same as the assumption used in the calculation of retirement benefit valuation as of 30 June 2014.

11. TRADE AND OTHER PAYABLES

Trade creditors		
Power purchases	**38,336,258**	46,133,765
Fuel and gas	**30,508,169**	37,438,980
Others	**3,147,584**	3,858,641
	71,992,011	87,431,386
Murabaha finance facilities	**2,000,000**	1,970,000
Accrued expenses	**2,464,751**	2,124,263
Advances / credit balances of consumers		
Energy	**810,164**	662,029
Others	**1,049,807**	633,646
	1,859,971	1,295,675
Other liabilities	**16,546,887**	15,918,236
	94,863,620	108,739,560

12. SHORT-TERM BORROWINGS – Secured

From banking companies		
Bridge term finance facility	**1,084,306**	1,435,543
Bills payable	**27,161,973**	29,254,672
Short term running finances	**5,631,727**	3,831,284
Short term loan	**1,893,750**	1,666,680
Structured invoice financing	**1,550,000**	1,375,000
From others		
KES Power Limited - holding company	**45,088**	45,088
KESC Azm Certificates	**1,671,371**	1,662,730
KE Azm Sukuk Certificates	**5,740,479**	5,682,133
	44,778,694	44,953,130

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

13.1.1 In respect of mark-up on the arrears payable to National Transmission and Dispatch Company (NTDC), a major government owned power supplier, the Company has reversed the mark-up accrued for the period from 1 July 2009 to 31 March 2010 amounting to Rs. 1,432 million during the year ended 30 June 2010 and has also not accrued mark- up amounting to Rs. 6,931 million for the period from 1 April 2010 to 31 December 2014 with the exception as mentioned below. Further, the Company has not accrued any mark-up on the overdue balances as per the power purchase agreement (PPA) with the exception as mentioned below. Clause 9.3 of the PPA clearly defines the mechanism for settlement of NTDC dues whereby Ministry of Finance (MOF) has to pay Company's tariff differential receivable directly to NTDC. Accordingly, MOF has been releasing Company's tariff differential receivable directly to NTDC and till 31 December 2014 MOF has released Rs. 284,882 million directly to NTDC from time to time since the date of signing of PPA on account of Company's tariff differential receivables. Management believes that overdue amount has only arisen due to circular debt situation caused by delayed settlement of the Company's tariff differential claims by the MOF Government of Pakistan ("GOP") as well as delayed settlement of energy dues (including Late Payment Surcharge due from KW&SB, CDGK, refer Note 7.1) by certain Public Sector Consumers. NTDC upto the year 2013-14 has claimed an amount of Rs.17,765 million on account of mark-up on arrears and delayed payments under Power Purchase Agreement (PPA). The Management has not acknowledged these claims as debts and considers the amount calculated to be much higher than the Management's own calculations.

Management further believes that in view of continuing circular debt situation and non recovery from various consumers in the public sector, mark-up / financial charges would be payable only when the Company will receive similar claims from GoP and Public Sector consumers and will ultimately be settled on net basis. However, being prudent, the Company has made due provision on net basis in this condensed interim financial information.

In respect of interest payable to Sui Southern Gas Company Limited (SSGC), the Company decided not to account for / discontinue accrual of interest effective from 1 July 2010 till circular debt issue is settled and the Company is supplied with the gas as committed. The interest not accrued for the period as claimed by SSGC in their invoice from July 2010 to December 2014 amounts to Rs. 27,084 million (July 2010 to June 2014: Rs. 22,970 million) which is disputed by the management. In management's view the Company is not liable and will not pay any interest on the amount payable to SSGC based on the same principle that the reduction in gas supply, together with the delayed settlement of energy dues (including Late Payment Surcharge due from KW&SB, CDGK, refer Note 7.1) by Government Entities, have a direct impact on the liquidity of the Company.

During the year ended 30 June 2013, SSGC filed a Suit bearing number 1641/2012 in the Honourable High Court of Sindh at Karachi for recovery and damages amounting to Rs. 55,700 million including the alleged outstanding balance of approximately Rs. 45,700 million on account of alleged unpaid gas consumption charges and interest.The said suit is being contested on merits and the Company has disputed liability to pay any amounts of interest / late payment surcharge to SSGC on the ground that the Company's inability to charge interest / mark-up against KW&SB and other Government owned entities receivables on similar basis is unreasonable in light of interest / mark-up obligation on payables to SSGC and others.

The Company also filed a suit bearing number 91/2013 against SSGC in the Honourable High Court of Sindh at Karachi for recovery of damages / losses of Rs. 59,600 million resulting from SSGC's failure to comply with their legal obligation to allocate and supply the committed quantity of 276 MMCFD of natural gas to the Company.

The above suits no. 1641/2012, 91/2013 and 1389/2012 are all pending adjudication and are being rigorously pursued and contested on merits by legal counsel.

The Company has also obtained legal opinions in this respect which support the Company's position. The main arguments in the legal opinions supporting the Company's contentions are summarized below:

– the lawyer contends that they are confident that the Company will not be held liable by a competent court to the extent of amount due from KW&SB and other Government entities not received by the Company. The legal opinion effectively recognizes a right of set off based on various meetings with Government of

Pakistan (GoP) and decisions taken in meetings with GoP on circular debt issue. In other words in view of involvement of the GoP, who is indirectly liable to pay the amounts due from KW&SB, etc., to the Company and entitled to receive the amount payable by the Company to SSGC (as the majority owner in SSGC), the Company would be legally entitled to the same treatment in respect of its receivables and payables.

– another legal advisor contends that

a. the Company's inability to charge interest / mark-up against KW&SB and other Government owned entities receivables on similar basis is unreasonable in light of interest / mark-up obligation on payables to SSGC. The lawyer also contends that in a court of law the Company's non-accrual of interest on payments to SSGC due to frustration of contract dated 30 June 2009 and recoverability of any interest / damages from the Federal Government is justifiable and the Company has good prospects of success on these grounds. Further, the lawyer contends that SSGC values its claims against the Company on a much higher basis based on inclusion of disputed interest upon interest as it is evident from the total amount claimed by SSGC in its recovery suit number 1641 of 2012 SSGC Vs KESC.

b. In case of NTDC under the power purchase agreement interest can only become applicable if the party claiming interest can demonstrate that the defaulting party has breached the payment mechanism. Under the current mechanism the Company is only responsible directly to pay to NTDC if the NTDC invoice (for any billing period) is higher than the amount of Company's tariff adjustment claim (subsidy). NTDC being a company wholly owned and controlled by GoP is only an extension of GoP and accordingly GoP will also be bound by the payment mechanism provided under the power purchase agreement and will therefore be liable for any interest on delayed current monthly payment. Further, for mark-up on the outstanding principal reconciled arrears, the Company's liability will be subject to adjustment of KWSB receivables and the Company's claim against the GoP for losses sustained by the Company as a result of non-payment or delayed payment of tariff differential.

Based on the above facts, the Management believes that the circular debt issue will ultimately be settled on net basis without accounting for any delayed payment surcharge / interest. However, being prudent, the Company has made due provision on net basis in this condensed interim financial information.

13.1.2 During the year ended 30 June 2013, National Electric Power Regulatory Authority (NEPRA) issued a corrigendum vide its letter no. NEPRA/TRF-133/KESC-2009/10401-10404 dated 23 November 2012 whereby Schedule of Tariff (SoT) for the period July 2009 to March 2010 had to be adjusted by Rs. 2.79/kWh, an increase for all the categories of consumer uniformly (except for life line consumers). However, NEPRA believes, due to error, the SoT was inadvertently adjusted for four consumer categories and the effect of the error was carried forward in the subsequent determined SoTs up to quarter January 2012 – March 2012. Accordingly, NEPRA has issued a revised SoT which resulted in decrease of approximately Paisa 14/kWh in the determined tariff. The said corrigendum resulted in retrospective and unilateral decrease in previously determined rates of tariff for certain consumer categories resulting in a decrease in tariff differential claim amounting to Rs. 7,420.920 million from MoW&P for the relevant period uptill 31 December 2014.

The Company disagreed with the alleged corrigendum and filed a law suit against NEPRA and Ministry of Water and Power Pakistan (MoW&P) in the Honourable High Court of Sindh. According to the management, NEPRA had not followed its own prescribed review procedure in relation to the alleged corrigendum through not providing the Company an opportunity of being heard. Further, NEPRA while calculating the determination as given in the aforementioned alleged corrigendum has taken 25% Transmission and Distribution losses instead of 27% for July 2009 to December 2009 and made its calculation based on natural gas rate of Rs. 349.56/MMBTU instead of 333.89/MMBTU. It was respectfully submitted that the two ignored factors would result in an increase of Rs. 0.1461/kWh and the net effect of alleged decrease in tariff by NEPRA and increase established by the Company would be negligible.

In response to suit filed by the Company to grant mandatory and permanent injunction to restrain NEPRA from adjusting the amount of tariff, the Honourable High Court of Sindh vide its order dated 4 June 2013 disposed off the above suit since the legal advisor of NEPRA submitted that determination was passed without hearing of the Company and that the fresh determination by NEPRA would be passed after notice and providing ample opportunity of hearing to the Company.

On 31 March 2014, NEPRA issued a decision in the matter of review of SoT attached with the quarterly adjustment decision for the period July 2009 to March 2012 in the matter of Karachi Electric Supply Company Limited. In the decision NEPRA upheld its original corrigendum after hearing the Company's contention and adjusted the SoT for the period July 2009 to March 2010 by Rs. 2.79/KWH for all the consumer categories uniformly (except for life line consumers), thereby reducing the tariff by Paisa 14/KWH.

The Company being aggrieved of the NEPRA's order as the contentions of the Company were rejected without any proper justification and basis filed a suit No. 556/2014 in Honourable High Court of Sindh at Karachi to set-aside the impugned decision dated March 31, 2014 as the same was not made in accordance with the law. The Honourable High Court of Sindh on 7 April 2014 passed an interim order whereby the impugned decision / determination was suspended to the extent of reduction made by NEPRA through the impugned decision in all tariff determinations / schedule of tariff from July 2009 till September 2013. On 15 April 2014, Honourable High Court of Sindh further ordered that NEPRA should act in accordance with law and shall not effect the issuance of Schedule of Tariff in compliance with the earlier order dated 7 April 2014. After the issuance of ad-interim order dated 7 April 2014, the Company wrote a letter to NEPRA for the re-issuance / notifications of all the determinations / SOTs for the period from April 2012 to September 2013 in supersession of the NEPRA's letter dated 31 March 2014, as a consequence of the said court order dated 7 April 2014.

Further, NEPRA issued a quarterly adjustment in tariff order on 17 October 2014 for the quarter ended December 2013. In the said order, considering the civil suit filed by the Company in Honourable Sindh High Court and the Sindh High Court interim order dated 7 April 2014, NEPRA excluded the reductions in respect of corrigendum till the final decision of the Sind High Court and worked out quarterly tariff adjustments after excluding the impact of reductions.

Upon receiving the quartely adjustment in tariff order, the Company filed a suit in Honourable Sindh High Court suit no. 2138/2014 on various grounds challenging the impugned order, as discussed in detail in note 13.1.3.

Based on opinion from legal advisor, management believes that the matter will ultimately be settled in favour of the Company.

13.1.3 The multi year tariff (MYT) applicable to the Company outlines a mechanism whereby the Company is required to share a portion of its profits with consumers when such profits exceed the stipulated thresholds. NEPRA vide its determination order No. NEPRA/TRF-133/KESC-2009/12889-12892 dated 17 October 2014 has adjusted the rates to effect the sharing of profits of Rs. 5,413 million in respect of earnings for the financial year ended 30 June 2012 and 30 June 2013 to be returned / clawed back as per their own calculation significantly higher than the management's own calculation which amounted to Rs. 887 million upto 30 June 2013. As at 31 December 2014, the net exposure due to the differences in calculation method amounts to Rs. 8,721 million. The Company not agreeing with the calculation of claw back formula carried out by NEPRA, filed a suit 2138/ 2014 in Honourable Sindh High Court. In the suit, the Company petitioned that in making determination by NEPRA in respect of claw back for the years 2011-12 and 2012-13, NEPRA has misapplied the claw back formula as presribed under Annexure -D of the MYT determination dated 23 December 2009, amongst others it has unlawfully calculated "accumulated losses" as part of reserve and failed to take into account "surplus on revaluation of fixed assset". On the hearings upto 01 December 2014, the Honourable Sindh High Court extended the previously issued ad-interim order thereby restraining Government of Pakistan from issuing / notifying the above mentioned NEPRA's determination and reserved its judgement. Considering the above proceedings and the legal opinion received, management considers that the Company has a good case and expects favourable outcome of the case.

13.1.4 On January 22, 2015 NEPRA issued an order after issuing show cause notice under rule 4(8) and 4(9) of the NEPRA (Fines) Rules, 2002 regarding charging of meter rent by the Company. NEPRA, in its order, issued directives to stop charging meter rent and refund total amount collected to the consumers and also imposed a fine of Rs. 10 million.

The Company being aggrieved with the decision, filed an application for review in NEPRA under Rule (5) of the NEPRA (Fine) Rules 2002 against the decision of the Authority and challenged the order on various grounds including that the direction issued by NEPRA are ultravires.

Further, NEPRA has ignored certain provisions of its own rules and regulations which allows the Company to charge meter rent. Based on the grounds above, the Company expects that NEPRA will set-aside the fine and direction imposed on the Company.

13.1.5 The Federal Government on 24 September 2014, promulgated Gas Infrastructure Cess Development (GIDC) Ordinance, 2014. Under that Ordinance, the Federal Government again levied GIDC chargeable on gas consumers (both power sector and industrial) other than domestic consumers and also fixed the responsibility of charging and collection of GIDC on gas companies. This ordinance retrospectively validated the cess collected / levied or paid under the previous Gas Infrastructure Development Cess Act, 2011 which had been held illegal by the Supreme Court.

The Supreme Court had earlier held, in its judgment dated 22 August 2014 in Civil Appeal Nos. 1540-1599/2013, that the levy of GIDC was unconstitutional and all amounts collected by the gas companies were due to be refunded back to the consumers within a period of six month.

In October 2014, SSGC in its monthly bills issued to the Company, claimed GIDC amounting to Rs.1,924 million for the period July to September 2014. After receiving the demand and being aggrieved, the Company filed a fresh legal suit before the Honourable Sindh High Court. The Honourable Sindh High Court through its order dated 21 October 2014, granted stay and restrained the Federal Government and SSGC from raising any demand which continues till date. The GIDC Ordinance has lapsed on 24 January 2015, and therefore all amounts previously paid by the Company to SSGC amounting to Rs 5,354 million in respect of GIDC have become immediately due and recoverable from SSGC.

The Company is in the process of taking up the matter with SSGC. The amount when settled will be passed on in the tariff adjustment.

13.2 Claims not acknowledged as debts

Claims not acknowledged as debts as disclosed in notes 32.2 and 32.3 to the annual financial statements of the Company for the year ended 30 June 2014 remain unchanged.

		Note	**31 December 2014 *(Un-Audited)***	30 June 2014 *(Audited)*
			(Rupees in '000)	
13.3	**Commitments**			
13.3.1	Guarantees from banks		**294,559**	223,674
13.3.2	Transmission Projects		**1,709,265**	1,635,640
13.3.3	Outstanding Letters of Credit		**2,926,321**	2,686,000
13.3.4	Extension of Generation Projects Combined Cycle Power Plant-II		**650,779**	1,130,942
13.3.5	Service aggrement for Combined Cycle Power Plant-I		**213,963**	15,000
13.3.6	Generation Project KGTP-II & SGTPS-II Steam Turbines		**5,186,614**	4,416,734
13.3.7	Dividend on Preference Shares	13.3.8	**1,119,453**	1,119,453

13.3.8 The Company has not recorded any dividend on redeemable preference shares in view of accumulated losses and restriction on dividend placed by Senior lenders which are part of loan covenants.

	Note	31 December 2014	31 December 2013
		(Un-Audited)	
		(Rupees in '000)	

14. SALE OF ENERGY -net

	Note	31 December 2014	31 December 2013
Residential		**30,121,073**	25,804,697
Commercial		**18,084,366**	16,150,514
Industrial		**27,772,410**	24,030,883
Karachi Nuclear Power Plant		**72,048**	42,393
Pakistan Steel Mills Corporation (Private) Limited		**921,141**	1,048,656
Fuel Surcharge Adjustment	14.1	**(3,807,208)**	-
Others		**1,479,882**	1,336,188
		74,643,712	68,413,331

14.1 This represents monthly Fuel Surcharge Adjustment (FSA) approved by NEPRA in its monthly tariff determinations. The said amount will be refunded to the consumers subsequently as per notification by Ministry of Water and Power, Government of Pakistan.

15. PURCHASE OF ELECTRICITY

	31 December 2014	31 December 2013
National Transmission and Dispatch Company	**23,166,451**	25,269,897
Independent Power Producers (IPPs)	**13,505,651**	12,800,212
Karachi Nuclear Power Plant	**1,200,625**	1,995,386
	37,872,727	40,065,495

16. CONSUMPTION OF FUEL AND OIL

	31 December 2014	31 December 2013
Natural gas	**16,743,668**	16,871,757
Furnace and other oils	**16,533,971**	16,087,152
	33,277,639	32,958,909

17. FINANCE COST

	31 December 2014	31 December 2013
Mark-up / interest on:		
Mark-up / interest on short / long term borrowings	**2,786,915**	3,106,006
Late payment surcharge on delayed payments to creditors	**372,578**	884,571
Bank service, discounting charges and others	**2,279,969**	1,835,956
	5,439,462	5,826,533

18. TAXATION

	31 December 2014	31 December 2013
For the period:		
- Deferred		
Due to reversal of taxable temporary differences	**473,099**	484,354
Due to deductible temporary differences (mainly on account of carryforward of tax losses)	**4,794,385**	-
	5,267,484	484,354

19. TRANSMISSION AND DISTRIBUTION LOSSES

The transmission and distribution losses for the current period were 23.77% (30 June 2014: 25.30%).

The trend of transmission and distribution losses over the years / period is as follows:

2005-2006	34.43%
2006-2007	34.23%
2007-2008	34.12%
2008-2009	35.85%
2009-2010	34.89%
2010-2011	32.20%
2011-2012	29.70%
2012-2013	27.82%
2013-2014	25.30%
31 December 2014	**23.77%**

The company has been following a comprehensive plan focused towards the transmission and distribution network to improve reliability and reduce transmission and distribution losses.

20. TRANSACTIONS / BALANCES WITH RELATED PARTIES

Related parties of the Company comprise of associated companies, state controlled entities, staff retirement benefit plans, and the company's directors and key management personnel. Details of transactions / balances with related parties not disclosed elsewhere in this condensed interim financial information are as follows:

	31 December 2014	31December 2013
	(Un-Audited)	
	(Rupees in '000)	
20.1 BYCO Petroleum Pakistan Limited, Associated Company		
Purchases	**4,528,821**	3,975,603
Financial charges / Late payment surcharge	**124,259**	235,451
20.2 Government related entities		
20.2.1 National Transmission and Dispatch Company		
Purchases	**23,166,451**	25,269,897
20.2.2 Pakistan State Oil Company Limited		
Purchases	**11,507,345**	12,183,881
Late payment surcharge	**185,369**	445,329
20.2.3 Sui Southern Gas Company Limited		
Purchases	**16,743,668**	16,871,757

		31 December 2014 (Un-Audited)	31December 2013
		(Rupees in '000)	
20.3	**Key management personnel**		
	- Managerial Remuneration	**71,204**	68,832
	- Housing and Other allowances	**39,162**	37,858
	- Other allowances	**51,144**	40,965
	- Retirement Benefits	**23,371**	36,142
	- Leave Encashment	**-**	447
20.4	**Provident Fund**		
	- Contribution to Provident Fund	**247,734**	241,726

		31 December 2014 (Un-Audited)	30 June 2014 (Audited)
		(Rupees in '000)	
20.5	**BYCO Petroleum Pakistan Limited, Associated Company Amount payable included in**		
	- Trade and other payables	**1,943,063**	2,744,418
20.6	**Karachi Organic Energy (Pvt) Limited - Joint Venture**		
20.6.1	Long term investments	**10,108**	10,108
	Impairment in long term investments	**(10,108)**	(10,108)
	Nil carrying value	**-**	-

The Company and The Aman Foundation have started the project of Karachi Organic Energy (Pvt.) Ltd. (KOEL) incorporated for set up and operation of a biogas project. The Company owned 50% of the total share capital of KOEL by virtue of investment in 1,010,790 ordinary shares having a face value of Rs 10 each which amounts to total investment of Rs 10.108 million. KOEL is yet to commence operations and due to initial preliminary expenses currently has a negative equity. Accordingly, it has been impaired.

20.6.2	Other receivable	**33,537**	33,537
	Impairment in other receivable	**(33,537)**	(33,537)
	Nil carrying value	**-**	-
20.7	**Government related entities**		
20.7.1	**National Transmission and Dispatch Company**		
	Amount payable included in		
	- Trade and other payables	**31,059,028**	37,904,027
	- Long term financing	**-**	945,000
20.7.2	**Pakistan State Oil Company Limited**		
	- Trade and other payables	**4,010,606**	5,323,836
20.7.3	**Sui Southern Gas Company Limited**		
	- Trade and other payables	**24,554,500**	29,370,726
20.8	**Provident Fund**		
	- Payable to Provident Fund	**21,323**	29,164
20.9	**KES Power Limited, Parent Company**		
	- Short term loan	**45,088**	45,088

21. DIVIDEND

Further to note 56 to the annual financial statements for the year ended 30 June 2014, waiver from KES Power had been received on 15 September 2014. It was resolved in the Annual General Meeting (AGM) held on 23 October 2014, that the Board of Directors (BOD) to convene an Extra Ordinary General Meeting of the shareholders of the Company within the next 90 days of the AGM, provided that the relevant waivers from GOP, IFC and ADB are available with the Company. If such waivers /consents from GoP, IFC and ADB are collectively not available in the next 90 days from the date of AGM, then the proposal for dividend shall be deemed to lapse automatically without any need for further notice to the shareholders. As the said consents were collectively not available with the Company within the stipulated time limit of 90 days set by the shareholders at the AGM which expired on 21 January 2015, the proposal for the dividend under reference stands lapsed.

22. RECLASSIFICATION

Figures have been reclassified to reflect more appropriate presentation of events and transactions for the purpose of comparisons. However, there are no material reclassification to report.

23. DATE OF AUTHORIZATION FOR ISSUE

The condensed interim financial information was authorized for issue on 17 February 2015 by the Board of Directors of the Company.

24. GENERAL

All figures have been rounded off to the nearest thousand rupees.

Muhammad Tayyab Tareen Chief Executive Officer	Mubasher H. Sheikh Director