ANNUAL REPORT

Accounts for the period ended June 30, 2007

KARACHI ELECTRIC SUPPLY CORPORATION LTD.

Vision & Mission Statement

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

VISION STATEMENT

To ensure un-interrupted power supply to the valuable customers of the Metropolis signifying a productive and constructive role of KESC in socio economic activities and revival of national economy by way of sustainable industrial growth.

MISSION STATEMENT

* To Generate, Transmit and Distribute electricity for the progress & prosperity of the people of metropolis.
* To excel customer expectations with reliable, stable and affordable electric power.
* To improve the safety and quality of work place for its employees.
* To develop growth opportunities for the company, its employees, customers and stakeholders.
* To be ethical in compliance of all the applicable laws and corporate practices in letter & spirit.

CORPORATE VALUES

Our Management and Employees

* Nurturing and developing human resources.
* Developing managerial culture oriented towards empowerment of the Company's performing units.
* Provide an environment for continual improvement and innovation, open communication and team work.
* Recognize and reward achievements and contributions.

Our Shareholders

* Protect the interest of the Corporation's shareholders and other stakeholders.
* Be fully alive to social responsibility as a responsible corporate citizen.

Our Consumers

* According high priority to consumer satisfaction
* Maintaining high standards of quality, efficiency, reliability and safety through the use of modern technology and practices.
* Full commitment to environmental protection.
* Exceed consumers' requirement and satisfactions.
* Offer reasonable tariff.

Company Information

BOARD OF DIRECTORS

CHAIRMAN
Mr. Abdulaziz Hamad Aljomaih

VICE CHAIRMAN
Mr. Naser Al-Marri

CHIEF EXECUTIVE OFFICER
Syed Muhammad Amjad

DIRECTORS
Mr. Shan A. Ashary
Mr. Reyadh S. Al-Edrissi
Mr. Peter Hertog
Mr. Ariful Islam
Mr. Fazal Ahmad Khan
Mr. M. Ismail Qureshi
Mr. Mubasher H. Sheikh
Mr. Imran Siddiqui
Mr. S.M. Akhtar Zaidi

CHIEF FINANCIAL OFFICER
Mr. Mohammad Asghar

EXECUTIVE DIRECTOR (LEGAL) & COMPANY SECRETARY
Mr. Ali Siddiqui

BOARD's AUDIT COMMITTEE (BAC)
(constituted in compliance with Code of Corporate Governance)

Mr. Naser Al-Marri	...	Chairman
Mr. Shan A. Ashary	...	Member
Mr. Mubasher H. Sheikh	...	Member

BANKERS
National Bank of Pakistan
Habib Bank Limited
United Bank Limited
MCB Limited (formerly Muslim Commercial Bank Ltd.)
Allied Bank of Pakistan Limited
First Women Bank Limited
My Bank (formerly Bolan Bank)
Citi Bank N.A.
Standard Chartered Bank
Askari Commercial Bank
KASB Limited
Faysal Bank

AUDITORS
M/s. Ford Rhodes Sidat Hyder & Co.

REGISTERED OFFICE
2nd Floor, Pakistan Handicraft Building, Abdullah Haroon Road, Karachi.

Notice of Meeting

Notice is hereby given that the 97th Annual General Meeting of The Karachi Electric Supply Corporation Limited shall be held at Navy Welfare Centre, Liaquat Barracks, Karachi on **Tuesday, 30 October 2007** at 11:00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To confirm the Minutes of the Extra-Ordinary General Meeting (EGM) held on 30 April 2007.

2. To receive and adopt the Directors' Report and the Audited Financial Statements (with the Auditors' Report) for the year ended 30 June 2007.

3. To appoint auditors in place of those retiring and fix their remuneration for the FY 2007-08.

SPECIAL BUSINESS

4. To approve Change / Rectification of name of the Company

   To consider and pass the following as Special Resolution with or without modification:

   > "RESOLVED that name of the Company be and is hereby changed / rectified as Karachi Electric Supply Company Limited after obtaining requisite statutory approvals pursuant to the Companies Ordinance 1984."

5. Any other business with the permission of the Chair.

By order of the Board

Ali Siddiqui
Executive Director (Legal) & Company Secretary
Karachi Electric Supply Corporation Ltd.

Karachi: 5th October, 2007

N.B.

(i) Transfer Books of the Corporation will remain closed from 22 October 2007 to 30 October 2007 (both days inclusive).

(ii) Any member of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another member, as his/her proxy to attend and vote instead of him/her, and a proxy so appointed shall have such rights in respect of speaking and voting at the meeting as are available to a member.

(iii) Any individual beneficial owner of the CDC, entitled to vote at the meeting of the Company must authenticate his/her identify by showing his/her original NIC or Passport at the time of the meeting, and in case of proxy must enclose an attested copy of his/her NIC.

(iv) Form of Proxy is enclosed.

Instrument of appointment of proxy and power of attorney or any other authority under which it is signed, must be deposited at the registered office of the Company at least 48 hours before the time of the meeting.

(v) Members are requested to notify any change in their addresses.

Statement u/s 160(1)(b) of the Companies Ordinance 1984

In November 2005, Karachi Electric Supply Corporation Ltd. was privatized when GOP transferred its 73% shareholding in the capital of the Company and management control to the consortium led by M/s. KES Power Ltd.

KESC is now a private sector Company, however the word “Corporation” continues to suggest its connection with the Federal Government. Rectification/Change of name of the Company as Karachi Electric Supply Company Limited u/s 38/39 of the Companies Ordinance 1984 is therefore necessary to avoid deception.

The Directors have no interest in the Special Business as above.

Directors Report to the Shareholders

The Directors of The Karachi Electric Supply Corporation Limited are pleased to present the 95th Annual Report and Audited Accounts of the Company and the Auditor's Report thereon for the financial year ended 30 June 2007.

OVERVIEW

Government of Pakistan (GOP) in November 2005 transferred 71.5% shares and management control of the Company to KES Power Limited, a company incorporated in the Cayman Islands. At the time of privatization the grave financial technical and other difficulties besetting the Company, were mainly attributable to the absence of a phased and structured programme for rehabilitation, improvement and augmentation of facilities and infrastructure during the decade preceding privatization. GOP had been giving an average annual subsidy of Rs.8.5 billion to the company to meet operational cash shortfall. However, since November 2005 no subsidy is given to fund operational cash shortfall which translates into direct annual financial saving of approximately Rs.8.5 billion to the public exchequer / GOP. The last addition in the generating capacity of KESC was made back in 1997 when BQPS Unit-6 of 210 MW was commissioned. The demand & supply gap of electricity has continued to widen with increasing demand growing at approximately 7 to 8% per annum and deteriorating supply in the absence of new generation was exacerbated by de-rating of the existing generating capacity to the extent of 70% of installed capacity. Outdated and dilapidated transmission & distribution infrastructure was inherited by the new management, whereas critically important computerized system for the management of modern power generation, transmission & distribution network known as SCADA was yet to be properly planned. Overloading of the network was also responsible for high technical energy losses in transmission & distribution system in addition to administrative losses.

STRATEGY & IMPLEMENTATION

It was known and understood that one or two years would be grossly insufficient for a company which had been facing grave financial, technical, operational and other difficulties for such a longer period of time, to stage turn around. Upon privatization, the Board of Directors has adopted a comprehensive strategy, emphasizing an essential and positive change in both qualitative and quantitative areas of business and management to cope with the escalating cost of gas supply. The objective is obviously to turn the company into an efficient company as early as possible to benefit all the stakeholders. The Company serves a total customer base of almost 2.0 million of which 1.5 million are residential customers, 425,000 commercial and 22,000 industrial customers. The turn around strategy of the new management is mainly based on three initiatives:

* Enhancing Generation Capacity & Network
* Organizational Restructuring & Development
* Balancing, Modernization & Replacement

The quantitative areas include factors such as formulating a capital expenditure programme for expanding internal generation capacity, rehabilitating the transmission & distribution infrastructure, engineering and billing systems. Qualitative aspects include introducing cultural changes within the organization, investing in the development of human capital, information technology, customer services, internal audit, and corporate structural changes designed to introduce best practices framework and corporate governance across all areas of business operations and management.

Disclosure and transparency are key to good corporate governance practices and a Code of Principles has been developed and committees formed to over see the implementation of these principles.

COMMITMENT & SUPPORT OF THE OWNERS

The commitment, support and interest of new investor and GOP to transform the Company into an efficient and profitable organization, can be gauged from the below given facts:

i. Equity injection of Rs.6 billion through Redeemable Preference Shares (RPS) by KES Power (75%) and GOP (25%) to finance equity component of cost of new power plants.

ii. The financing facilities from local & international financial institutions for setting up new power plants, could only be managed with the sponsors support and their corporate guarantees. Financing arrangements for such a colossal sum of approximately Rs.37 billion at highly competitive interest rates were simply not possible merely on the strength of KESC balance sheet.

iii. Arrangement of US$ 50 million to meet operational cash shortfall.

iv. Additionally, GOP funded Financial Improvement Plan (FIP) has also been positively contributing towards system improvement and loss reduction.

BOARD OF DIRECTORS

KESC Board of Directors comprises of professionals having local & international experience, expertise and exposure which emphasizes on best practices and good corporate governance. BOD also includes three senior GOP nominees representing Ministry of Water & Power, Finance Division and Member Power WAPDA. The policy / major decisions are taken after in-depth discussions based on objective analysis, reports and recommendations of the Management, Board Sub-Committees and professional consultants, upholding the interest of the Company and all the stakeholders.

Business Review

GENERATION - EXPANSION & REHABILITATION

Contract for setting up a new combined cycle power plant of 220 MW was awarded in January 2007 and first Gas Turbine (GT) of 50 MW is likely to be commissioned in November 2007.

Bid evaluation process in respect of setting up of new power plant (phase-II) of 560 MW at BQPS has started and contract is likely to be awarded shortly.

As a result of major rehabilitation work, generating capacity of approximately 190 MW has been enhanced. This is despite the fact that the oldest unit (commissioned in 1964) giving us erratic 32 MW has been recently retired.

TRANSMISSION & DISTRIBUTION NETWORK - EXPANSION & REHABILITATION

Strategic Plan was prepared for rehabilitation of transmission & distribution network and the same has been and is being implemented in a phased and prioritized manner. A number of critically important projects have been commissioned or in the final stage of completion which have relatively improved network reliability & reduced technical losses and increased network (transmission & distribution) capacity. However, considering the outdated and dilapidated transmission & distribution infrastructure inherited to the new management, the improved results in tangible form would become more visible in the near future.

Directors Report to the Shareholders

BUSINESS OPERATIONS

In order to have a focused approach and to improve service delivery and customer relations including increasing efficiency & monitoring of customer service / business operations centres and in order to improve recovery of arrears and reduce administrative losses, Business Operations have been separated from Technical Operations and placed under an independent management group.

CAPITAL EXPENDITURE

Substantial capital expenditure is budgeted to be incurred for enhancing internal generation rehabilitation and enhancement of the existing transmission & distribution network as well as to improve business operations and customer services.

The financing facilities of upto PKR 37 billion have been finalized with local & international (IFC & ADB) financial institutions mainly to finance the project cost of new power plant - phase-I (220 MW) and phase-II (560 MW) in addition to capex funding to improve transmission & distribution network. It is pertinent to point out that the above power plants shall be the first addition to generation capacity after 1997.

ACTIVITIES IN REVIEW

In addition to award of contract for new power plant phase-I (220 MW) and phase-II (560 MW), establishment of the remaining eleven grid stations and SCADA system have also been ordered. Eleven grid stations are in various stages of completion and shall be commissioned in a phased manner by September 2008.

During the year under review, transmission system was expanded / augmented through addition of 220 KV O/H (48 circuit KM), 220 KV U/G (1.5 circuit KM), 132 KV O/H (61 circuit KM), 132 KV U/G (7 circuit KM). One grid station was completed and commissioned during the year whereas transmission capacity has improved by 508 MVA.

14 KM and 244 KM were respectively added to 11 KV overhead and underground distribution system network, while 772 additional 11 KV distribution sub-station & PMTs were installed during the period which has improved distribution network reliability, reduced system overloading and technical losses and increased distribution capacity by approximately 201 MVA.

As a result of significant improvement in T&D network, system load factor has improved by 4.59% notwithstanding increased system peak demand by 126 MW to 2349 MW

Corporate activities included and focused upon converting vertical management to consultation parallel management. Implementation of ERP solutions and HR policies & procedures essentially based on investing in development of human capital, have undertaken in a phased manner. A second special relief allowance equivalent to 15% basic salary has been given to all employees effective from 01 January 2007. 50% of basic salary was given to all employees as a goodwill gesture at the eve of Holy month of Ramzan. Another special relief allowance ranging from 40% to 50% of basic salary was given to all employees with the exception of employees engaged after privatization. Performance Reward Schemes have been introduced to motivate competent, committed, efficient & hardworking employees aiming at bringing about fundamental change in core business indicators such as recovery of over dues and reducing technical & administrative losses. Revised Performance based salary structure shall be introduced in near future.

FINANCIAL RESULTS

As expected losses continued in the initial years of privatization and it would be observed from the statements of accounts that after meeting all operational and administration costs, including depreciation and subsidy from the GOP and before tax the accounts show a loss of:

		Rs. In Thousands
-	Loss before Taxation	(11,957,383)
-	Add: Turnover Tax for the current year	(218,595)
		(12,175,978)
-	Brought forward losses	(22,617,290)
-	Making a total (loss) carried over to next year	(34,793,268)

It is informed that:

i. All contingent liabilities have been disclosed in note no.30.1. It is also clarified that after resolution of the disputes it is expected that there will be no financial impact in this regard.

ii. The main factor responsible for T&D losses are old and outdated distribution network and theft of electricity. Work on improvement of the system is being carried out with the help of financial improvement plan, financed by GOP as well as through capex budget of the Company. It is expected that after completion of network improvement, the T&D losses shall reduce to a reasonable level.

iii. The Company has obtained all requisite statutory approvals with regard to issuance and allotment of Redeemable Preference Shares (RPS), under the provisions of Companies Ordinance 1984 and Companies Share Capital (Variation in Rights & Privileges) Rules 2000, as a part of equity. Required returns for allotment of RPS as equity have also been filed with and accepted by SECP. However, the impending verdict of SECP on the appropriate way of disclosure of this subject shall be complied with in letter & spirit.

STATUTORY PAYMENTS

Electricity duty payable to provincial government is adjusted against outstanding electricity bills receivable from provincial government. Whereas payment on account of collection of TV license fee, WHT on suppliers, Income Tax deducted on energy bills and EOBI contribution is a continuous process, collective outstanding amounts as on 30 June 2007 are approximately Rs.205 million.

COMPLIANCE OF THE CODE OF CORPORATE GOVERNANCE

The Directors are pleased to report and the Auditors, in their Report to the Shareholders, certified that:

a. The financial statements of the Company have been prepared in conformity with the provisions of the Companies Ordinance 1984 and present fairly its state of affairs, results of its operations, cash flows and changes in equity.

b. Proper books of accounts of the Company have been maintained.

c. Appropriate accounting policies as stated in the notes annexed to the accounts have been consistently applied.

d. International Accounting Standards as applicable in Pakistan have been followed and any departure, there from, has been adequately disclosed.

e. The system of internal control is sound in design and effective in implementation.

f. There are no significant doubts about the Company's ability to continue as a going concern.

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

h. Key operating and financial data of the Company for the last ten years are given on page 15.

i. The Company is in the process of consolidation and restructuring to extinguish the accumulated loss and stage a turn around and has as such not declared dividend / bonus shares. Loss per share (LPS) for the year under review is Re.0.92.

j. The details of KESC on-going projects and future prospects have been sufficiently covered in the Directors' Report.

k. The value of the investments of KESC Provident Fund is Rs.2.389 billion as on 30.06.2007, whereas gratuity scheme of the Company is not funded and pension scheme does not exist.

l. Statement of the Board and Audit Committee's meetings held during the year is given on page 72.

m. Pattern of shareholding is placed on page 73-77.

FUTURE PROSPECTS

The structured & systematic turn around strategy adopted by Company shall be continued and reinforced in future. Each issue shall be addressed with concentration on improving core activity of the Company and bridging the prevailing gap between electricity demand & supply. With the successful execution of contracts for new power plants, main focus shall be on delivery & commissioning of the plants and meeting time lines through vigilant monitoring mechanism to benefit the consumers and the company at the earliest.

The Company shall continue to pursue the objective of improving output and service and relationship with the customers. Improving & expending network infrastructure, reducing technical & administrative losses, developing human resources capital of the Company and improving quality & standard of customer service shall continue to be among the top priority areas, to benefit all the stakeholders. The concerted efforts of the management is likely to produce further improved operating & financial results in future.

POST BALANCE-SHEET EVENT - O&M AGREEMENT WITH SIEMENS

On 13th September 2007 the SAP (ERP) system of KESC implemented by Siemens became inoperative and despite repeated complaints, Siemens were not able to make it operational. Instead, their SAP staff stopped coming to KESC offices. This caused substantial problems in the HR, financial data management and the supply chain functioning of KESC. As such, on 25th September 2007, KESC was constrained to make alternative arrangements for the implementation of SAP, and informed Siemens accordingly.

Directors Report to the Shareholders

On 26th September 2007 Siemens delivered two Notices of Termination to KESC claiming that (a) Siemens were owed various amounts towards their fee; and (b) KESC had hired one of their employees seconded to KESC, in breach of the O&M Agreement. KESC has disputed both contentions of Siemens. However, to demonstrate its good faith KESC disengaged the said employee.

KESC and Siemens have commenced negotiations to try to resolve their disputes. In the meanwhile, KESC has solicited the advice of their legal advisors in this regard to safeguard its interests. We hope that the matter will be resolved amicably.

AUDITORS

The present auditors, Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants, retire and being eligible have offered themselves for reappointment, which re-appointment has been recommended for the next term by the Board Audit Committee.

ACKNOWLEDGEMENTS

The Board announces with profound grief & sorrow, sad demise of Mr. Jalaluddin Qureshi, Director KESC, representing Finance Division, GOP, on 23 August 2007. May ALLAH rest the departed soul in eternal peace and bless the family with patience & fortitude to bear this irreparable loss.

The association of Mr. Qureshi with KESC was for the last more than seven years, when in year 2000 he was appointed as Chief Financial Officer (CFO) of the Company. He was also assuming the position of Chairman, Karachi Electric Provident Fund (KEPF). He was nominated by GOP on KESC Board of Directors in December 2006 and since then he was acting as Director of the Company as well as a member of Board Audit Committee (BAC) and made valuable contribution.

During the year Mr. Frank Scherschmidt relinquished the position of CEO effective from 24 March 2007 and Syed Muhammad Amjad assumed the position of CEO effective from 05 April 2007. Director Tasneem Noorani resigned and Mr. Ariful Islam appointed as Director of the Company in his place. GOP nominated Directors Mr. Ashfaq Mahmood and Mr. Muhammad Anwar Khalid were substituted respectively by Mr. M. Ismail Qureshi, Secretary Ministry of Water & Power, GOP and Mr. Fazal Ahmad Khan, Member Power, WAPDA. The Board wishes to place on record appreciation for services of outgoing directors and welcomes the new directors on the Board.

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

FOR AND ON BEHALF OF THE BOARD

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

Karachi: 25th September, 2007

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF GOOD CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purposes of establishing a frame work of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Corporation has applied the principles contained in the Code in the following manner:-

1. There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.

2. The company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. The investment of minority shareholders in the capital of the Company is quite insignificant. The proportionate representation (merely 0.013%), of an already negligible minority interests (just 1.35%), at election of directors in last AGM, was not considered effective and meaningful representation of minority interests. At present there is no independent non-executive director on the Board of Directors representing the minority shareholders.

3. Although three GOP nominated directors on the Board may not technically qualify as independent directors, they certainly qualify the test prescribed in the Code and do exercise independent business judgements.

4. Chief Executive is the only executive director of the Company out of thirteen directors.

5. The Directors of the Company have confirmed that none of them is serving as a Director in more than ten listed companies, including this Company.

6. All the Resident Directors of the Company are registered as taxpayers, whereas the condition of being a Registered Tax Payer in Pakistan does not apply to foreign nationals and non-resident Pakistanis. None of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a stock exchange or has been declared as a defaulter by that stock exchange.

7. The Directors filled up casual vacancies occurring on the Board within thirty days.

8. The Company had prepared a "Statement of Ethics & Business Practices", duly approved by the Board of Directors and circulated among the employees / directors of the Company. However, in the face of changed scenario, the Company is in the process of review, update & improve "Statement of Ethics & Business Practices."

9. The Board has developed a Vision & Mission Statement, overall corporate strategy and significant policies of the Company. The complete record of particulars of significant policies along with the dates on which they were approved / amended, as conveyed by the Board's Secretariat, is maintained by the Departments.

10. All the powers of the Board have been duly exercised and the Board has taken decision on material transactions, including appointment, determination of remuneration and terms & conditions of employment of the CEO.

11. The Board members are well aware of their duties & responsibilities. Orientation Course was arranged for the Directors to apprise them of their duties & responsibilities.

12. The meetings of the Board were presided over by the Chairman and in his absence, by a Director elected by the Board for the purpose and the Board met -05- times during the year. However, due to delay in finalization of Annual Audited Accounts FY 2005-06 and sixty days extension allowed by SECP for holding AGM, no Board Meeting was held during the quarter July-September 2006. Whereas the Board met twice during the quarter January-March 2007 and April-June 2007. Written

notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated within thirty days.

13. The Board has approved appointment of Chief Financial Officer, Company Secretary and Heads of all Departments, including their remuneration and terms & conditions of employment, as recommended by the CEO under KESC Rules.

14. The Directors' Report for this year has been prepared in compliance with the requirement of the Code and fully describes the salient matters required to be disclosed.

15. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

16. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

17. The Company has complied with the corporate and financial reporting requirements of the Code.

18. The Board has formed an Audit Committee, it comprises of four members. All of them are non-executive Directors including the Chairman of the Committee.

19. The meetings of the Board's Audit Committee (BAC) were mostly held prior to approval of interim and final results of the Company and before & after completion of external audit, as required by the Code. Sixty (60) days extension in time for holding of AGM and circulation of annual financial statements for the year ended 30 June 2006 was allowed by SECP. Consequently the Audit Committee did not meet in the first quarter i.e. July-September 2006. The meeting of Audit Committee to inter alia review quarterly accounts January-March 2007 was set on 30 April 2007. Notices, agenda and working papers were circulated well in advance. The meeting could not be held due to lack of quorum as three foreign based members of the Committee could not arrive in Pakistan. The terms of reference of the Committee have been framed and the Committee was duly informed for compliance.

20. The Board has set up an effective internal audit function for the Company, which was operational during the year.

21. The statutory Auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.

22. The statutory Auditors or the persons associated with them have not been appointed to provide other services.

23. We confirm that all other material principles contained in the Code have been fully complied with.

ON BEHALF OF THE BOARD OF DIRECTORS

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

Karachi: 25th September, 2007

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of The Karachi Electric Supply Corporation Limited to comply with the Listing Regulations No.37 (Chapter XI) of the Karachi Stock Exchange, Clause 45 (Chapter XIII) of the Listing Regulations of the Lahore Stock Exchange and Section 36 (Chapter XI) of the Listing Regulations of the Islamabad Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2007.

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

Karachi: 3rd October, 2007

Income and where it went

	July-June 2006-2007		July-June 2005-2006	
	(Rupees in thousand)			
	Amount	**%**	**Amount**	**%**
Our Income was:				
From sale of energy	44,661,644	95.87	41,422,533	94.44
From other sources	1,924,545	4.13	2,438,615	5.56
	46,586,189	100.00	43,861,148	100.00
we paid out and provide:				
Fuel:				
Gas	19,023,755	40.84	18,813,159	42.89
Oil	9,575,762	20.55	10,403,704	23.72
Power purchased	29,363,943	63.03	23,991,251	54.70
Total Fuel and Power purchased	57,963,460	124.42	53,208,114	121.31
Tariff adjustment on account of increase in fuel prices and cost of power purchased	(14,447,409)	(31.01)	(9,482,007)	(21.62)
	43,516,051	93.41	43,726,107	99.69
Expenses for other generation expenses	1,035,856	2.22	1,078,669	2.46
Transmission and Distribution expenses	4,173,756	8.96	3,909,804	8.91
Consumer services and Billing expenses	1,363,307	2.93	1,143,587	2.61
Admin. and General expenses	1,885,752	4.05	1,373,044	3.13
Porv. for doubtful debts	1,881,461	4.04	3,328,840	7.59
Other charges	205,754	0.44	293,285	0.67
Depriciation	3,329,498	7.15	3,412,759	7.78
Financial charges	1,152,137	2.47	225,381	0.51
Subsidies from GoP	-	-	(7,576,144)	(17.28)
Surplus / (Deficit)	(11,957,383)	(25.67)	(7,054,184)	(16.08)
	46,586,189	100.00	43,861,148	100.00

Historical Highlights

Description		1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Units Generated	MILL KWH	7,318	6,613	7,745	7,989	8,709	8,908	9,274	9,304	9,130	8,169
Units purchased	MILL KWH	3,030	4,007	3,701	3,688	3,406	3,809	3,664	4,289	5,370	6,708
Units sold	MILL KWH	6,385	6,131	6,430	6,924	6,717	7,041	7,912	8,505	9,060	9,367
Revenue from sale of energy	RS.MILL	20,726	23,285	23,035	28,118	29,841	32,279	36,543	38,415	41,922	44,662
Other Revenue	RS.MILL	540	630	1,155	886	1,206	1,299	1,313	1,401	2,439	1,929
Total revenue	RS.MILL	21,266	23,915	24,190	29,004	31,047	33,578	37,856	39,816	44,361	46,591
Expenses:											
Cost of Fuel	RS.MILL	10,777	9,312	12,202	17,717	19,272	21,051	20,787	23,085	29,217	28,599
Cost of Power Purchased	RS.MILL	7,740	11,401	13,916	13,780	13,191	15,582	14,925	17,707	23,991	29,364
Total fuel + Purchased	RS.MILL	18,517	20,713	26,118	31,497	32,463	36,633	35,712	40,792	53,208	57,963
Less: tariff adjustment due to increase in fuel prices and cost of power purchased		-	-	-	-	-	-	-	(1,491)	(9,482)	(14,447)
Net fuel and Power Purchased	RS.MILL	18,517	20,713	26,118	31,497	32,463	36,633	35,712	39,301	43,726	43,516
O&M Cost	RS.MILL	2,402	3,220	3,227	3,220	3,629	3,536	3,835	4,710	7,851	8,460
Depreciation	RS.MILL	2,267	2,860	2,969	2,919	2,829	3,157	3,160	3,345	3,413	3,329
Financial charges	RS.MILL	3,162	3,042	5,481	5,725	7,750	1,985	910	138	379	1,316
Provision for doubtful debts	RS.MILL	1,698	1,213	1,094	1,729	1,071	2,008	2,249	2,308	3,329	1,881
Other charges	RS.MILL	77	231	88	115	867	153	289	390	293	46
Total expenses	RS.MILL	28,123	31,279	38,977	45,205	48,609	47,472	46,155	50,192	58,991	58,548
Net loss	RS.MILL	(6,857)	(7,364)	(14,787)	(16,201)	(17,562)	(13,894)	(8,299)	(10,376)	(14,630)	(11,957)
Recoveries/receivable from Govt. of Pak. under the terms of implementation agreement	RS.MILL	-	-	-	-	-	-	-	-	7,576	-
other Subsidies from GoP	RS.MILL	-	-	-	-	-	5,751	9,572	10,896	-	-
Loss before taxation	RS.MILL	(6,857)	(7,364)	(14,787)	(16,201)	(17,562)	(8,143)	1,273	520	(7,054)	(11,957)
Taxation: Current	RS.MILL	(1,177)	(119)	(130)	(152)	(154)	(168)	(187)	(199)	(212)	(219)
Prior		-	-	-	-	-	-	-	-	75	-
Net Tax	RS.MILL	(1,177)	(119)	(130)	(152)	(154)	(168)	(187)	(199)	(137)	(219)
(Loss)/ Profit after Taxation	RS.MILL	**(8,034)**	**(7,483)**	**(14,917)**	**(16,353)**	**(17,716)**	**(8,311)**	**1,086**	**321**	**(7,191)**	**(12,176)**

Operating Results of Generating Stations

		July-June 2006-2007	July-June 2005-2006
Installed Capacity	MW	**1,756**	1,756
Actual Capability	MW	**1,478**	1,324
Firm Capacity	MW	**1,478**	1,324
Maximum Demand	MW	**2,354**	2,223
Units Generated	MWH	**8,168,832**	9,129,737
Auxiliary Consumption	MWH	**638,361**	684,884
	%	**7.8%**	7.5%
Units Sent out	MWH	**7,530,471**	8,444,853
Total Power Purchased	MWH	**6,707,870**	5,370,421
Total Units available	MWH	**14,238,341**	13,815,274
Units Billed	MWH	**9,367,391**	9,060,168
T & D Losses	MWH	**4,870,950**	4,755,106
T & D Losses	%	**34.2%**	34.4%

Transmission and Distribution System

Description			As on June 30, 2006	Additions during 2006-07	As on June 30, 2007
Transmission System					
220 KV Overhead	—	Route Kilometers	131.886	23.114	**155.000**
	—	Circuit Kilometers	263.772	48.228	**312.000**
220 KV Underground	—	Route Kilometers	6.264	0.736	**7.000**
	—	Circuit Kilometers	12.528	1.472	**14.000**
132 KV Overhead	—	Route Kilometers	334.683	30.317	**365.000**
	—	Circuit Kilometers	530.554	61.446	**592.000**
132 KV Underground	—	Route Kilometers	64.882	6.118	**71.000**
	—	Circuit Kilometers	74.160	6.840	**81.000**
66 KV Overhead	—	Route Kilometers	181.731	(17.731)	**164.000**
	—	Circuit Kilometers	212.500	(48.500)	**164.000**
66 KV Underground	—	Route Kilometers	6.270	(3.130)	**3.140**
	—	Circuit Kilometers	6.630	(3.490)	**3.140**
220/132/66/11 KV Grid Stations Nos.			52	1	53
Transmission capacity in MVA					
Auto Transformers:					
220/132 KV		MVA	2,500	250	**2,750**
132/66 KV		MVA	195	20	**215**
		Total	2,695	270	**2,965**
Grid power transformers:					
132/11 KV		MVA	3,326.0	268.0	**3,594**
66/11 KV		MVA	222.5	(29.5)	**193**
		Total	3,548.5	238.5	**3,787**
Distribution System					
11 KV Overhead	—	Kilometers	2,223.127	14.430	**2,237.557**
11 KV Underground	—	Kilometers	4,064.078	244.350	**4,308.428**
400 V Overhead	—	Kilometers	9,625.829	20.040	**9,645.869**
400 V Underground	—	Kilometers	1,070.421	4.900	**1,075.321**
11 KV Distribution S/S/PMTs		Nos.	10,262	772	**11,034**
11 KV Distribution capacity		MVA	4,109.140	201.375	**4310.515**
Street Lights			243,329	—	**243,329**

Load Frequency

Description		2005-2006		2006-2007
System evening peak demand	MW	2,223	126	**2,349**
Day peak demand	MW	2,177	158	**2,335**
Base demand (Night)	MW	945	84	**1,029**
System Load Factor	%	73.57%	-4.59%	**68.98%**

ERNST & YOUNG

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED as at June 30, 2007 and the related profit and loss account, the cash flow statement and the statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the Corporation as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change in accounting policy, as stated in note 3.9, with which we concur;

  (ii) the expenditure incurred during the year was for the purpose of Corporation's business; and

  (iii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects of the Corporation;

(c) in our opinion, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, the cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2007 and of the loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Without qualifying our opinion, we draw attention to the following matters:

(i) the ultimate outcome of contingencies, arising from various matters discussed in note 30.1 to the accompanying financial statements, cannot presently be determined and, hence, pending the resolution thereof, no provision has been made for the same in the accompanying financial statements;

(ii) as referred to in note 45.1 to the financial statements, transmission and distribution losses are approximately 34.23% (2006: 34.43%) of the total electricity generated during the year. The management of the Corporation maintains that one of the factors attributable to these losses is the alleged theft of electricity, which has directly affected the profitability of the Corporation. These factors, in view of the management, if controlled effectively, may enable the Corporation to minimize its overall losses. The amount of theft, however, remains indeterminate; and

(iii) as disclosed in note 16.9 to the accompanying financial statements, redeemable preference shares have been treated as part of equity in view of the requirements of the Companies Ordinance, 1984. The matter of its classification will be dealt in accordance with the clarification from Securities and Exchange Commission of Pakistan, as fully explained in the above referred note.

Ford Rhodes Sidat Hyder & Co.

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

Karachi: 3rd October, 2007

Balance Sheet
as at June 30, 2007

	Note	**June 30, 2007**	June 30, 2006 (Restated)
		(Rupees in thousands)	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	4	**50,769,714**	42,140,751
Long-term loans	5	**113,981**	120,484
Long-term deposits	6	**18,700**	8,294
Due from the Government	7	**1,110,813**	1,428,188
		52,013,208	43,697,717
CURRENT ASSETS			
Current portion of amount due from the Government		**317,375**	317,375
Stores, spares and loose tools	8	**4,668,113**	3,435,089
Trade debts	9	**8,640,510**	7,682,994
Loans and advances	10	**293,518**	359,573
Trade deposits and prepayments	11	**28,270**	24,095
Accrued interest on bank deposits		**6,868**	8,263
Other receivables	12	**6,529,655**	7,152,546
Taxation- net	13	**278,486**	197,270
Short-term investment	14	**607,717**	890,476
Cash and bank balances	15	**3,937,319**	1,834,657
		25,307,831	21,902,338
TOTAL ASSETS		**77,321,039**	**65,600,055**
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share Capital	16	**50,594,063**	46,084,762
Reserves			
Capital reserves	17	**509,172**	509,172
Revenue reserves	18	**5,372,356**	5,372,356
		5,881,528	5,881,528
Accumulated losses		**(34,793,268)**	(22,617,290)
		21,682,323	29,349,000
ADVANCE AGAINST REDEEMABLE PREFERENCE SHARE CAPITAL	19	**1,478,193**	1,476,811
NON-CURRENT LIABILITIES			
Long-term financing	20	**1,136,813**	1,454,188
Long-term deposits	21	**3,353,849**	3,121,353
Deferred liabilities	22	**4,389,582**	3,830,609
Deferred revenue	23	**6,979,190**	5,914,772
Specific grant from the Government of Pakistan	24	**4,702,421**	1,985,878
		20,561,855	16,306,800
CURRENT LIABILITIES			
Trade and other payables	25	**22,098,688**	11,952,405
Accrued mark-up	26	**917,581**	610,437
Short-term borrowings	27	**7,596,128**	3,600,000
Short-term deposits	28	**2,175,989**	1,428,059
Provisions	29	**492,907**	559,168
Current maturity of long-term financing		**317,375**	317,375
		33,598,668	18,467,444
CONTINGENCIES AND COMMITMENTS	30		
TOTAL EQUITY AND LIABILITIES		**77,321,039**	65,600,055

The annexed notes 1 to 52 form an integral part of these financial statements.

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

S. MOHAMMAD AKHTAR ZAIDI
DIRECTOR

Profit and Loss Account

for the year ended June 30, 2007

	Note	June 30, 2007	June 30, 2006 (Restated)
		(Rupees in thousands)	
REVENUE			
Sale of energy - net	31	**44,661,644**	41,922,415
Rental of meters and equipment		**197,830**	195,190
		44,859,474	42,117,605
EXPENDITURE			
Purchase of electricity	32	**(29,363,943)**	(23,991,251)
Consumption of fuel and oil	33	**(28,599,517)**	(29,216,863)
		(57,963,460)	(53,208,114)
Tariff adjustment on account of increase in fuel prices and cost of power purchase		**14,447,409**	9,482,007
		(43,516,051)	(43,726,107)
Expenses incurred in generation, transmission & distribution	34	**(8,444,599)**	(8,425,304)
		(7,101,176)	(10,033,806)
Consumers services and administrative expenses	35	**(5,225,031)**	(6,321,281)
Other operating income	36	**1,726,715**	2,243,425
Other operating expenses	37	**(205,754)**	(293,285)
		(3,704,070)	(4,371,141)
OPERATING LOSS		**(10,805,246)**	(14,404,947)
Finance costs	38	**(1,152,137)**	(225,381)
LOSS BEFORE GOVERNMENT GRANT		**(11,957,383)**	(14,630,328)
Recoveries / recoverable from the GoP under the terms of Implementation Agreement		**-**	7,576,144
LOSS BEFORE TAXATION		**(11,957,383)**	(7,054,184)
Taxation	39	**(218,595)**	(137,478)
NET LOSS FOR THE YEAR		**(12,175,978)**	(7,191,662)
LOSS PER SHARE (Rupee)	40	**(0.92)**	(0.54)

The annexed notes 1 to 52 form an integral part of these financial statements.

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

S. MOHAMMAD AKHTAR ZAIDI
DIRECTOR

Cash Flow Statement
for the year ended June 30, 2007

	Note	June 30, 2007	June 30, 2006 (Restated)
		(Rupees in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilized / generated from operations	41	**1,020,847**	(4,111,282)
Payment to worker's profit participation fund		**(100)**	(34,853)
Payment in respect of fatal accident		**(1,261)**	-
Deferred liabilities paid		**(167,692)**	(284,167)
Income tax paid		**(299,811)**	(169,672)
Receipt in deferred revenue		**1,541,715**	1,618,616
Interest on consumer deposits paid		**(69,764)**	(294,215)
Interest on running finance		**(514,779)**	-
Interest received on bank deposits		**63,542**	35,070
Net cash generated from / (used in) operating activities		**1,572,697**	(3,240,503)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(12,010,094)**	(3,722,577)
Proceeds from disposal of fixed assets		**55,353**	233,400
Long-term loans		**6,503**	21,746
Long-term deposits		**(10,406)**	(5,355)
Net cash used in investing activities		**(11,958,644)**	(3,472,786)
CASH FLOWS FROM FINANCING ACTIVITIES			
Specific grant from the Government of Pakistan		**3,034,934**	1,607,543
Interest on FIP funds		**(318,391)**	-
Receipt against redeemable preference share capital		**4,510,683**	1,476,811
Security deposits from consumers		**232,496**	308,236
Murahaba financing		**750,000**	-
Net cash generated from financing activities		**8,209,722**	3,392,590
NET DECREASE IN CASH AND CASH EQUIVALENT		**(2,176,225)**	(3,320,699)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**(874,867)**	2,445,832
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	42	**(3,051,092)**	(874,867)

The annexed notes 1 to 52 form an integral part of these financial statements.

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

S. MOHAMMAD AKHTAR ZAIDI
DIRECTOR

Statement of Changes in Equity
for the year ended June 30, 2007

	Issued, subscribed and paid-up capital		RESERVES			
	Ordinary Shares	**Perference Shares**	**Capital Reserves**	**Revenue Reserves**	**Accumulated Losses**	**Total**
	(Rupees in thousand)					
Balance as at June 30, 2005	46,084,762	—	509,667	5,372,356	(15,494,339)	36,472,446
Effect of prior year adjustment (note 43)	—	—	—	—	68,711	68,711
Fire and machinery breakdown insurance	—	—	(495)	—	—	(495)
Net loss for the year - restated	—	—	—	—	(7,191,662)	(7,191,662)
Balance as at June 30, 2006	46,084,762	—	509,172	5,372,356	(22,617,290)	29,349,000
Issuance of 1,291,944,991 redeemable preference shares at Rs.3.5 each - net	—	4,509,301	—	—	—	4,509,301
Net loss for the year	—	—	—	—	(12,175,978)	(12,175,978)
Balance at June 30, 2007	46,084,762	4,509,301	509,172	5,372,356	(34,793,268)	21,682,323

The annexed notes 1 to 52 form an integral part of these financial statements.

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

S. MOHAMMAD AKHTAR ZAIDI
DIRECTOR

1. THE CORPORATION AND ITS OPERATIONS

The Karachi Electric Supply Corporation Limited (the Corporation) was incorporated as a limited liability company on September 13, 1913 under the Indian Companies Act, 1882. The Corporation is listed on Karachi, Lahore and Islamabad stock exchanges.

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

The registered office of the Corporation is situated at 2nd Floor, Handicraft Chamber, Abdullah Haroon Road, Karachi.

During the year ended June 30, 2006, the privatization of the Corporation was finalized and new management took over the charge of the Corporation, with effect from November 29, 2005. The new management of the Corporation formally assumed the charge of the operations of the Corporation in the 1,141st meeting of the Board of Directors which was held on November 29, 2005. Further, an Implementation Agreement was entered into between the Government of Pakistan (GoP) and the Corporation setting out the key terms and conditions of the take over.

New investors include KES Power Limited, Hassan Associates (Private) Limited and Premier Mercantile Services (Private) Limited who hold 71.5%, 1.0% and 0.5% shares in the Corporation, respectively. Al Jomaih Power Limited, Saudi Arabia, is the ultimate parent company of the Corporation as it holds 60% equity in KES Power Limited.

The Corporation has entered into a contract with Siemens Pakistan Engineering Limited on December 01, 2005 for the Operation and Management (O&M) of the Corporation. (refer note 47)

2. SIGNIFICANT EVENTS

2.1 Procurement of New Power Generation Plant and Finance Facilities:

As part of the envisioned infrastructure rehabilitation program, the Corporation has started a two phased capital investment program designed to increase its power generation capacity, in addition to rehabilitation of its existing generation, and to improve the quality of service to its consumers.

For the purposes of implementing the said capital investment program, the following financing arrangements, have been entered into during the current year:

(a) A Syndicate term loan agreement with a consortium of local banks and financial institutions, amounting to Rs. 8.0 billion, for the purpose of capital expenditure on the 220 MW Korangi Thermal Power Station. Subsequent to the year end, out of the total facility of Rs. 8.0 billion, a sum of Rs.2.4 billion has been disbursed to the Corporation.

(b) A loan agreement amounting to USD 125 million with the International Finance Corporation (IFC), for the purpose of capital expenditure on power generation, transmission and network improvement projects. Subsequent to the year end, out of the total facility of USD 125, million, an amount of USD 45.000 million has been disbursed to the Corporation.

(c) A loan agreement amounting to USD 150 million with the Asian Development Bank (ADB), for the purpose of capital expenditure on power generation, transmission and network improvement projects. To date, the Corporation has not sought any disbursement from the said facility.

Pursuant to the resolution passed by the Shareholders of the Corporation, in its Extra ordinary General Meeting held on April 30, 2007, the issue of further capital to the extent of USD 50 million to be converted to equivalent PKR at applicable exchange rate on the date of subscription with a cap of USD 1 = PKR 90 viz. additional share capital in PKR upto maximum of 4.5 billion, ranking parri passu in every respect with the existing capital, to IFC and ADB (USD 25 million each) without making a right issue has been approved subject to the approval of the Federal Government / Securities and Exchange Commission of Pakistan as required under section 86(1) of the Companies Ordinance, 1984. The IFC and ADB can exercise this option latest by December 15, 2010.

Pursuant to the resolution passed by the Board of the Corporation in its 1147th meeting held on February 24, 2007, a contract to purchase combined cycle power generating plant (Phase I project at Korangi Industrial Area) having capacity of 220 MW with chiller equipment at a total cost of USD 187.7 million from consortium of Metal Construction of Greece SA (METKA) and Mandalay Group Holdings Corporation (MANDALAY) ("Turnkey contractor") has been awarded.

2.2 Share option to Corporation's Employee:

The Ministry of Privatization and Investment (Privatization Commission), GoP, announced vide its letter, No F.1(2)KESC/Fin.Rest/PC/01, dated August 28,2006 offer for sale of 961,196,474 Ordinary shares of the Corporation held by the GoP, representing 7.3% of the total Ordinary shares issued by the Corporation as at June 30, 2006, at Rs. 1.65 per Ordinary share, to be divided equally among all employees on payroll of the Corporation at the closing date of November 29, 2005. Accordingly, 18,587 employees are entitled to the purchase of said shares on payment of Rs.85,326 each as share money.

2.3 Staff Early Retirement Scheme:

During the current year, the management of the Corporation, pronounced a policy to facilitate employees' early retirement based on the certain established guidelines whereby employees attaining the age of 57 years may file request for early retirement, subject to discretion of the management. Such employees will be entitled to Provident Fund and Gratuity, up to the effective date of early retirement, encashment of accrued leave for LPR (upto a maximum of 365 days), encashment of cash value of post-retirement benefit of free electricity and medical benefit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following new standards and amendments of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard or amendment:

IAS- 1 (Revised) Presentation of Financial Statements	effective from accounting period beginning on or after January 01, 2009
IAS- 23 (Revised) Borrowing Costs	effective from accounting period beginning on or after January 01, 2009
IAS- 41 Agriculture	effective from accounting period beginning on or after May 22, 2007
IFRS- 2 Share based Payment	effective from accounting period beginning on or after December 06, 2006
IFRS- 3 Business Combinations	effective for business combinations for which agreement date is on or after December 06, 2006
IFRS- 5 Non-current Assets Held for Sale and Discontinued Operations	effective from accounting period beginning on or after December 06, 2006
IFRS- 6 Exploration for and Evaluation of Mineral Resources	effective from accounting period beginning on or after December 06, 2006

In addition, interpretations in relation to certain IFRSs have been issued by the International Accounting Standards Board that are not yet effective.

The Corporation expects that the adoption of the above standards, amendments and interpretations will have no impact on the Corporation's financial statements in the period of initial application.

3.3 Basis of measurement

These financial statements have been prepared under the historical cost convention.

3.4 Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Corporation's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Corporation's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

Property, plant and equipment

The Corporation reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis. In making these estimates, the Corporation uses the technical resources available with the Corporation. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with corresponding effects on the depreciation charge and impairment.

Stores, spares and loose tools

The Corporation reviews the net realisable value of stores, spares and loose tools to assess any diminution in the respective carrying values. Net realisable value is estimated with reference to the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

Trade debts

The Corporation reviews its doubtful trade debts at each reporting date to assess whether provision should be recorded in the profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 22 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

Taxation

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

3.5 Property, plant and equipment

(i) Operating fixed assets

These are stated at cost less accumulated depreciation, except for leasehold land which is stated at cost.

Cost in relation to plant and machinery, grid stations, overhead mains and transformers signify historical costs. Stores and spares, which form part of the contract under which the project was undertaken, are also capitalized with plant and machinery.

Depreciation is charged to income applying the straight line method whereby the depreciable amount of an asset is written off over its estimated useful life at rates disclosed in note 4. With effect from the current year, depreciation on additions is charged from the month in which the asset is available for use up to the month preceding the disposal, even if during that period the asset is idle (see note 4.1.1). In case of extension and addition in existing units, depreciation is provided from the date of actual commissioning and in respect of material replacements and modernization, from the date of capitalization. Cost of subsequent acquisition of stores and spares under specific agreement for specific project are depreciated over the remaining economic useful life of such plant and machinery. The rates used are stated in note 4.1 to the financial statements.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of fixed asset is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in the year the item is de-recognized.

Useful live are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors

Gains and losses on disposals of the assets are included in income currently.

Maintenance and normal repairs are charged to the profit and loss account as and when incurred.

(ii) Capital work-in-progress

Capital work-in-progress is stated at cost. It consists of expenditure incurred and advances made in respect of operating fixed assets in the course of their construction and installation, including salaries and wages attributable to capital work-in-progress, determined by the management.

3.6 Borrowing costs

Interest costs on borrowings to finance the acquisition, construction and production of the qualifying assets are capitalised, during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

3.7 Investments

Investments are classified as either financial assets at fair value through profit or loss, available for sale or held to maturity investments. Management determines the appropriate classification of its investment at the time of purchase.

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

Subsequent to initial recognition, investments classified as held to maturity are carried at amortised cost (duly adjusted for amortization of discount or premium).

For investments carried at amortised cost, and those carried at fair value through profit and loss, gains and losses are recognised in profit and loss account when the investments are de-recognised or impaired, as well as through the amortisation process.

3.8 Loans, advances and deposits

These are recognised at cost, which is the fair value of the consideration given. However, an assessment is made at each balance sheet date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such indication exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying value.

3.9 Stores, spares and loose tools

Stores, spares and loose tools are stated at lower of cost, comprising invoice values plus other charges incurred thereon and net realisable value. Cost is determined on a weighted average basis.

Net realisable value is determined on the basis of estimated selling price of the item in the ordinary course of business less costs necessary for its sale.

Items in-transit are valued at cost comprising invoice values plus other charges incurred thereon accumulated to the balance sheet date.

Provision is made for any slow moving and obsolete items.

CHANGE IN ACCOUNTING POLICY

During the current year, the Corporation changed its accounting policy in respect of the valuation of stores, spares and loose tools, whereby, with effect from the current year, these are being valued using the moving weighted average cost formula, calculating the average of items therein as each additional shipment is received, as opposed to the past policy of valuing stores, spares and loose tools on the basis of weighted average cost formula, with average of items therein calculated on a periodic basis. The said change has been made as the Corporation believes that the changed basis provide more relevant and reliable information about stores, spares and loose tools.

International Accounting Standard (IAS) -8 “Accounting Policies, Changes in Accounting Estimates and Errors” requires retrospective application of a change in accounting policy to adjust the opening balance of each affected component of the balance sheet for the earliest prior period presented and disclosure of the other comparative amounts for each prior period presented as if the new accounting policy had always been applied. However, it is impracticable for the Corporation to apply the said change in accounting policy retrospectively, as it cannot determine the cumulative effect of applying the policy to all prior periods and the current period due to the replacement of previous inventory management system with a new ERP system. Hence, it is not possible to quantify the impact of the change in accounting policy in these financial statements.

CHANGE IN ACCOUNTING ESTIMATE

In addition to the change in accounting policy, as discussed above, the Corporation during the current year changed the basis for determining general provision for slow moving and obsolete stores, spares and loose tools, whereby, with effect from the current year, provision for the same has been made keeping in perspective their consumption pattern. As a result, the following rates will henceforth be used for determining slow moving and obsolete stores, spares and loose tools:

Depletion Span	Rate for slow moving stores	Rate for slow moving spares
Up to 1 year	0%	0%
More than 1 year but less then 3 years	10%	10%
More than 3 years but less the 6 years	20%	10%
More than 6 years but less then 8 years	30%	10%
More than 8 years but less then 10 years	40%	15%
Above 10 years	40%	15%
No Movement	50%	15%

International Accounting Standard (IAS) -8 "Accounting Policies, Changes in Accounting Estimates and Errors" requires disclosure of the amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to determine. The management of the Corporation has assessed that it is not practicable to determine the effect of the said change in accounting estimate.

3.10 Trade debts

These are recognised and carried at original billed amount less provision for doubtful debts. An estimate for doubtful debts is made based on a review of all outstanding amounts at the year end on a time based criteria, excluding dues of Federal / Provincial Government and Local Bodies.

Bad debts are written off when identified.

3.11 Other receivables

These are stated at cost, less provision for impairment, if any.

3.12 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, cash at banks and short term investments net of short term borrowings.

3.13 Deferred revenue

Amounts received from consumers for providing service connections, extension of mains and street lights are credited to deferred revenue along with the Transfer from Specific Grants upon completion of related work, with 5% thereof taken to the profit and loss account each year.

3.14 Employee benefits

3.14.1 Defined benefit gratuity scheme

The Corporation operates an unfunded and approved gratuity scheme covering eligible employees for which provision is made in accordance with the recommendations of the actuary using the "Projected Unit Credit Method". Gratuity, however, is payable only on completion of the prescribed qualifying period of service of 8 years.

3.14.2 Defined contributory provident fund

The Corporation also operates an approved contributory provident fund for all employees. Equal monthly contributions are made, both by the Corporation and the employees, to the fund at the rate of 10% of basic salary and cost of living allowance.

3.14.3 Post retirement medical benefits

The Corporation offers its employees post retirement medical coverage for a period of 10 years and for their dependants, for a period of 5 years for which provision is made in accordance with the recommendations of the actuary using the "Projected Unit Credit Method".

3.14.4 Electricity rebate

Employee receives a rebate on the amount charged by the Corporation on its electricity bills. The rebate continues for the first five years of retirement. Provision in this regard is made in accordance with the recommendations of the actuary using the "Projected Unit Credit Method".

3.14.5 Earned leave

The Corporation offers encashment of leaves after accumulation of maximum of 60 days for staff and allows Leave Preparatory to Retirement (LPR) to officers who have opted for encashment of leave, to the extent of 365 days before actual retirement date. LPR to those officers who have not opted for encashment, are entitled to unlimited accumulated earned leave before their actual retirement date. Provision in this regard is made in accordance with the recommendations of the actuary using the "Projected Unit Credit Method".

3.15 Actuarial gains and losses

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the defined benefit obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

3.16 Taxation

3.16.1 Current

Provision for taxation is based on taxable income at the current rates of taxation under the Income Tax Ordinance, 2001, or minimum tax under Section 113 of the Income Tax Ordinance, 2001, whichever is greater, after taking into account tax credits and tax rebates available, if any.

3.16.2 Deferred

Deferred tax is provided using the liability method on all temporary differences at the balance sheet date, between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that the deductible temporary differences will reverse in the future and sufficient taxable income will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted at the balance sheet date.

3.17 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Corporation.

3.18 Provisions

Provisions are recognised when the Corporation has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

3.19 Revenue recognition

3.19.1 Energy sale

Revenue is recognised on supply of electricity to consumers based on meter readings at the rates notified by Government from time to time, except for National Transmission and Despatch Company, Karachi Nuclear Power Plant and Pakistan Steel Mills Corporation (Private) Limited where tariff is applied as per agreements with these entities.

3.19.2 Late payment surcharge

Surcharge on late payment is accounted for after the due date of payment has passed. In case of Government and Local Bodies, late payment surcharge is accounted for on receipt basis.

3.19.3 Rebate on electricity duty

Rebate on electricity duty is recognised at the rates specified by the Government and is recognized on receipt basis.

3.19.4 Grant from Government

General Grant

General grant, including tariff adjustment due to increase in fuel prices and cost of power purchase, is recognised on accrual basis when the Corporation qualifies to receive it.

Specific Grant for FIP

Specific grant is recognised as income on a systematic and rational basis over the useful life of corresponding assets.

3.20 Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of that asset is estimated and impairment losses are recognised in the profit and loss account.

3.21 Foreign currencies

The financial statements are presented in Pak Rupee, which is the Corporation's functional and presentation currency. Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the balance sheet date. Gains and losses on translation are taken to income currently. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3.22 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognised at the time when the Corporation loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of financial assets and financial liabilities are taken to profit and loss account currently.

3.23 Offsetting of financial assets and financial liabilities

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

3.24 Appropriations to reserves

Appropriations to reserves are recognised in the financial statements in the period in which these are approved.

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
4. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	4.1	**39,874,984**	40,843,472
Capital work-in-progress	4.2	**10,894,730**	1,297,279
		50,769,714	42,140,751

4.1 OPERATING FIXED ASSETS

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2006	Additions	(Disposals)	As at June 30, 2007	Rate	As at July 01, 2006	Charge for the year	(On disposals)	As at June 30, 2007	As at June 30, 2007
	(Rupees in thousand)				%	(Rupees in thousand)				
June 30, 2007										
Freehold land	293,433	78,544	-	371,977	-	-	-	-	-	371,977
Leasehold land	362,225	-	-	362,225	-	-	-	-	-	362,225
Buildings on leasehold land	2,713,173	4,624	(6,474)	2,711,323	2 to 20	930,254	63,562	(3,828)	989,988	1,721,335
Plant and machinery	28,843,905	556,286	-	29,400,191	5 to 20	18,905,885	961,622	-	19,867,507	9,532,684
Transmission and distribution network	49,122,198	1,569,431	(423,000)	50,268,629	3 to 10	21,209,635	2,091,573	(380,700)	22,920,508	27,348,121
Renewals of mains and services	1,265,241	56,998	-	1,322,239	20	1,090,581	104,723	-	1,195,304	126,935
Furniture, air-conditioners and office equipment	433,870	8,192	-	442,062	10 to 15	363,494	6,675	-	370,169	71,893
Tools and general equipment	384,983	2,543	-	387,526	10 to 15	317,287	12,790	-	330,077	57,449
Computers and related equipment	167,877	122,957	(285)	290,549	14.33 to 33.33	100,925	37,320	(189)	138,056	152,493
Vehicles	580,418	13,065	(20,635)	572,848	15 to 25	405,790	51,233	(14,047)	442,976	129,872
Simulator equipment	67,713	-	-	67,713	14.33	67,713	-	-	67,713	-
	84,235,036	**2,412,640**	**(450,394)**	**86,197,282**		**43,391,564**	**3,329,498**	**(398,764)**	**46,322,298**	**39,874,984**

4.1.1 During the current year, the Corporation commenced charging depreciation on additions from the month in which the asset is available for use up to the month in which the asset is disposed off, as opposed to the past when full year's depreciation was charged in the year of purchase with no depreciation recorded in the year of disposal.

Had the Corporation not made the said change in accounting estimate, depreciation charge for the year and net loss for the year would have been higher by Rs.154.529 million each.

	COST					ACCUMULATED DEPRECIATION				DOWN VALUE
	As at July 01, 2005	Additions	(Disposals)	As at June 30, 2006	Rate	As at July 01, 2005	Charge for the year	(On disposals)	As at June 30, 2006	As at June 30, 2006
	---(Rupees in thousand)---				%	---(Rupees in thousand)---				
June 30, 2006 (Restated)										
Freehold land	293,433	-	-	293,433	-	-	-	-	-	293,433
Leasehold land	66,220	296,005	-	362,225	-	-	-	-	-	362,225
Buildings on leasehold land	2,713,173	-	-	2,713,173	2 to 20	866,446	63,808	-	930,254	1,782,919
Plant and machinery	29,071,092	135,988	(363,175)	28,843,905	5 to 20	18,142,976	1,078,538	(315,629)	18,905,885	9,938,020
Transmission and distribution network	47,244,959	1,877,239	-	49,122,198	3 to 10	19,177,529	2,032,106	-	21,209,635	27,912,563
Renewals of mains and services	1,064,873	200,368	-	1,265,241	20	959,641	130,940	-	1,090,581	174,660
Furniture, air-conditioners and office equipment	426,446	7,774	(350)	433,870	10 to 15	356,911	6,896	(313)	363,494	70,376
Tools and general equipment	365,740	19,778	(535)	384,983	10 to 15	304,416	13,353	(482)	317,287	67,696
Computers and related equipment	127,302	40,575	-	167,877	14.33 to 33.33	82,657	18,268	-	100,925	66,952
Vehicles	594,778	30,480	(44,840)	580,418	15 to 25	375,308	68,850	(38,368)	405,790	174,628
Simulator equipment	67,713	-	-	67,713	14.33	67,713	-	-	67,713	-
	82,035,729	**2,608,207**	**(408,900)**	**84,235,036**		**40,333,597**	**3,412,759**	**(354,792)**	**43,391,564**	**40,843,472**

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
4.1.2 Depreciation charge for the year has been allocated as follows:			
Expenses incurred in generation, transmission & distribution	34	**3,234,987**	3,320,139
Consumers services and administrative expenses	35	**94,511**	92,620
		3,329,498	3,412,759

4.1.3 The details of fixed assets disposed off are as follows:

	Original cost	Accumu-lated depre-ciation	Written down value	Net sales proceeds	Gain / (loss) on disposal	Mode of disposal	Particulars of Buyers
	(Rupees in thousand)						
Building on leasehold land							
Central Store - S.I.T.E	500	460	40	-	(40)	Demolished	-
Generating Station							
Building KTPS Unit 4	5,974	3,368	2,606	-	(2,606)	Demolished	-
	6,474	3,828	2,646	-	(2,646)		
Distribution							
Transformers switchgears							
Scrap Power Transformer 20MVA 66/11KV without oil make Siemens one no (KEGS)	20,000	18,000	2,000	2,500	500	Auction	Saghir Ahmed, Karachi
Scrap power transformer 30MVA 132/11KV without oil make Siemens French one no (KEGS)	25,000	22,500	2,500	3,200	700	"	Muhammad Hussain C/O Megna Steel, Karachi
Scrap power transformer 30MVA 132/11KVA without oil make Siemens French one no (KEGS)	25,000	22,500	2,500	3,200	700	"	Faisal Impex, Karachi
Scrap power transformer 20MVA 132/11KVA without Oil Westing House one no (KEGS)	38,000	34,200	3,800	4,525	725	"	Abdul Latif, Karachi
Scrap power transformer 80/MVA 132/66KVA without oil make BBC (KEGS)	70,000	63,000	7,000	6,000	(1,000)	"	Muhammad Zubair, Karachi
Scrap power transformer 29 MVA 132/11KVA without oil without rail & stopper General Electric Qayoumaqbad G/S	35,000	31,500	3,500	3,700	200	"	Anwar Traders, Karachi
Scrap power transformer 20MVA 66/11KVA without oil & rail make BBC (FBA G/S)	29,000	26,100	2,900	2,920	20	"	Muhammad Nadeem and Company, Karachi
Scrap power transformer 20MVA 66/11KVA without oil & rail make Siemens (FBA G/S)	8,000	7,200	800	900	100	"	International Allay C/o Muhmmad Aslam, Karachi
Scrap power transformer without oil & rail & cable tray 10MVA 66/11KV make Siemens (FBA G/S)	13,000	11,700	1,300	1,400	100	"	Amir Shehzad, Karachi
Scrap power transformer 20 MVA 66/11 KV without oil make siemens 2 lots Winder Uthal Bella	30,000	27,000	3,000	3,500	500	"	Iqbal Hussain and Co, Karachi
Scrap power transformer 20 MVA 66/11 KV without oil rail make electro mechonique elender road grid station.	30,000	27,000	3,000	2,500	(500)	"	Malik Muhmmad Yasin and Co, Karachi
Scrap power transformer 75MVA 132/66KVA without oil without rail westing house landhi grid station	70,000	63,000	7,000	6,500	(500)	"	Khalid, Karachi
Scrap power transformer 20MVA 132/11KV with oil westing house 01 no. landhi grid station.	30,000	27,000	3,000	4,000	1,000	"	Muhmmad Hassan, Karachi
	423,000	380,700	42,300	44,845	2,545		
Balance c/f	429,474	384,528	44,946	44,845	(101)		

	Original cost	Accumulated depreciation	Written down value	Net sales proceeds	Gain / (loss) on disposal	Mode of disposal	Particulars of Buyers
	(Rupees in thousand)						
Balance b/f	429,474	384,528	44,946	44,845	(101)		
Computer & Others							
Printers	285	189	96	285	189	Exchange	Continental Establishment, Karachi
Vehicles							
Sold to KESC Officers							
Suzuki Pick-Up - CJ-7978	188	169	19	19	-	As per company practice	Iqbal Ahmed Khan, Karachi
Suzuki Pick-Up - CJ-4426	116	104	12	12	-	"	Iqbal Ahmed, Karachi
Suzuki Hi-Roof - CJ-4386	174	157	17	17	-	"	Sajid Ali Sajid, Karachi
Suzuki Hi-Roof - CJ-9382	225	203	22	22	-	"	Nasir Rajpoot, Karachi
Suzuki Bolan - GA-6190	319	115	204	204	-	"	Mohd. Ali Soomaro, Karachi
Suzuki Hi-Roof - GA-6204	319	148	171	171	-	"	Mohd. Sher, Karachi
Suzuki Ravi - GA-9922	271	171	100	100	-	"	Mehboob Gul Kiani, Karachi
Suzuki Hi-Roof - GA-9932	319	215	104	104	-	"	Ch. Mehmood Ahmed, Karachi
Suzuki Bolan - GA-9940	319	206	113	113	-	"	Late Mukhtar Ahmed, Karachi
Jeep - BC-3838	382	344	38	38	-	"	W/o Late Saleem Khan, Karachi
Suzuki Mehran - U-4356	120	108	12	12	-	"	Noor Ahmed Umrani, Karachi
Suzuki Cultus - GA-8961	483	347	136	136	-	"	Attaullah Khan, Karachi
Suzuki Mehran - GA-6395	260	187	73	73	-	"	Syed Shawkat Mehdi, Karachi
Toyota Corrolla - GA-6644	843	303	540	540	-	"	Anis Qureshi, Karachi
Suzuki Mehran - AFN-584	258	139	119	119	-	"	Mohd. Ismail Javaid, Karachi
Suzuki Mehran - AEU-206	260	187	73	73	-	"	Sadaqat Ali Hashmi , Karachi
Suzuki Mehran - AES-639	260	187	73	73	-	"	Maqsood Ahmed, Karachi
Toyota Corrolla - GA-6427	842	379	463	463	-	"	Abdul Rauf Yousuf, Karachi
Suzuki Mehran - AFQ-051	258	167	91	91	-	"	Khalid Hussain Mufti, Karachi
Suzuki Cultus - GA-9152	483	391	92	92	-	"	Mohd. Iqbal Memon, Karachi
Suzuki Mehran - GA-6340	265	123	142	142	-	"	Liaqat Ali, Karachi
Suzuki Mehran - GA-8981	258	175	83	83	-	"	Mohd. Shamim Ahmed, Karachi
Suzuki Mehran - AHV-613	274	136	138	138	-	"	Nazir Ahmed Bhatti, Karachi
Toyota Corrolla - GA-6425	843	430	413	413	-	"	Mohd. Shabir Khatak, Karachi
Suzuki Cultus - AHN-389	483	246	237	237	-	"	Dr.M.Ayub Khan, Karachi
Toyota Corrolla - GA-6633	843	455	388	388	-	"	Khalid Iqbal, Karachi
Suzuki Mehran - AES-647	260	226	34	34	-	"	Muhammad Rafiq, Karachi
Suzuki Mehran - V-550	160	144	16	16	-	"	Syed Nasir Sultan, Karachi
Suzuki Cultus - GA-9195	483	261	222	222	-	"	Mohammed Tariq, Karachi
Suzuki Mehran - GA-6297	265	95	170	170	-	"	Aheed Mirza, Karachi
Suzuki Hi-Roof - CJ - 7904	235	212	23	23	-	"	Azher Siddiqui, Karachi
Toyota Corrolla - AGS-302	738	266	472	472	-	"	Osward Pearl, Karachi
	11,806	6,996	4,810	4,810	-		

Others

Suzuki Mehran - S-5702	120	108	12	65	53	Auction	Naseeruddin, Karachi
Suzuki Khyber - V-4253	209	188	21	128	107	"	Khalid Minhas, Karachi
Suzuki Khyber- AB-3230	279	251	28	143	115	"	Ahmed Zarin, Karachi
Suzuki Khyber - W- 8783	179	161	18	125	107	"	Ghulam Nadeem, Karachi
Suzuki Khyber - Z- 3417	235	212	23	152	129	"	S.Azhar-ul-Hassan, Karachi
Suzuki Khyber - AB-5770	304	274	30	146	116	"	Hikmat Khan, Karachi
Suzuki Khyber - AB-6547	304	274	30	157	127	"	Imtiaz-ur-Rehman, Karachi
Suzuki Khyber - AB- 0519	279	251	28	143	115	"	Muhammad Salahuddin, Karachi
Suzuki Khyber - AB-1108	279	251	28	130	102	"	Muhammad Shakir, Karachi
Suzuki Khyber - AB-3801	279	251	28	150	122	"	Rais Khan, Karachi
Suzuki Khyber - AB-6543	304	274	30	145	115	"	Rasheed Ghulam Nabi, Karachi
Suzuki Khyber - Z-7743	254	229	25	140	115	"	Muhammad Rafiq Abbasi, Karachi
Suzuki Khyber - AB-3802	279	251	28	127	99	"	Muhammad Rafiq Abbasi, Karachi
Nissan Sunny - Z-9020	254	229	25	105	80	"	Abdul Ghaffar, Karachi
Nissan Sunny - K-1869	221	199	22	140	118	"	Malik Muhammad Asim, Karachi
Nissan Sunny - S-4025	347	313	34	190	156	"	Malik Muhammad Asim, Karachi
Nissan Sunny - K-1877	315	283	32	162	130	"	Malik Muhammad Asim, Karachi
Nissan Sunny - K-1871	250	225	25	135	110	"	Ghulam Nadeem, Karachi
Nissan Sunny - K-1880	315	283	32	147	115	"	Farid Ahmed, Karachi
Nissan Sunny - Q-0682	347	312	35	150	115	"	Abdul Razzak, Karachi
Nissan Sunny - K-1879	-	-	-	153	153	"	Malik Muhammad Asim, Karachi
Nissan Sunny - K-1878	339	305	34	140	106	"	Malik Muhammad Asim, Karachi
Nissan Sunny - S-4024	347	312	35	180	145	"	Abdul Sattar, Karachi
Nissan Sunny - V-7610	503	452	51	209	158	"	Rais Khan, Karachi
Nissan Sunny - W-2605	527	474	53	210	157	"	Muhammad Salam, Karachi
	7,069	6,362	707	3,672	2,965		
Suzuki Pickup-CR-0207	312	75	237	290	53	Theft-Insurance Claimed	
Suzuki Pickup-CR-1809	312	75	237	290	53	Theft-Insurance Claimed	
Suzuki Pickup-CR-1097	312	80	232	290	58	Theft-Insurance Claimed	
Suzuki Pickup-CR-2119	312	89	223	320	97	Theft-Insurance Claimed	
Shezore (MTL) KM-6228	512	370	142	551	409	Theft-Insurance Claimed	
June 30, 2007	**450,394**	**398,764**	**51,630**	**55,353**	**3,723**		
June 30, 2006	408,900	354,792	54,108	233,400	179,292		

4.2 CAPITAL WORK-IN-PROGRESS

	Note	Plant and machinery	Transmission system	Distribution system	Others	Total
		(Rupees in thousand)				
Opening balance		51,597	763,739	468,439	13,504	1,297,279
Additions during the year:						
System improvement	4.2.1	32,511	3,044,667	950,202	9,244	4,036,624
Others		5,185,017	326,266	2,164,918	297,266	7,973,467
		5,217,528	3,370,933	3,115,120	306,510	12,010,091
		5,269,125	4,134,672	3,583,559	320,014	13,307,370
Transferred to operating fixed assets		(556,286)	(2,604)	(1,623,825)	(229,925)	(2,412,640)
	2007	**4,712,839**	**4,132,068**	**1,959,734**	**90,089**	**10,894,730**
	2006	51,597	763,739	468,439	13,504	1,297,279

4.2.1 Pursuant to the approval of the Ministry of Water and Power, vide sanction authority letter, No.P-III-1(2)/2002, dated April 08, 2003, April 17, 2004, May 14, 2004 and November 16, 2006, sums of Rs.1,078.000 million, Rs.1,059.000 million, Rs.454.000 million and Rs.3,927.000 million, aggregating to Rs.6,516.000 million were released to the Corporation up to the end of the current year, in addition to arranging Rs.3,000.000 million from a bank, for necessary system improvement against which the Corporation has incurred an aggregate sum of Rs.8,585.000 (2006: Rs.4,549.000) million thereon up to the end of the current year.

5. LONG-TERM LOANS

	Note	Secured		Unsecured		
		House building loans (Note 5.1)	Motor Cycles loans (Note 5.1)	Festival loans (Note 5.2)	June 30, 2007	June 30, 2006
		(Rupees in thousand)				
Considered good						
Employees		**30,244**	**17**	**94,263**	**124,524**	137,341
Recoverable within one year shown under current assets	10	**(7,104)**	**(17)**	**(3,422)**	**(10,543)**	(16,857)
		23,140	**-**	**90,841**	**113,981**	120,484
Considered doubtful						
Employees	5.3	**4,333**	**-**	**-**	**4,333**	4,333
		27,473	**-**	**90,841**	**118,314**	124,817
Provision against loans considered doubtful		**(4,333)**	**-**	-	**(4,333)**	(4,333)
June 30, 2007		**23,140**	**-**	**90,841**	**113, 981**	120,484
June 30, 2006		26,876	12	93,596	-	120,484

5.1 House building loans, carrying mark-up @ 6% per annum, are recoverable over a period of sixteen years whereas motor cycle loans, which are interest free, are recoverable over a period of five years. These are secured against equitable mortgage of relevant properties and hypothecation of vehicles, respectively.

5.2 These have been granted to the employees of the Corporation. The Board of Directors in their meeting held on February 01, 2003 approved the deferment of recovery of the aforesaid loans in installments and decided that the said loans would be recovered against the final settlement of the employees at the time of their retirement. Amount disclosed as recoverable within one year, therefore, represents employees expected to retire within one year.

5.3 These balances pertain to ex-employees against whom legal proceedings have been initiated by the Corporation for the purpose of recovery.

5.4 Long term loans have not been discounted to their present value as the financial impact thereof is not considered material.

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
6. LONG-TERM DEPOSITS			
Considered good			
Rental premises		**18,292**	8,086
Utilities		**408**	208
		18,700	8,294
Considered doubtful			
Rental premises		**1,020**	1,020
		19,720	9,314
Provision against deposits considered doubtful		**(1,020)**	(1,020)
		18,700	8,294

	Note	**June 30, 2007**	June 30, 2006
7. DUE FROM THE GOVERNMENT			
Amount due from the GoP	7.1	**1,428,188**	1,745,563
Recoverable within one year shown under current assets		**(317,375)**	(317,375)
		1,110,813	1,428,188

7.1 This represents amount due from the GoP as reimbursement of amount due by the Corporation to the oil and gas companies, as more fully explained in note 20.2.

		Note	June 30, 2007	June 30, 2006
			(Rupees in thousand)	
8.	**STORES, SPARES AND LOOSE TOOLS**			
	In hand			
	Stores, spares and loose tools		**5,461,138**	3,921,186
	In transit			
	Stores		**57,969**	160,444
			5,519,107	4,081,630
	Provision against slow moving and obsolete stores, spares and loose tools	8.1	**(850,994)**	(646,541)
			4,668,113	**3,435,089**

8.1 Provision against slow moving and obsolete stores, spares and loose tools

	Note	June 30, 2007	June 30, 2006
Opening balance		**646,541**	83,624
Provision made during the year	34	**207,130**	600,437
		853,671	684,061
Provision written off during the year		**-**	(37,520)
Provision written back during the year	36	**(2,677)**	-
		850,994	646,541

8.2 The internal controls over record keeping procedures in respect of stores and spares are being strengthened to obviate the need for major adjustments at the year end. In this regard, the Corporation is planning to take suitable action to streamline and strengthen internal controls over this area.

8.3 Included in store in hand are items, aggregating to Rs.386.844 (2006: Rs.436.073) million, which have been written down by a sum of Rs.21.928 (2006: Rs.5.318) million to carry the same at their net realisable values.

		Note	June 30, 2007	June 30, 2006
9.	**TRADE DEBTS**			
	Considered good			
	Secured - against deposits from consumers		**604,934**	584,274
	Unsecured		**8,035,576**	7,098,720
			8,640,510	7,682,994
	Considered doubtful		**13,389,552**	12,530,667
			22,030,062	20,213,661
	Provision against debts considered doubtful	9.1	**(13,389,552)**	(12,530,667)
			8,640,510	7,682,994

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
9.1 Provision against debts considered doubtful			
Opening balance		**12,530,667**	10,658,313
Provision made during the year	35	**1,881,461**	3,328,840
		14,412,128	13,987,153
Provision written off during the year		**(1,022,576)**	(1,456,486)
		13,389,552	12,530,667

9.2 Energy sales to and purchased from WAPDA, PASMIC and KANUPP are recorded through their respective accounts to facilitate recovery of energy dues by offsetting receivables against liabilities for purchase of energy.

10. LOANS AND ADVANCES

	Note	**June 30, 2007**	June 30, 2006
Loans - secured			
Considered good			
Current portion of long term loans due from employees	5	**10,543**	16,857
Advances - unsecured			
Considered good			
Employees		**22,883**	28,461
Contractors and suppliers	10.1	**260,092**	314,255
		282,975	342,716
Considered doubtful			
Contractors and suppliers		**130,340**	130,340
		413,315	473,056
Provision against advances considered doubtful			
Opening balance		**(130,340)**	(135,805)
Provision for the year	37	**-**	(46,938)
Provision written off		**-**	52,403
		(130,340)	(130,340)
		282,975	342,716
		293,518	359,573

10.1 This includes a sum of Rs.116.398 (2006: Rs. 40.897) million, representing advance extended to Siemens Pakistan Engineering Limited, a related party.

11. TRADE DEPOSITS AND PREPAYMENTS

	Note	**June 30, 2007**	June 30, 2006
Trade deposits	11.1	**2,050**	485
Prepayments			
Rent		**7,645**	20,110
Insurance		**6,000**	3,500
Others		**12,575**	-
		26,220	23,610
		28,270	24,095

11.1 This includes a sum of Rs.0.319 (2006: Rs.0.319) million, representing margin held by commercial banks against which they have issued guarantees on behalf of the Corporation.

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	
12. OTHER RECEIVABLES			
Rebate due from the provincial government		**77,910**	63,472
Sales tax	12.1	**2,987,464**	4,812,416
Due from the Government in respect of:			
- sales tax on selected classes of consumers		**450,541**	456,547
- tariff adjustment	12.2	**2,258,390**	1,396,449
- Sabah Shipyard	12.3	**409,168**	409,168
		3,118,099	2,262,164
Employees' Provident Fund		**7,528**	-
Accrued income for TV license fees collection charges		**4,414**	3,987
Insurance claim		**7,028**	5,727
Others	12.4	**327,212**	4,780
		6,529,655	7,152,546

12.1 In accordance with the special procedure for the collection and payment of Sales Tax (Electric Power) Rules 2000, the Corporation submits sales tax returns to discharge its output tax liabilities during the tax period on cash collection basis and claims input tax paid or payable on taxable purchases. As at June 30, 2004, sales tax due, as per the return, had amounted to Rs.1,668.476 million. The Corporation requested the Central Board of Revenue (CBR) for the refund of the net difference between the input and output sales tax, however, the CBR maintained that the Corporation should take input tax adjustment only to the extent of the taxable supplies, as per the apportionment of input Sales tax Rules, 1996, taking out the theft component of electricity in the distribution line of the Corporation, which had resulted in the excess input tax. Under the advice of the CBR, the Corporation, vide its letter Accts/GST/Refund/03/6089, dated May 03, 2003, referred the case to the Law and Justice & Human Rights, Ministry of Law, Justice and Human Rights, Government of Pakistan, through the CBR. During the year ended June 30, 2004, the Law and Justice Division termed the matter as factual controversy and did not issue a ruling.

The CBR through its letter, reference C.No.1 (33)STR/2000-Vol-I, dated March 24, 2004, in response to the directives, issued by the Ministry of Water and Power, directed the Collector (Sales Tax & Central Excise) to refund the claim of the Corporation subject to proper scrutiny of the documents and admissibility under the relevant provisions of the Sales Tax Act, 1990 and rules made there under.

Accordingly, sales tax audits of the Corporation were conducted by the CBR - Large Taxpayers Unit (LTU) for the years 2001-2002 and 2002-2003. As a result of such audits, the CBR raised a demand for an aggregate sum of Rs.5,008 million from the Corporation as against the counter claim of the Corporation towards the CBR of Rs.1,597.950 million as at June 30, 2002.

However, CBR, Sales Tax Wing, Government of Pakistan (GoP), vide its letter No.C.No.3/13 STM/2004, dated January 29, 2005, admitted the claim of the Corporation and approved the refund to the Corporation. Accordingly, LTU, vide its letter No.C.No.2 (32) ST&CE/AudiUKESC/04, dated

February 01, 2005, waived its claim towards the Corporation to the extent of Rs.4,704.363 million and adjusted the balance of Rs.303.637 million on account of inadmissible input tax claimed, late payment charges and service connection charges, against the original refund of the Corporation of Rs.1,597.950 million, as stated above. The final decision regarding the deducted amount of Rs.303.637 million would be taken in the light of further instructions of the CBR. The adjusted refund of Rs.1,294.318 million (representing the difference between claimed refund of Rs.1,597.950 million and pending refund of Rs.303.637 million) was to be refunded to the Corporation in four quarterly installments of Rs.323.579 million each. In this regard, the amount of the first installment was received by the Corporation in February 2005.

However, at the time of disbursement of the second installment, the LTU, Government of Pakistan, vide its letter reference C.NO.274(1)ST/CE/Ref-V/2002(Pt)/168090, dated May 24, 2005, invoked the provisions of Section 10(1) of the Sales Tax Act, 1990 in respect of the processing of claims on a FIFO basis and asked the Corporation to provide the basis for the same.

During the year ended June 30, 2006, the CBR (LTU-Karachi) conducted the audit of the sales tax refund claimed by the Corporation up to the year ended June 30, 2006 and allowed the refund to the Corporation, during the current year, vide its letter No.1(33)STR/2000, dated September 15, 2006, in four monthly installments in due course. Accordingly, a sum of Rs.1.000 billion has been disbursed to the Corporation as provisional payment by the LTU vide its letter No.274(1)st&ce/ref-IV/2002(Pt)/1610943 dated October 10, 2006, subject to the condition that all issues / questions relating to deductions / in-admissibilities would be finalized before payment of the next installment.

During the current year, in pursuance of the CBR's direction vide its letter C.No 1 (33) STR/2000 dated 02.12.2006 read with the approval by the Prime Minister vide Ministry of Water and Power U.O.No. 2(10) / 2001 dated 21.07.2006, and as per CBR's instruction vide its letter C. No. 1(33)STR/2000 dated 18.04.07, and vide letters of even number dated 10.10.2006, dated 06.12.2006 and dated 26.03.2007, out of the total claim of Rs. 4,125.000 million, an aggregate sum of Rs.3,700.000 million has been received in 4 installments. This refund was sanctioned after manual processing of the refund claim without calling for RCPS data for the purpose of 4th installment as per CBR's direction vide above referred letters. This payment is not only provisional but subject to the condition that all issues questions relating to deductions / inadmissible have to be finalized before payment of the next installment as agreed by KESC management in the meeting held on 08.03.2007, LTU, Karachi read with Board's above quoted letter. The size of the future payment / installment shall be decided after that finalization.

The management is confident that it would get the entire refund within the shortest possible time (note 30.1.5).

Further, pursuant to the notification through Finance Bill, 2006, sales tax on electricity sold by the Corporation is payable on an accrual basis with effect from July 01, 2006. Previously, the amount of sales tax was paid by the Corporation on collection of the same from the consumers.

12.2 This represents tariff adjustment on account of increase in fuel prices and cost of power purchases, recorded as due from the GoP.

12.3 This represents amount due from the GoP regarding provision made in respect of the dispute with Sabah Shipyard, as more fully explained in note 29.1.

12.4 Included herein is a sum of EURO 4.000 million equivalent to PKR.327.200 million (June 30, 2006: Rs.Nil), representing a payment made to the Consortium, led by Siemens AG, Germany, for the purchase of a new power plant.

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	
13. TAXATION - net			
Advance income tax		**1,485,524**	1,872,497
Provision for taxation		**(1,207,038)**	(1,675,227)
		278,486	197,270
14. SHORT-TERM INVESTMENT			
Held to maturity			
Term Deposit Receipts (TDR)	14.1	**607,717**	890,476

14.1 These represents TDR (having a face value of Rs.602.238 [2006: 876.811] million, including interest accrued thereon of Rs.5.479 [2006: 13.665] million) placed with commercial banks on a short term basis. The rate of return thereon ranges between 5.00% and 7.90% (2006: 7.3% and 10.6%) per annum, due on maturity. These will mature latest by July 15, 2007.

	Note	June 30, 2007	June 30, 2006
15. CASH AND BANK BALANCES			
Cash in hand		**2,488**	2,477
Cash at banks in:			
Current accounts		**1,283,281**	125,292
Deposit accounts	15.1	**2,431,439**	1,520,189
Collection accounts		**220,111**	186,699
		3,934,831	1,832,180
		3,937,319	1,834,657

15.1 These carry interest, ranging between 0.5% and 6% (2006: 0.5% and 6%) per annum.

16. SHARE CAPITAL

June 30, 2007 (Number of shares)	June 30, 2006 (Number of shares)		Note	June 30, 2007 (Rupees in thousand)	June 30, 2006 (Rupees in thousand)
		Authorized Share Capital			
25,714,285,714	25,714,285,714	Ordinary shares of Rs. 3.5 each fully paid	16.1	**90,000,000**	90,000,000
2,857,142,857	2,857,142,857	Redeemable Preference shares of Rs.3.5 each fully paid	16.1	**10,000,000**	10,000,000
28,571,428,571	28,571,428,571			**100,000,000**	100,000,000
		Issued, Subscribed and Paid-up Capital			
		Issued for cash			
45,371,105	45,371,105	Ordinary shares of Rs.10 each fully paid		**453,711**	453,711
1,291,944,991	-	Redeemable preference shares of Rs.3.5 each fully paid - net	16.2	**4,509,301**	-
1,337,316,096	45,371,105			**4,963,012**	453,711
		Issued for consideration other than cash			
304,512,300	304,512,300	Ordinary shares of Rs.10 each fully paid	16.3	**3,045,123**	3,045,123
1,783,456,000	1,783,456,000	Ordinary shares of Rs.10 each fully paid	16.4	**17,834,560**	17,834,560
6,534,077,300	6,534,077,300	Ordinary shares of Rs.10 each fully paid	16.5	**65,340,773**	65,340,773
4,366,782,389	4,366,782,389	Ordinary shares of Rs.3.5 each fully paid	16.6	**15,283,738**	15,283,738
12,988,827,989	12,988,827,989			**101,504,194**	101,504,194
14,326,144,085	13,034,199,094			**106,467,206**	101,957,905
		Issued as bonus shares			
132,875,889	132,875,889	Ordinary shares of Rs.10 each fully paid as bonus shares		**1,328,759**	1,328,759
14,459,019,974	13,167,074,983			**107,795,965**	103,286,664
-	-	**Reduction in capital**	16.7 & 16.8	**(57,201,902)**	(57,201,902)
14,459,019,974	13,167,074,983			**50,594,063**	46,084,762

16.1 During the year ended June 30, 2006, pursuant to a Special resolution passed in the Extra Ordinary General Meeting of the shareholders of the Corporation, held on March 02, 2006, the share capital of the Corporation was determined at Rs.100 billion, divided into the following categories of shares:

- Ordinary share capital of Rs.90.000 billion divided into 25,714,285,714 Ordinary shares of Rs.3.50 each; and
- Redeemable preference share capital of Rs.10.000 billion divided into 2,857,142,857 Redeemable preference shares of Rs.3.50 each.

16.2 This is stated net of Rs.12.505 million representing transaction costs incurred on issue of redeemable preference shares. The same has not been amortised during the year, as the effect of amortisation is not considered material.

These are cumulative redeemable preference shares, issued by way of right issue to the existing shareholders, carrying a dividend of 3 percent per financial year to be declared on the face value of Rs. 3.50 per Redeemable Preference Share and are redeemable within a period of 90 days from 7 years after November 28, 2005. The preference shareholders are only entitled to receive Preferential Dividend and are not entitled to share in any other dividend, whether in cash or specie, entitlement or benefit, including, without limitation, right shares and bonus shares, to which the holders of Ordinary Shares may be entitled.

If preferential dividend is not declared in whole or in part by the Corporation for any financial year, such whole or remainder amount of the Preferential Dividend shall be carried over for payment to Redeemable Preference Shareholders in the next financial year(s) and so on, until the Preferential Dividend has been paid in full, the whole or part of any preferential dividend automatically becomes cumulative to the extent that it has not been declared and paid. The cumulative preference dividend does not bear any interest or markup.

The Board of Directors of the Corporation, in its meeting held on February 24, 2007, considered the said dividend for the year ended December 31, 2006 amounting to Rs. 64.149 million, and has not declared the same due to non-availability of profits.

These shares shall be redeemed by the Corporation at the Redemption Price on the respective redemption dates from the profits of the Corporation as are available for distribution as dividends under the Laws of Pakistan but not from the proceeds resulting from the issuance of any new shares by the Corporation. The shareholders, interalia, have the right to convert these into Ordinary shares in the ratio of 3 Ordinary shares for every 4 Preference shares held, if the company fails to redeem these shares.

16.3 During the year ended June 30, 1999, the Corporation issued 304,512,300 Ordinary shares of Rs.10 each as a result of the conversion of overdue outstanding balance of (a) rescheduled foreign currency loan of Rs.1,968.000 million and (b) cash development loan of Rs.1,077.000 million , aggregating to Rs.3,045.000 at that date, into equity.

16.4 During the year ended June 30, 2002, the shareholders of the Corporation, by way of a Special resolution, passed in the 89th Annual General Meeting, finalized the conversion of the Corporation's debt servicing liabilities, aggregating to Rs.17,834.560 million, into equity. As a result of the said resolution, the Corporation issued 1,783,456,000 Ordinary shares of Rs.10 each at par. The subscription finalized on this regard was entered into on January 24, 2002.

16.5 As per the decision taken in the ECC meeting, held on April 16, 2002, which was also approved by the President of Pakistan, the Ministry of Finance conveyed through its letter, dated April 27, 2002, that all the loans of GoP and GoP guaranteed loans outstanding against KESC, aggregating to Rs.65,340.773 million, had been converted into GoP equity.

16.6 During the year ended June 30, 2005, the shareholders of the Corporation, by way of a Special resolution passed in the 94th Annual General Meeting of the Corporation, held on December 02, 2004, resolved the conversion of (a)"GoP funds, pending conversion into equity," amounting to Rs.6,080.738 million and (b) GoP long term loan, amounting to RS.9,203.000 million, aggregating to Rs.15,283.738 million into equity. As a result of the said resolution, the Corporation issued 4,366,782,389 Ordinary shares of Rs.3.50 each at par. The subscription agreement in this regard was entered into on December 20, 2004 between the Corporation and the President of Pakistan on behalf of the GoP.

16.7 The shareholders of the Corporation during the year ended June 30, 2002, by way of a Special resolution, in an Extra Ordinary General Meeting, held on May 27, 2002, resolved the reduction of share capital of the Corporation, subsequent to the completion of the conversion of GoP and GoP guaranteed loans of Rs.65,341 million into equity (note 16.4 above). The paid-up capital, which had been lost or was not represented by finalized assets, to the extent of Rs.6.50 per share on each of the issued Ordinary shares of the Corporation at such time, was reduced and a new nominal value thereof was fixed at Rs.3.50 per share. The Corporation had also filed a petition in the Honourable High Court of Sindh, vide its order, dated October 12, 2002, ordered the reduction in the nominal value of share capital by Rs.6.50 per share. The Board of Directors, in its 115th meeting held on October 26, 2002, also approved by way of a special resolution the reduction in the nominal value of share capital, amounting to Rs.57,201.902 million.

The GoP, vide its Finance Division letter F.5(16)-CF:1/97-98/vol 25/191 dated January 31, 2003, conveyed the sanction of the President of Pakistan to write off the GoP equity in the Corporation. Accordingly, the reduction in share capital of Rs. 57.201.902 million was adjusted against the accumulated losses of the Corporation.

16.8 As part of the process of the Corporation's privatization, the GoP and the new owners agreed to inject additional equity by issuing Redeemable Preference Shares (RPS) in the aggregate value of Rs.6,000 million. In this respect, a Subscription Agreement was executed between the President of Pakistan, on behalf of the GoP, the Corporation and the KES Power Limited on November 14, 2005 to issue the RPS, amounting to Rs.6,000 million, divided into 1,714,285,714 preference shares of Rs.3.50 each as right to the existing Ordinary shareholders of the Corporation. The issue of Redeemable Preference Shares was finalized by the Board of Directors of the Company and NOC was obtained from the Securities and Exchange Commission of Pakistan, vide Letter No. EMD/CI/16/2004-4417, dated November 07, 2005. During the current year, out of the 1,714,285,714 preference shares, 1,291,944,992 preference shares have been allotted to the existing shareholders, aggregating to Rs.4,509.302 million. Further, a sum of Rs.1,478.193 million has been received as advance against preference share capital at the end of June 30, 2007 from KES Power Limited and GoP.

The issue of redeemable preference shares by way of right, offered to the minority shareholders of the Corporation, was under subscribed by 18.980 million shares, amounting to Rs. 66.432 million. Under the terms of the RPS Subscription Agreement, in case of under subscription, the balance of redeemable preference shares were required to be subscribed by the Ultimate Parent Company of the Corporation, KES Power Limited. The said undersubscribed shares were, thereafter, subscribed by the KES Power Limited.

16.9 The above stated Preference shares (the shares) have been treated as part of equity on the following basis:

- The shares were issued under the provisions of section 86 of the Companies Ordinance, 1984 (the Ordinance) read with section 90 of the Ordinance and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000.

- The finalized capital of the Corporation and the issue of the shares were duly approved by the shareholders of the Corporation at the Extraordinary General Meeting held on March 02, 2006.

- Return of allotment of shares was filed under section 73(1) of the Ordinance.

- The Corporation is required to set-up a reserve for redemption of preference shares under section 85 of the Ordinance in respect of the shares redeemed which effectively makes Preference shares a part of equity.

- Dividend on the shares is appropriation of profit both under the Ordinance and the tax laws.

- The requirements of the Ordinance take precedence over the requirements of International Accounting Standards.

- The shareholders have the right to convert these shares into Ordinary shares.

The matter regarding the classification of preference share capital as either debt or equity instrument has recently been examined by the Institute of Chartered Accountants of Pakistan (ICAP) as a result of which the ICAP has advised the Securities and Exchange Commission of Pakistan (SECP) to make necessary amendments in the Companies Ordinance, 1984, and / or to issue a clarification in order to remove the inconsistency between the Companies Ordinance, 1984 and the International Accounting Standards. Pending the decision of the SECP in this matter, the preference share capital has been classified as equity in these annual financial statements.

17. CAPITAL RESERVES

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
Unclaimed fractional bonus shares money	17.1	**46**	46
Workmen compensation reserve	17.2	**700**	700
Third party liability reserve	17.3	**300**	300
Fire and machinery breakdown insurance reserve	17.4	**508,126**	508,126
		509,172	509,172

17.1 Unclaimed fractional bonus shares money

This represents proceeds received by the Corporation from the sale of fractional bonus coupons for the period up to 1975, remaining unclaimed up to June 30, 1986.

17.2 Workmen compensation reserve

The reserve for workmen compensation was created and maintained at Rs. 0.700 million to meet any liability that may arise in respect of compensation to workmen who, whilst on duty, meet with an accident causing partial or total disability.

17.3 Third party liability reserve

This reserve has been created to meet the third party liabilities, arising due to accidents by electrocution, both fatal and non-fatal, claims for which are not accepted by the National Insurance Corporation, where the negligence or fault on the part of the Corporation is proved by the Court.

17.4 Fire and machinery breakdown insurance reserve

The Corporation was operating a self insurance scheme in respect of its certain fixed assets and spares to cover such hazards which were potentially less likely to occur. However, commencing the year ended June 30, 1997, the Corporation discontinued its policy for providing the amount under self-insurance scheme. Fixed assets, which are insured under this scheme and on which claim lodged with respect to damages to such assets is not fully acknowledged by the insurer, the shortfall is charged to the said reserve.

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
18. REVENUE RESERVES			
General		**5,372,356**	1,038,999
Transferred to general from:			
Contingencies		**-**	25,000
Dividend equalization		**-**	73,700
Replacement of fixed assets		**-**	4,234,657
		-	4,333,357
		5,372,356	5,372,356
19. ADVANCE AGAINST REDEEMABLE PREFERENCE SHARE CAPITAL	16.8	**1,478,193**	1,476,811
20. LONG-TERM FINANCING			
Unsecured			
GoP Loan for the electrification of Hub Area	20.1	**26,000**	26,000
Payable to the Oil and gas companies	20.2	**1,428,188**	1,745,563
Current maturity thereof shown under current liabilities	20.2	**(317,375)**	(317,375)
		1,110,813	1,428,188
		1,136,813	1,454,188

20.1 During the year ended June 30, 2004, the Finance Division, GOP, vide its letter No. F.2(6)-PF.V/2003-04/785, dated April 20, 2004, released a sum of Rs.26.00 million as cash development loan for village electrification in Hub and Winder Areas, District Lasbella. This loan is repayable in 20 years with a grace period of five years along-with mark-up chargeable at the prevailing rate for the respective years.

		Note	June 30, 2007	June 30, 2006
			(Rupees in thousand)	
20.2	**Payable to oil and gas companies**			
	Pakistan State Oil Company Limited (PSO)	20.2.1	**587,813**	718,438
	Pirkoh Gas Company Limited (PGCL)	20.2.1	**840,375**	1,027,125
			1,428,188	1,745,563
	Current maturity thereof		**(317,375)**	(317,375)
			1,110,813	1,428,188

20.2.1 During the year ended June 30, 2002, the Economic Co-ordination Committee (ECC) of the Federal Cabinet, vide case No. ECC-136/13/2001, dated November 06, 2001, considered the Summary, dated November 01, 2001, submitted by the Finance Division and approved the proposal, contained in paragraph 4 of the summary, which stated that all payables of the Corporation (Principle only) to oil and gas companies as on June 30, 2001, including those under Letter of Exchange (LoE) arrangements of February 10, 1999, aggregating to Rs. 6.672 million, will be redeemed over a period of ten years, including a grace period of two years, free of interest.

Taking the above decision into consideration, during the year ended June 30, 2004, two formal agreements between the Corporation and PGCL and the other between the Corporation and the PSO, containing the terms and conditions in accordance with ECC decision, were executed on July 30, 2003 and August 25, 2003, respectively. As per the agreements, the repayment by the Corporation to the oil and gas companies was to be made on quarterly basis, commencing February 29, 2004.

Further, at the time of privatization of the Corporation, the ECC of the federal Cabinet, decided that on privatization of the Corporation, the Finance Division, government of Pakistan, would pick up the aforesaid liability of the Corporation, Furthermore, Finance Division, Government of Pakistan (GoP) has issued a letter of comfort, No. F.5(24)CF.I/2004-05/1289, dated November 25, 2005, to the Corporation stating that the GoP will make payments to the Corporation for onward payments to PSO and PGCL on due dates as per respective agreements.

After the privatization of the Corporation, the sum owed by the Corporation to the oil and gas companies is now being repaid upon the receipt of funds from the GoP. Further, Finance Division, Government of Pakistan, vide its letter No. F.5(24)CF.I/2004-05/Vol.V/1365 dated December 21, 2005 provided the decision taken in the meeting held on November 10, 2005 that the GoP will provide funds for the payment of these liabilities. Accordingly, an amount of Rs.317.375 (2006: Rs.317.375) million has been received from GoP during the current year.

21. LONG-TERM DEPOSITS

	2007	2006
	3,353,849	**3,121,353**

These represent deposits from consumers, taken as security for energy dues, carrying interest at the rate of 5% per annum. Such deposits are repayable at the time when electricity connection of consumer is permanently disconnected.

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
22. DEFERRED LIABILITIES			
Gratuity	22.1	**2,743,721**	2,480,296
Post retirement medical benefits	22.1	**1,290,141**	1,037,528
Post retirement electricity benefits	22.1	**355,720**	312,785
		4,389,582	3,830,609

22.1 Actuarial valuation of retirement benefits

In accordance with the requirements of IAS-19 "Employee Benefits", actuarial valuation has been carried out as at June 30, 2007, using the "Projected Unit Credit Actuarial Cost Method".

Provision has been made in the financial statements to cover obligations in accordance with the actuarial recommendations.

Following significant assumptions were used for the valuation of above-mentioned schemes.

	June 30, 2007	June 30, 2006
	Per annum	
Discount rate	**11.00%**	10.78%
Salary increase	**8.90%**	8.66%
Medical cost trend	**5.71%**	5.50%
Electricity price increase	**5.71%**	5.50%

Necessary disclosures in respect of defined benefit plans are as follows:

		2007	
	Gratuity	**Medical benefits**	**Electricity benefits**
	----------------**(Rupees in million)**----------------		
a) The amount finalized in the profit and loss account is determined as follows:			
Current service cost	124	57	12
Interest cost	286	190	35
Recognised actuarial (gains) / losses	21	61	2
Expense finalized during the year	**431**	**308**	**49**
b) Movement in the liability finalized in the balance sheet			
Provision at July 01, 2006	2,480	1,037	313
Charge for the year	431	308	49
Benefits paid	(168)	(55)	(7)
Provision as at June 30, 2007	**2,743**	**1,290**	**355**
c) Reconciliation			
Obligation under defined benefit plan	2,926	838	338
Actuarial losses not finalized	(183)	452	17
Provision as at June 30, 2007	**2,743**	**1,290**	**355**

		Gratuity	2006 Medical benefits	Electricity benefits
		----------------(Rupees in million)----------------		
a)	**The amount finalized in the profit and loss account is determined as follows:**			
	Current service cost	127	28	11
	Interest cost	311	122	39
	Recognised actuarial (gains) / losses	49	10	5
	Expense finalized during the year	487	160	55
b)	**Movement in the liability finalized in the balance sheet**			
	Provision at July 01, 2005	2,184	950	279
	Charge for the year	487	160	55
	Benefits paid	(191)	(73)	(21)
	Provision as at June 30, 2006	2,480	1,037	313
c)	**Reconciliation**			
	Obligation under defined benefit plan	2,731	1,785	331
	Actuarial losses not finalized	(251)	(748)	(18)
	Provision as at June 30, 2006	2,480	1,037	313

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
23. DEFERRED REVENUE			
Opening balance		**5,914,772**	5,003,059
Additions during the year			
Recoveries from consumers	23.1	**601,683**	400,731
Transfer from specific grant from the Government of Pakistan for Financial Improvement Plan (FIP)	24	**940,032**	1,217,885
		1,541,715	1,618,616
		7,456,487	6,621,675
Amortisation for the year	36	**(477,297)**	(706,903)
		6,979,190	5,914,772

23.1 This represents recoveries from the consumers towards the cost of service connection, extension of mains and streetlights.

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	

24. SPECIFIC GRANT FROM THE GOVERNMENT OF PAKISTAN

	Note	June 30, 2007	June 30, 2006
Opening balance		**1,985,878**	378,315
Received during the year against the Financial Implementation Plan	24.1	**3,970,105**	2,956,895
Interest accrued on grant received from the GoP		**4,861**	3,264
		5,960,844	3,338,474
Transfer to deferred revenue	23 & 24.2	**(940,032)**	(1,217,885)
Expenses on bank borrowings	24.3	-	(6,845)
Interest on bank borrowings	24.3	**(318,391)**	(127,866)
		4,702,421	1,985,878

24.1 This includes a sum of Rs 43.000 million received during the current year from a demand finance facility arranged by the Corporation during last year under the Syndicated Finance Agreement, executed between the Corporation and a Consortium of local commercial banks, on September 24, 2005. Under the terms of the said agreement, the Corporation has acquired a demand finance facility of Rs.3,000.000 million for the improvement of network and reduction in transmission and distribution losses under the FIP. The rate of markup on the said facility is KIBOR + 0.5% and shall be payable on semi-annual basis from the first disbursement date. The Government of Pakistan has irrevocably and unconditionally guaranteed the repayment of principal and mark-up accruing in respect thereof, through guarantee No. F.5 (12) BR III / 2005, dated September 29, 2006. Moreover, The Ministry of Finance has also provided an undertaking, dated October 01, 2005, to repay the amount borrowed. In this respect, a letter has been issued by the Government whereby the said loan shall not be treated as the liability of the Corporation. As a result thereof, the same has been recorded as a specific grant from the Government.

24.2 Out of the total receipts of Rs.3,970.105 (2006: Rs.2,956.895) million from the GoP under the FIP, the Corporation transferred a sum of Rs.940.032 (2006: Rs.1,217.885) million to deferred revenue against work completed during the year.

24.3 This represents expenses and interest on funds borrowed under the Syndicated Finance Agreement from Commercial banks in respect of the FIP, as stated in note 24.1

24.4 Included in specific grants is sum of Rs.3,965.265 (2006: Rs.868.674) million pertaining to expenditure incurred on FIP classified as capital work-in-progress

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	

25. TRADE AND OTHER PAYABLES

	Note	June 30, 2007	June 30, 2006
Creditors			
Power purchases		**7,020,439**	3,714,508
Fuel	25.1	**8,859,340**	4,006,595
Others	25.2	**2,736,246**	1,273,131
		18,616,025	8,994,234
Murabaha			
Murabaha term finance	25.3	**750,000**	-
Accrued liabilities			
Accrued expenses	25.4 & 25.6	**1,378,866**	1,248,081
Advances/credit balances of consumers			
Energy	25.5	**381,752**	307,583
Others	25.7	**408,097**	331,476
		789,849	639,059
Other liabilities			
Unclaimed and unpaid dividend		**650**	650
Employees' Provident Fund		**-**	365
Employee related dues		**71,463**	73,138
Electricity duty	25.8	**280,664**	839,445
Tax deducted at source	25.8	**99,845**	95,386
PTV license fee	25.8	**22,451**	20,273
Workers' Profit Participation Fund	25.9	**-**	100
Payable to the then Managing Agent, PEA (Private) Limited		**29,295**	29,408
Others		**59,580**	12,266
		563,948	1,071,031
		22,098,688	11,952,405

25.1 Included herein is a sum of Rs.123.000 (2006: Rs.111.981) million representing financial charges due to a creditor for making late payment in respect of gas purchases.

25.2 Included herein is a sum of Rs.11.134 million payable to Siemens Pakistan Engineering Company Limited, a related party.

25.3 This represents a short term murabaha term finance arranged from a bank during the current year to meet the working capital requirements of the Corporation. It is repayable in one year with principal repayment at maturity on July 22, 2007. It carries mark-up at the rate of 3 months KIBOR + 2%, payable quarterly, and is secured against first pari passu charge on the current assets of the Corporation, aggregating to Rs.1,000.000 million, with 25% margin.

25.4 Included herein is an aggregate sum of Rs.519.895 (2006: Rs.402.938) million representing outstanding claims/dues of property taxes, water charges, ground rent and occupancy value payable to various government authorities. In addition to the above, claims in respect of property tax, ground rent and occupancy value payable to various government authorities, aggregating to Rs.3,977.873 (2006: Rs.3,829.701) million, have not been acknowledged by the Corporation as debts and, hence, these have been disclosed under 'contingencies' (note 30.1).

25.5 This also includes amount due to the consumers on account of excess payments and revision of previous bills.

25.6 This includes an amount of Rs.488.626 (2006: Rs.324.062) million in respect of Operation and Management fee, accrued by the Corporation under the terms and conditions of the Operation and Management Agreement with Siemens (Pakistan) Engineering Company Limited, a related party.

25.7 This represents amounts received from the consumers on account of service connection and purchase and installation of meters.

25.8 Electricity duty, tax deducted at source and PTV license fee are collected by the Corporation from the consumers on behalf of the concerned authorities. Payments are made thereto upon receipt of these dues from the consumers.

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
25.9 Workers' Profit Participation Fund			
Opening balance		**100**	34,953
Payments during the year		**(100)**	(34,853)
		-	100
Contribution for the year		**-**	-
		-	100
26. ACCRUED MARK-UP			
Accrued mark-up on:			
Long term deposits received from consumers		**704,235**	610,437
Murabaha term finance		**536**	-
Short term borrowings		**206,710**	-
Bridge term finance facility		**6,100**	-
		917,581	610,437
27. SHORT-TERM BORROWINGS			
Short term borrowings			
Bridge term finance facility	27.1	**3,000,000**	-
Short term running finances			
From commercial bank - secured	27.2	**4,596,128**	3,600,000
		7,596,128	3,600,000

27.1 This represents a bridge term finance facility arranged by the Corporation during the year under the Bridge Term Finance Agreement, executed between the Corporation and a Consortium of local commercial banks, for the purpose of financing its short term funding requirement. Under the terms of the said agreement, the Corporation has acquired a term finance facility of Rs.3,000.000 million to finance the short term funding needs of the Corporation. The said facility carries mark-up at KIBOR + 1% with a cap of 20%, payable monthly in arrears and is secured against standby letters of credit amounting to USD 50.000 million, issued in favour of the Corporation by the Gulf International Bank.

27.2 The Corporation has arranged various facilities for short term running finances from commercial banks, on mark-up basis to the extent of Rs.5,350.000 (June 2006: Rs.3,600.000) million.

These finances are secured against joint pari passu charge over current assets, aggregating to Rs.9,133.000 million, together with a pari passu charge on the book debts and receivables of the Corporation, amounting to Rs.10,667.000 million. In addition, demand promissory notes in respect of the above mentioned facilities have also been furnished by the Corporation.

The rates of markup in respect of running finances range between 1-3 month KIBOR + 1.25% to KIBOR + 2.00% per annum (June 2006: KIBOR +1.25% and KIBOR + 2.00% per annum), payable quarterly. The purchase prices are repayable on various dates, latest by May 28, 2008.

Further, the Corporation has executed Collection Branch Agreements with two banks through which the Corporation is required to route collection proceeds amounting to Rs.350.000 million and Rs.50.000 million, respectively, through these collection accounts during the collection period specified in the respective agreements.

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
28. SHORT-TERM DEPOSITS			
Service connection deposits	28.1	**2,028,744**	1,386,635
Suppliers' security deposits		**42,439**	13,393
Earnest money		**104,806**	28,031
		2,175,989	1,428,059

28.1 These include amounts contributed by consumers in respect of service connections, extension of mains and streetlights. The same is refundable if concerned work is not completed. Upon completion of work, these deposits are transferred to deferred revenue.

	Note	**June 30, 2007**	June 30, 2006
29. PROVISIONS			
For bank guarantee in respect of the dispute with Sabah Shipyard	29.1	**409,168**	409,168
For contingency relating to fatal accident cases		**83,739**	150,000
		492,907	559,168

29.1 A provision was made by the Corporation for the principal amount of a bank guarantee as a result of a dispute with Sabah Shipyard in the past. As per the Implementation agreement signed between the Corporation and the GoP, the GoP shall, within sixty days of receipt of a notice in writing from the Corporation accompanied by evidence establishing the obligation of the Corporation, make payment of any amount pursuant to the claim against the Corporation currently pending in the case of Sabah Shipyard in the High Court of Justice, Queen's Bench division, Commercial Court, London.

		Note	June 30, 2007	June 30, 2006
			(Rupees in thousand)	
29.2	**Movement in provisions during the year:**			
	Opening balance		**559,168**	525,813
	Provision made during the year in respect of fatal accident cases	37	**-**	33,355
	Reversal during the year		**(65,000)**	-
	Payment made during the year		**(1,261)**	-
			492,907	559,168

30. CONTINGENCIES AND COMMITMENTS

30.1 Contingencies

		Note	June 30, 2007	June 30, 2006
30.1.1	**Claims not acknowledged as debts:**			
	Fatal accident cases		**682,119**	455,136
	Guarantees from banks		**62,710**	500
	Architect's fee in respect of the head office project		**50,868**	50,868
	Outstanding dues of property tax, water charges, ground rent and occupancy value	25.4	**3,977,873**	3,829,701
	Claim by a Contractor		**990,000**	-

30.1.2 The NEPRA determined NTDC tariff for sale of power to KESC on marginal cost basis effective from July 2004. The NTDC raised the bills on monthly/daily marginal cost basis from time to time but KESC refused to acknowledge the same and approached NEPRA. The NEPRA decided that the rate of Rs.3.69 per kWh, the rate on which KESC was paying to NTDC, should be maintained till a mechanism for calculation on hourly marginal cost basis is put into place by NTDC. The decision was conveyed vide letter No. NEPRA/Director (accord)/2261, dated May 09, 2006. Thereafter, the Authority devised a mechanism for calculation of sale rate on marginal cost to KESC as intimated in their letter dated 21 February 2007.

Now, as per NTDC, the total claim on account of power purchases for the period June 2006 to June 2007 works out to Rs.32,233 billion on daily marginal cost basis. Out of the above claim, the Corporation has recorded a sum of Rs.19,666 million @ Rs.3.69/kWh and has not acknowledged the remaining balance of Rs.12,567 million. Besides, NTDC has also claimed the amount for the month of April and May 2006 on marginal cost basis and use of system charge from July 2004 amounting to Rs.3,847 million which has not been accepted by KESC on the plea that the payment of Rs.3.69/kWH is inclusive of all charges. The total disputed amount works out to Rs.16,415 million.

The management contends that NEPRA made another determination in September 2006 regarding removal of maximum limit of 4% on quarterly tariff adjustment on account of variation in fuel prices and cost of power purchases which has not yet been notified. In the absence of this notification KESC shall continue to face the dilemma of sustaining losses by itself and the operation of the Company shall not be sustainable. The management further contends that it is unfair to treat (a) NTDC-KESC marginal cost billing dispute and (b) waiver of 4% price cap as two separate issues. As a matter of fact the above two decisions are inter linked and that any additional cost billed by NTDC to KESC has either to be subsidized by GOP or has to be passed on to the consumers.

The management is also of the view that the average tariff should be applied on power sale to KESC as applicable to other DISCOs and Al-Tuwairqi to avoid huge impact on KESC tariff if charged at marginal cost which may create anomaly in tariff between the consumers of KESC and rest of the country.

The management is confident that the ultimate outcome of the matter will not result in any financial impact. Accordingly, no provision has been made by the Corporation for the above referred sum in these financial statements.

30.1.3 During the year, a claim amounting to Rs.73.161 million was lodged by Pakistan Steel vide its letter, number Cost/Acctts/EB/2007/622, dated April 19, 2007, in respect of right of way charges for Transmission Line passing within the premises of Pakistan Steel. The said claim has been calculated on the basis of the Minutes of the meeting held on July 19, 1994 wherein the key terms were subject to approval of KESC and Pakistan Steel which was not duly approved.

Further, as per Section 12 and Section 51 of the Electricity Act, 1910, any licensee is permitted to lay down or place electric supply lines with permission of local authority or the occupier of that land, subject to conferment of powers under Part III, of the Telegraph Act 1885. Moreover public utility is also barred from payment of annual rentals to any authority under the sections mentioned above and the claim is time barred. Furthermore, KESC was issued license from Provincial Government and all concessions and the permissions for such exemptions are provided in the license.

Based on the above, the Corporation does not acknowledge the said claim as debt.

30.1.4 The assessments for the years 1993-94, 1995-96 and 1997-98 to 2002-2003 have not been finalized pending resolution of various issues, particularly the application of Section 80C of the Income Tax Ordinance, 1979 to the Corporation, at different levels (appeals / revisions) of the Income Tax Department.

The Corporation's maximum exposure on account of the aforesaid matters would not exceed Rs.1,112.500 (2006: Rs.1,112.500) million in case of adverse decisions. The reason for such excessive demand is the application of Section 80C of the Income Tax Ordinance, 1979 mainly on the purchase of electricity from various power producers.

Although the final disposition of the above matters is difficult to predict, the management is confident that based on the merits of the case, the ultimate decision will be made in favour of the Corporation. Accordingly, no provision has been made by the Corporation in the financial statements of the current year in this regard.

30.1.5 Contingency relating to sales tax, as discussed in note 12.1. Pending resolution of this matter, no provision / adjustment has been made by the Corporation in the financial statements of the current year.

		Note	June 30, 2007	June 30, 2006
			(Rupees in thousand)	
30.2	**Commitments**			
30.2.1	Contracts with respect to Transmission and Distribution Projects		**5,664,000**	5,155,100
30.2.2	Outstanding Letters of Credit		**4,021,205**	5,155,100
30.2.3	Commitments for payment in respect of Combined Cycle Power Plant		**9,955,367**	-
30.2.4	Dividend on Preference Shares	16.8	**64,149**	-

30.2.5 As per the terms of the Operation and Management agreement, Siemens (Pakistan) Engineering Company Limited will charge a fixed fee of US$ 9 million for the first year, US$ 8 million for the second year and US$ 8 million plus the rate of inflation from the third year onwards. Further, a variable fee based on a percentage of sales and improvement factor will also be charged for the services provided by Siemens Pakistan Engineering Company Limited.

30.2.6 Under the terms of the Operation & Management Contract with Siemens (Pakistan) Engineering Company Limited, a related party, the Corporation is committed to bear the cost of (a) development and supervision of the installation of a computerized financial and accounting system ("SAP") and (b) training of the employees of the Corporation. The amount thereof has not yet been determined.

31. SALE OF ENERGY -- net

	June 30, 2007	June 30, 2006
Residential	**14,944,738**	13,952,274
Commercial	**7,439,898**	7,375,573
Industrial	**20,758,887**	19,011,075
National Transmission and Despatch Company	**33,262**	22,520
Karachi Nuclear Power Plant	**103,394**	38,033
Pakistan Steel Mills Corporation (Private) Limited	**781,385**	922,001
Others	**600,080**	600,939
	44,661,644	41,922,415

32. PURCHASE OF ELECTRICITY

	June 30, 2007	June 30, 2006
National Transmission and Despatch Company	**18,099,816**	14,155,219
Independent Power Producers (IPPs)	**10,451,972**	9,371,154
Karachi Nuclear Power Plant	**626,266**	394,046
Pakistan Steel Mills Corporation (Private) Limited	**185,889**	70,832
	29,363,943	23,991,251

33. CONSUMPTION OF FUEL AND OIL

	June 30, 2007	June 30, 2006
Natural gas	**19,023,755**	18,813,159
Furnace and other oils	**9,575,762**	10,403,704
	28,599,517	29,216,863

34. EXPENSES INCURRED IN GENERATION, TRANSMISSION & DISTRIBUTION

	Note	Generation Expenses	Transmission & distribution Expenses	2007	2006
		(Rupees in thousand)			
Salaries, wages and other benefits	34.1, 34.2 & 44	**430,220**	**2,573,779**	**3,003,999**	2,918,944
Stores, spares and loose tools consumed		**77,843**	**538,299**	**616,142**	526,253
Office supplies		**23,042**	**30,729**	**53,771**	39,918
NEPRA license fee		**15,107**	**14,514**	**29,621**	26,660
Repairs and maintenance		**238,593**	**165,631**	**404,224**	182,362
Transport expense		**38,769**	**314,818**	**353,587**	435,920
Rent, rates and taxes		**174,731**	**101,702**	**276,433**	82,699
Depreciation	4.1.2	**999,041**	**2,235,946**	**3,234,987**	3,320,139
Interdepartmental consumption		**-**	**231,709**	**231,709**	244,976
Provision against leftover material of 6th power project		**-**	**-**	**-**	271,943
Provision against slow moving and obsolete stores, spares and loose tools	8.1	**27,290**	**179,840**	**207,130**	- 276,716
Provision in respect of discrepancies		**-**	**-**	**-**	51,778
Others		**10,261**	**22,735**	**32,996**	46,996
		2,034,897	**6,409,702**	**8,444,599**	8,425,304

34.1 This includes a sum of Rs.450.327 (2006: Rs.456.191) million in respect of staff retirement benefits.

34.2 Free electricity benefit to employees, amounting to Rs.99.364 (2006:Rs.96.879) million, has been included in salaries, wages and other benefits.

35. CONSUMERS SERVICES AND ADMINISTRATIVE EXPENSES

	Note	Consumer services and Billing Expenses	Administrative and General Expenses	June 30, 2007	June 30, 2006
		(Rupees in thousand)			
Salaries, wages and other benefits	35.1, 35.2 & 44	**1,085,531**	**800,329**	**1,885,860**	1,598,426
Bank collection charges		**56,215**	**-**	**56,215**	126,403
Transport cost		**97,557**	**79,127**	**176,684**	102,934
Depreciation	4.1.2	**1,681**	**92,830**	**94,511**	92,620
Repairs and maintenance		**8,501**	**23,835**	**32,336**	23,721
Rent, rates and taxes		**27,638**	**94,106**	**121,744**	56,669
Public relations and publicity		**-**	**31,571**	**31,571**	24,676
Legal expenses		**-**	**36,934**	**36,934**	17,774
Auditors' remuneration	35.3	**-**	**1,833**	**1,833**	1,481
Professional charges		**-**	**20,137**	**20,137**	2,992
Directors fee		**-**	**500**	**500**	434
Provision against debts considered doubtful	9.1	**1,881,461**	**-**	**1,881,461**	3,328,840
Office supplies		**33,063**	**32,997**	**66,060**	53,870
Other expenses		**802**	**44,796**	**45,598**	165,591
Other miscellaneous fee		**-**	**1,166**	**1,166**	-
Interdepartmental consumption		**54,000**	**32,000**	**86,000**	85,339
Operations and Management fee	35.4	**-**	**686,421**	**686,421**	639,511
		3,246,449	**1,978,582**	**5,225,031**	6,321,281

35.1 This includes a sum of Rs.276.339 (2006: Rs.313.961) million in respect of staff retirement benefits.

35.2 Free electricity benefit to employees, amounting to Rs.75.579 (2006:Rs.92.688) million, has been included in salaries, wages and other benefits.

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	
35.3 Auditors' remuneration			
Statutory audit, half yearly review and Report of compliance on Code of Corporate Governance		**1,600**	1,364
Out of pocket expenses		**233**	117
		1,833	1,481

35.4 This represents Operation and Management fee accrued by the Corporation under the terms and conditions of the Operation and Management Agreement with Siemens (Pakistan) Engineering Company Limited, a related party.

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	
36. OTHER OPERATING INCOME			
Late payment surcharge		**527,637**	631,426
Amortisation of deferred revenue	22	**477,297**	706,903
Return on short term investments		**31,929**	42,732
Return on bank deposits		**48,451**	38,261
Profit against service connection and maintenance jobs		**-**	118
Rebate on electricity duty		**14,438**	13,897
Scrap sale - stores and spares		**206,791**	-
Liabilities no longer considered payable written back		**482**	94,522
Advance/credit balance of consumers no longer payable written back		**-**	103,215
Gain on disposal of fixed assets		**3,723**	179,292
Collection charges TV licence fee		**54,809**	55,058
Liquidated damages recovered from suppliers and contractors		**84,539**	103,511
Reversal of excess accruals		**-**	200,966
Exchange gain		**86,752**	-
Rent income		**1,235**	-
Liabilities no longer considered payable written back - fatal accident		**65,000**	-
Provision against slow moving and obsolete stores, spares and loose tools written back	8.1	**2,677**	-
Others		**120,955**	73,524
		1,726,715	2,243,425

	Note	June 30, 2007	June 30, 2006
37. OTHER OPERATING EXPENSES			
Interest on consumers deposits		**163,562**	154,402
Letters of credit charges for IPP payments		**4,377**	1,994
Bank guarantee charges		**109**	-
Capital work-in-progress written off		**-**	48,000
Provision against long-term loans		**-**	4,333
Provision against long-term deposits		**-**	1,020
Provision against advances		**-**	46,938
Donations	37.1	**95**	310
Stamp duty on issuance of shares and listing fee		**80**	2,933
Provision against fatal accident cases		**-**	33,355
Miscellaneous		**37,531**	-
		205,754	293,285

37.1 Donations do not include any donee in whom any director or his spouse has any interest.

38. FINANCE COSTS

	Note	**June 30, 2007**	June 30, 2006
		(Rupees in thousand)	
Mark-up / interest on short term borrowings		**647,345**	113,400
Late payment surcharge (LPS) on gas bills		**-**	466,711
LPS on delayed payment to a creditor		**504,792**	111,981
		1,152,137	692,092
Amount received from the Government of Pakistan (GoP) for settlement of LPS on gas bills as per the terms of the Implementation Agreement		**-**	(466,711)
		1,152,137	225,381

39. TAXATION

Current		**227,496**	212,900
Prior		**(8,901)**	(75,422)
		218,595	137,478

39.1 The income tax assessments of the Corporation have been finalized up to the assessment year 2002-2003, corresponding to the income year ended June 30, 2002. The returns of income for the years 2003, 2004, 2005 and 2006 have been filed under the Universal Self Assessment Scheme and are deemed to be assessed under Section 120 of the Income Tax Ordinance, 2001.

39.2 Deferred tax asset, amounting to Rs.19.630 (2006: Rs.18.545) million, has not been recognized in these financial statements as the Corporation is of the view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized.

At the year end, the Corporation's assessed tax losses amounted to Rs.70.233 (2006: Rs.70.987) million.

39.3 The relationship between income tax expense and accounting profit has not been presented in these financial statements as the Corporation has shown losses for the tax purposes, resulting in the tax liability based on 0.5% of turnover for the current year. Accordingly, tax under Section 113 of the Income Tax Ordinance, 2001, has been provided for in these financial statements.

40. LOSS PER SHARE

There is no dilutive effect on the loss per share of the Corporation, which is based on:

Loss for the year after tax	**(12,175,978)**	(7,191,662)
	Number of shares	
Weighted average number of Ordinary shares excluding Redeemable preference shares outstanding during the year	**13,167,074,983**	13,167,074,983
	(Rupee)	
Loss per share	**(0.92)**	(0.54)

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	
41. CASH (UTILIZED) / GENERATED FROM OPERATIONS			
Loss before taxation		**(11,957,383)**	(7,054,184)
Adjustments for non-cash charges and other items:			
Depreciation		**3,329,498**	3,412,759
Provision for deferred liabilities		**726,668**	702,000
Provision for slow moving stores, spares and loose tools		**204,453**	600,437
Recoveries / recoverable from the GoP under the terms of Implementation Agreement		**-**	(2,472,106)
Amortization of deferred revenue		**(477,297)**	(706,903)
Provision for debts considered doubtful		**1,881,461**	3,328,840
Gain on disposal of fixed assets		**(3,723)**	(179,292)
Provision for un-paid property tax		**42,000**	-
Liabilities no longer considered payable written back		**(65,000)**	(94,552)
Advance / credit balance of consumers no longer payable written back		**-**	(103,215)
Tariff adjustment accrued		**(1,147,250)**	-
Provision against long term loans		**-**	4,333
Cost of capital work-in-progress written off		**-**	48,000
Provision against long term deposits		**-**	1,020
Provision against advances		**-**	46,938
Interest on consumer deposits		**163,562**	154,402
Finance costs		**647,345**	225,381
Provision against fatal accident cases		**-**	33,355
Return on bank deposits		**(62,147)**	(38,261)
Working capital changes	41.1	**7,738,660**	(2,020,235)
		1,020,847	(4,111,283)

41.1 Working capital changes

	June 30, 2007	June 30, 2006
(Increase) / decrease in current assets		
Stores, spares and loose tools	**(1,437,477)**	(224,011)
Trade debts	**(2,838,978)**	(2,565,832)
Loans and advances	**66,055**	(213,366)
Trade deposits and prepayments	**(4,175)**	(573)
Other receivables	**1,770,140**	(2,661,111)
	(2,444,435)	(5,664,893)
Increase in current liabilities		
Trade and other payables	**9,435,165**	3,182,980
Short-term deposits	**747,930**	461,678
	7,738,660	(2,020,235)

	Note	June 30, 2007	June 30, 2006
		(Rupees in thousand)	

42. CASH AND CASH EQUIVALENTS

	Note	June 30, 2007	June 30, 2006
Short-term investments	14	**607,717**	890,476
Cash and bank balances	15	**3,937,319**	1,834,657
Short-term borrowings	27	**(7,596,128)**	(3,600,000)
		(3,051,092)	(874,867)

43. PRIOR YEAR ADJUSTMENT

During the current year, an exercise was carried out by the Estate Department of the Corporation to reconcile differences in respect of plots of land between the subsidiary records and the control account in the general ledger. As a result of the said exercise, an adjustment of Rs. 68.711 million has been accounted for retrospectively in accordance with the requirement of International Accounting Standard (IAS) - 8" Accounting Policies, Changes in Accounting Estimates and Errors" and the comparatives for the prior periods have been restated. The effects of restatement on the financial statements are as follows:

	June 30, 2006 (Rupees in thousand)
Increase in written down value of fixed assets	68,711
Reduction in accumulated losses	68,711

44. REMUNERATION OF MANAGING DIRECTOR, DIRECTORS AND EXECUTIVES

	2007			2006		
	Managing Directors	Directors	Executives	Managing Directors	Directors	Executives
	(Rupees in thousand)					
Directors' fee	**-**	**500**	**-**	-	434	-
Managerial remuneration	**8,429**	**-**	**2,951**	3,915	-	2,307
House rent	**1,849**	**-**	**1,290**	-	-	943
Free electricity	**-**	**-**	**-**	167	-	-
Others	**213**	**-**	**557,063**	87	-	-
	10,491	**500**	**561,304**	4,169	434	3,250
Number of persons	**2**	**12**	**15**	2	12	1

The Executives and Managing Director of the Corporation are provided medical and car facilities. One of the directors is also provided with the car facility.

45. TRANSMISSION AND DISTRIBUTION LOSSES

45.1 The transmission and distribution losses were 34.23% (2006: 34.43%). The trend of transmission and distribution losses over the years is as follows:

2000-2001	36.81%
2001-2002	41.11%
2002-2003	40.78%
2003-2004	37.84%
2004-2005	34.23%
2005-2006	34.43%
2006-2007	34.23%

45.2 One of the factors attributable to these losses is the theft of electricity, which cannot be billed as it is subject to identification, which has directly affected the profitability of the Corporation. No consideration has been given to units over billed in prior years and corrected during the year in the determination of transmission and distribution losses percentage as disclosed in paragraph 45.1 above.

46. FINANCIAL INSTRUMENTS

46.1 Interest rate risk

The Corporation enters into various types of long-term and short-term loans and running finance arrangement for financing its generation, transmission and distribution project and meeting working capital requirements.

	Effective yield / mark-up rate %	Interest / Markup bearing Maturity upto one year	Interest / Markup bearing Maturity after one year	Interest / Markup bearing Sub-total	Non-Interest / Markup bearing Maturity upto one year	Non-Interest / Markup bearing Maturity after one year	Non-Interest / Markup bearing Sub-total	Total June 30, 2007
		------ Rupees in thousand ------						
June 30, 2007								
FINANCIAL ASSETS								
Receivable from GoP	-	-	-	-	317,375	1,110,813	1,428,188	1,428,188
Loans	6	7,104	23,140	30,244	3,439	90,841	94,280	124,524
Deposits	-	-	-	-	2,050	18,700	20,750	20,750
Trade debts	-	-	-	-	8,640,510	-	8,640,510	8,640,510
Accrued interest	0.5-6	6,868	-	6,868	-	-	-	6,868
Other receivables	-	-	-	-	6,529,655	-	6,529,655	6,529,655
Short term investment	5-7.9	607,717	-	607,717	-	-	-	607,717
Cash and bank balances	0.5-6	2,431,439	-	2,431,439	1,505,880	-	1,505,880	3,937,319
		3,053,128	23,140	3,076,268	16,998,909	1,220,354	18,219,263	21,295,531
FINANCIAL LIABILITIES								
Long term financing	-	-	-	-	317,375	1,136,813	1,454,188	1,454,188
Long term deposits	5	-	3,353,849	3,353,849	-	-	-	3,353,849
Trade and other payables	3 months KIBOR+2	750,000	-	750,000	21,348,688	-	21,348,688	22,098,688
Accrued mark-up	KIBOR + 1.25-2 & 5	917,581	-	917,581	-	-	-	917,581
Short term borrowings	KIBOR + 1.25-2	7,596,128	-	7,596,128	-	-	-	7,596,128
Short term deposits	-	-	-	-	2,175,989	-	2,175,989	2,175,989
		9,263,709	3,353,849	12,617,558	23,842,052	1,136,813	24,978,865	37,596,423

	Effective yield / mark-up rate %	Interest / Markup bearing Maturity upto one year	Interest / Markup bearing Maturity after one year	Interest / Markup bearing Sub-total	Non-Interest / Markup bearing Maturity upto one year	Non-Interest / Markup bearing Maturity after one year	Non-Interest / Markup bearing Sub-total	Total June 30, 2006
		Rupees in thousand						
June 30, 2006								
FINANCIAL ASSETS								
Receivable from GoP	-	-	-	-	317,375	1,428,188	1,745,563	1,745,563
Loans	6	13,190	26,876	40,066	3,667	93,608	97,275	137,341
Deposits	-	-	-	-	485	8,294	8,779	8,779
Trade debts	-	-	-	-	7,682,994	-	7,682,994	7,682,994
Accrued interest	0.5 - 6	8,263	-	8,263	-	-	-	8,263
Other receivables	-	-	-	-	2,340,130	-	2,340,130	2,340,130
Short term investment	7.3 - 10.6	890,476	-	890,476	-	-	-	890,476
Cash and bank balances	0.5 - 6	1,520,189	-	1,520,189	314,468	-	314,468	1,834,657
		2,432,118	26,876	2,458,994	10,659,119	1,530,090	12,189,209	14,648,203
FINANCIAL LIABILITIES								
Long term financing	-	-	-	-	317,375	1,454,188	1,771,563	1,771,563
Long term deposits	5	-	3,121,353	3,121,353	-	-	-	3,121,353
Trade and other payables	-	-	-	-	11,952,405	-	11,952,405	11,952,405
Accrued mark-up	5	610,437	-	610,437	-	-	-	610,437
Short term borrowings	KIBOR + 1.25 - 2	3,600,000	-	3,600,000	-	-	-	3,600,000
Short term deposits	-	-	-	-	1,428,059	-	1,428,059	1,428,059
		4,210,437	3,121,353	7,331,790	13,697,839	1,454,188	15,152,027	22,483,817

46.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counterpart fails completely to perform as contracted. Financial instruments that potentially subject the Corporation to concentration of credit risk are trade debts. Out of the total financial assets of Rs.21,296.000 (2006: Rs.14,648.000) million, the financial assets which are subject to credit risk amounted to Rs.17,358.000 (2006: Rs.12,813.000) million. The Corporation's electricity is sold to industrial and residential consumers and government organizations. Due to large number and diversity of its consumer base, concentration of credit risk with respect to trade debts is limited. Further, the Corporation manages its credit risk by obtaining security deposit from the consumers.

46.3 Foreign exchange risk management

Foreign currency risk arises mainly when receivables and payables exist due to transaction with foreign undertakings. The Corporation's financial liabilities are mainly payable by the Government of Pakistan and, hence, the possibility of any material exchange difference in respect of its liabilities payable in foreign currencies does not arise. Further, the Corporation does not have any financial asset except as disclosed in note 12.4 denominated in foreign currency.

46.4 Liquidity risk

Liquidity risk reflects the Corporation's inability of raising funds to meet commitments. Management closely monitors the Corporation's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual consumers.

46.5 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

47. EVENTS AFTER THE BALANCE SHEET DATE

KESC and Siemens intend to terminate the O&M contract referred to in note 1 above. However, the date of termination and the modalities have not yet been finalized. The management is confident that the termination of this contract will not have any negative impact on the operations of the company.

48. TRANSACTIONS / BALANCES WITH RELATED PARTIES

Related parties of the Corporation comprise associates, directors, key management personnel and retirement benefit plans. Amounts due from and to related parties, amounts due from executives and remuneration of the Chairman, Chief Executive and Executives are disclosed below.

Details of transactions / balances with related parties except those under the terms of employment were as follows:

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
48.1 Siemens (Pakistan) Engineering Company Limited, an operation and management contractor		
Purchases	**1,150,691**	108,002
Operation and Management fee	**686,421**	639,512
Operation and Management fee accrued included in accrued expenses	**488,626**	324,062
Amount advance	**116,398**	-
48.2 National Transmission and Despatch Company, a major supplier		
Sales	**33,262**	22,520
Purchases	**18,099,816**	14,155,218
Amount payable included in creditors	**5,576,537**	1,795,193
48.3 Pakistan State Oil Company Limited, a major supplier		
Purchases	**9,575,761**	10,432,361
Amount paid as advance included in advances to suppliers	**-**	24,057
Amount payable included in creditors	**882,736**	-
48.4 Sui Southern Gas Company Limited, a major supplier		
Purchases	**19,023,754**	18,813,159
Amount payable included in creditors	**7,976,604**	4,006,595

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
48.5	**Karachi Nuclear Power Plant, a major supplier**		
	Sales	**103,394**	38,033
	Purchases	**626,265**	394,047
	Amount payable included in creditors	**175,731**	28,507
48.6	**Pakistan Steel Mills Corporation (Private) Limited, a major supplier**		
	Sales	**781,385**	922,001
	Purchases	**185,889**	70,832
	Amount receivable included in debtors	**144,097**	272,012
48.7	**Gul Ahmed Energy Limited, a major supplier**		
	Purchases	**5,556,346**	5,042,961
	Amount payable included in creditors	**676,788**	1,210,379
48.8	**Tapal Energy (Private) Limited, a major supplier**		
	Purchases	**4,612,783**	4,328,191
	Amount payable included in creditors	**574,407**	708,935
48.9	**Anoud Power Generation Limited, a major supplier**		
	Purchases	**282,441**	-
	Amount payable included in creditors	**16,973**	-

The transactions between the Corporation and related parties are carried out on an arm's length basis using the comparable uncontrolled price method.

49. CAPACITY AND PRODUCTION

The total installed capacity is 1756 MW (2006: 1756 MW). The actual production during the year was 8,168.800 million KWH (2006: 9129.7 KWH). The actual production is lower as the power generating plant and machinery are normally operated at 60% load as compared to the installed capacity which is also subject to variations in day and night time peak demand. Further, no production is possible when any unit is under major over hauling and repairs.

50. CORRESPONDING FIGURES

50.1 The following amounts have been reclassified for the purposes of better presentation:

From	To	Rupees in thousand
Generation expenses	Administration and general expenses	70,108
Transmission and distribution expenses	Administration and general expenses	155,055
Consumer services and billing expenses	Administration and general expenses	84,304

50.2 Further, following figures, which were netted off in the previous year are shown on a gross basis for the purposes of better presentation:

Sale of energy	Generation expenses	12,448
Sale of energy	Transmission and distribution expenses	329,407
Sale of energy	Consumer services and billing expenses	102,241
Sale of energy	Administration and general expenses	55,786

51. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 25th September, 2007 by the Board of Directors of the Corporation.

52. GENERAL

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

SYED MUHAMMAD AMJAD
CHIEF EXECUTIVE OFFICER

S. MOHAMMAD AKHTAR ZAIDI
DIRECTOR

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

Attendance of Directors at Board of Directors (BOD) and Board Audit Committee (BAC) Meetings held During the year July 1, 2006 to June 30, 2007

Board of Directors Meetings

S. No.	Name of the Directors	No of Board Meeting Attended	Remarks
1.	Mr. Abdulaziz Hamad Aljomaih	03	
2.	Mr. Naser Al-Marri	01	
3.	Syed Muhamamd Amjad	02	
4.	Mr. Shan A. Ashary	04	
5.	Mr. Asif Bajwa	01	
6.	Mr. Reyadh S. Al-Edrissi	03	
7.	Mr. Peter Hertog	05	
8.	Mr. Ariful Islam	02	
9.	Mr. M. Anwar Khalid	01	
10.	Mr. Ashfaq Mahmood	04	
11.	Mr. Tasneem Noorani	01	
12.	Mr. Jalaluddin Qureshi	04	
13.	Mr. Frank Scherschmidt	03	
14.	Mr. Mubasher H. Sheikh	04	
15.	Mr. Imran Zafar Siddiqui	--	
16.	Mr. S. Muhammad Akhtar Zaidi	04	
	Total number of Board Meetings		**05**

Board Audit Committee Meetings

S. No.	Name of the Directors	No. of Board Audit Committee Meetings Attended	Remarks
1.	Mr. Naser Al-Marri	--	
2.	Mr. Shan A. Ashary	03	
3.	Mr. Asif Bajwa	01	
4.	Mr. Jalaluddin Qureshi	02	
5.	Mr. Mubasher H. Sheikh	03	
	Total number of Audit Committee Meetings		**03**

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.
PATTERN OF SHAREHOLDING AS ON JUNE 30, 2007
ORDINARY SHARES

Shareholders	Ranges From		To	Shareholding
4,137	1	-	100	129,460
2,998	101	-	500	879,338
2,201	501	-	1,000	1,992,782
4,231	1,001	-	5,000	12,497,906
1,391	5,001	-	10,000	11,634,357
420	10,001	-	15,000	5,492,275
314	15,001	-	20,000	5,880,191
166	20,001	-	25,000	3,992,925
113	25,001	-	30,000	3,271,226
64	30,001	-	35,000	2,155,258
64	35,001	-	40,000	2,504,472
37	40,001	-	45,000	1,598,782
93	45,001	-	50,000	4,615,383
31	50,001	-	55,000	1,645,660
23	55,001	-	60,000	1,361,000
19	60,001	-	65,000	1,201,356
21	65,001	-	70,000	1,457,163
26	70,001	-	75,000	1,926,001
8	75,001	-	80,000	636,000
14	80,001	-	85,000	1,166,540
4	85,001	-	90,000	354,500
8	90,001	-	95,000	750,500
72	95,001	-	100,000	7,186,000
12	100,001	-	105,000	1,243,602
9	105,001	-	110,000	975,000
4	110,001	-	115,000	452,000
11	115,001	-	120,000	1,309,000
11	120,001	-	125,000	1,362,388
5	125,001	-	130,000	639,182
3	130,001	-	135,000	399,500
2	135,001	-	140,000	275,100
3	140,001	-	145,000	433,500
9	145,001	-	150,000	1,343,000
3	150,001	-	155,000	463,646
2	155,001	-	160,000	315,097
1	160,001	-	165,000	163,500
8	170,001	-	175,000	1,389,500

Pattern of Shareholding

Shareholders	Ranges From		Ranges To	Shareholding
2	175,001	-	180,000	360,000
1	180,001	-	185,000	185,000
1	185,001	-	190,000	190,000
15	195,001	-	200,000	3,000,000
2	200,001	-	205,000	410,000
4	205,001	-	210,000	836,500
2	210,001	-	215,000	426,290
4	220,001	-	225,000	892,150
1	225,001	-	230,000	230,000
1	230,001	-	235,000	235,000
5	245,001	-	250,000	1,242,500
1	250,001	-	255,000	253,000
1	255,001	-	260,000	260,000
1	260,001	-	265,000	260,100
2	270,001	-	275,000	546,000
1	275,001	-	280,000	280,000
1	285,001	-	290,000	287,000
6	295,001	-	300,000	1,798,500
3	305,001	-	310,000	923,369
1	315,001	-	320,000	320,000
2	325,001	-	330,000	655,500
1	330,001	-	335,000	332,000
1	335,001	-	340,000	335,500
1	340,001	-	345,000	342,000
3	345,001	-	350,000	1,050,000
1	355,001	-	360,000	356,000
2	370,001	-	375,000	749,070
2	385,001	-	390,000	772,815
2	390,001	-	395,000	788,500
2	395,001	-	400,000	799,177
1	400,001	-	405,000	405,000
1	410,001	-	415,000	412,367
1	435,001	-	440,000	440,000
1	445,001	-	450,000	450,000
1	455,001	-	460,000	455,500
2	465,001	-	470,000	936,480
1	470,001	-	475,000	474,000
1	475,001	-	480,000	480,000
2	485,001	-	490,000	977,000
4	495,001	-	500,000	2,000,000
1	585,001	-	590,000	585,500
1	595,001	-	600,000	600,000

Pattern of Shareholding

Shareholders	Ranges From		Ranges To	Shareholding
1	615,001	-	620,000	620,000
1	660,001	-	665,000	663,861
1	695,001	-	700,000	700,000
1	710,001	-	715,000	715,000
1	715,001	-	720,000	720,000
1	720,001	-	725,000	723,100
2	745,001	-	750,000	1,500,000
1	775,001	-	780,000	775,500
1	800,001	-	805,000	805,000
1	805,001	-	810,000	810,000
1	905,001	-	910,000	910,000
1	950,001	-	955,000	950,509
2	995,001	-	1,000,000	1,999,000
1	1,000,001	-	1,005,000	1,001,014
1	1,055,001	-	1,060,000	1,059,784
1	1,100,001	-	1,105,000	1,102,500
1	1,135,001	-	1,140,000	1,137,000
1	1,140,001	-	1,145,000	1,142,949
1	1,170,001	-	1,175,000	1,173,090
1	1,195,001	-	1,200,000	1,200,000
1	1,395,001	-	1,400,000	1,396,500
1	1,620,001	-	1,625,000	1,623,450
1	1,695,001	-	1,700,000	1,700,000
1	1,995,001	-	2,000,000	2,000,000
1	2,995,001	-	3,000,000	3,000,000
1	3,320,001	-	3,325,000	3,323,182
1	3,370,001	-	3,375,000	3,375,000
1	3,435,001	-	3,440,000	3,437,676
1	8,295,001	-	8,300,000	8,300,000
1	9,170,001	-	9,175,000	9,170,161
1	9,445,001	-	9,450,000	9,446,023
1	9,705,001	-	9,710,000	9,706,969
1	9,995,001	-	10,000,000	10,000,000
1	14,745,001	-	14,750,000	14,745,500
1	16,455,001	-	16,460,000	16,459,860
1	32,915,001	-	32,920,000	32,917,688
1	112,955,001	-	112,960,000	112,955,750
-	3,376,925,001	-	3,376,930,000	3,376,925,397
1	9,414,455,001	-	9,414,460,000	9,414,458,612
16,667				**13,167,074,983**

CATEGORIES OF SHAREHOLDERS
AS ON JUNE 30, 2007
ORDINARY SHARES

Categories of Shareholders	Number	Total Shares Held	Percentage
Shareholders holding ten percent or more voting interst in the Company			
KES Power Limited	1	9,414,458,612	71.500
President of the Islamic Republic of Pakistan	1	3,376,925,397	25.647
Associated Companies, Undertakings and Related Parties	-	-	-
NIT and ICP			
National Bank of Pakistan Trustee Dept	2	18,616,961	0.141
Investment Corporation of Pakistan	1	11,139	0.000
National Investment Trust	2	41,231	0.000
Directors, CEO & Their Spouse and Minor Children			
Executives	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds			
Banks, Financial Institutions	37	29,705,201	0.226
Investment Companies	27	2,973,944	0.023
Insurance Companies	14	2,061,892	0.016
Joint Stock Companies	152	178,960,205	1.359
Modarabah Management Companies	2	15,000	0.000
Modarabah Companies	11	140,189	0.001
Charitable Trusts	14	750,525	0.006
Mutual Funds	7	2,715,400	0.021
Leasing Companies	2	2,025,000	0.015
Individual	16,383	135,101,453	1.026
Others	12	2,572,834	0.020
	16,668	**13,167,074,983**	**100.000**

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.
PATTERN OF SHAREHOLDING AS ON JUNE 30, 2007
REDEEMABLE PREFERENCE SHARES

No. of Shareholders	Share Holding		Total No. of Shares
539	1	100	21148
1089	101	500	256648
495	501	1000	336207
567	1001	5000	1122741
72	5001	10000	501904
32	10001	15000	410643
12	15001	20000	202145
3	20001	25000	66642
6	25001	30000	158522
3	30001	35000	97059
3	35001	40000	111575
1	40001	45000	43224
1	45001	50000	46349
2	50001	55000	107759
1	55001	60000	58066
4	65001	70000	260388
1	90001	95000	91787
2	95001	100000	195292
1	130001	135000	130194
1	329740001	329745000	329743791
1	957980001	957985000	957982907
2,836			**1,291,944,991**

CATEGORIES OF PREFERENCE SHAREHOLDERS OF KESC LTD
AS ON JUNE 30, 2007

Categories of Shareholders	Number	Shares Held	Percentage
Shareholders holding ten percent or more			
KES Power Limited	1	957,982,907	74.150
President of the Islamic Republic of Pakistan	1	329,743,791	25.523
Associated Companies, Under-takings and Related Parties			-
NIT and ICP			-
Directors, CEO & Their Spouse and Minor Children			-
Executives			-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds			
Banks, Financial Institutions	2	95,692	0.007
Insurance Companies	1	56	0.000
Joint Stock Companies	23	148,106	0.011
Charitable Trusts	1	4,295	0.000
Cooperative Societies	2	1,806	0.000
Individual	2,802	3,963,881	0.307
Others	3	4,457	0.000
	2,836	**1,291,944,991**	**100.000**

Proxy Form

I/We..of..................................being a member of the Karachi Electric Supply Corporation Limited, hereby appoint .... of .... or failing him / her .... of .... as my / our proxy to attend and vote for me / us and on my/ our behalf at the 97th Annual General Meeting of the Company to be held at Navy Walfare Centre, Liaquat Barracks, Karachi on Tuesday, 30th October 2007 at 11:00 a.m. or at any adjournment thereof.

As witnessed given under my / our hand(s) this __________ day of ___________ 2007.

1. Witness: ______________________

   Signature ______________________

   Name ______________________

   Address ______________________

   ____

Affix Revenue Stamp of Rs. 5/-

2. Witness: ______________________

   Signature ______________________

   Name ______________________

   Address ______________________

   ____

____
Singature of Member

Shares held ________________________

Shareholder's Folio No. _______________

CDC A/C # _________________________

NIC															

N.B.:
1. Name may be written in Block Letters and mention your Ledger Folio No. and also the Ledger Folio No. of the Proxy Holder.
2. Proxy may be given to a person who is a member of the Corporation, except in the case of Companies where the proxy may be given to any of its employee.
3. In case the proxy is the beneficial owner of CDC, must enclose an attested copy of his / her NIC or Passport.

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