



CREATING A SUSTAINABLE LEGACY



COMPANY INFORMATION

BOARD OF DIRECTORS (BOD)

CHAIRMAN

Tabish Gauhar

CHIEF EXECUTIVE OFFICER

Nayer Hussain

DIRECTORS

INDEPENDENT DIRECTOR

Khalid Rafi

NON-EXECUTIVE DIRECTORS

Mubasher H. Sheikh

Muhammad Zargham Eshaq Khan

(Statutory documentation in process)

Naveed Alauddin

Omar Khan Lodhi

Shan A. Ashary

Wahid Hamid

Zafar Mahmood

(Statutory documentation in process)

EXECUTIVE DIRECTORS

Syed Arshad Masood Zahidi

Muhammad Tayyab Tareen

CFO & COMPANY SECRETARY

Syed Moonis Abdullah Alvi

BANKERS

Albaraka Bank (Pakistan) Limited

Allied Bank Limited

Askari Bank Limited

Bank Alfalah Limited

Citibank N. A.

Faysal Bank Limited

Habib Bank Limited

KASB Bank Limited

MCB Bank Limited

National Bank of Pakistan

Sindh Bank Limited

Standard Chartered Bank (Pakistan) Limited

Standard Chartered Modaraba

Summit Bank Limited

United Bank Limited

LEGAL ADVISER

Abid S. Zuberi & Co.

SHARE REGISTRAR

M/s. Central Depository Company of Pakistan Limited (CDCPL)

REGISTERED OFFICE

KESC House, 39-B, Sunset Boulevard, Phase-II, Defence
Housing Authority, Karachi

AUDITORS

M/s. KPMG Taseer Hadi & Company, Chartered Accountants

WEBSITE

www.kesc.com.pk

BOARD COMMITTEES

BOARD AUDIT COMMITTEE (BAC)

Khalid Rafi	Chairman
Mubasher H. Sheikh	Member
Tabish Gauhar	Member
Wahid Hamid	Member

BOARD HR&R COMMITTEE (BHR&RC)

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

BOARD FINANCE COMMITTEE (BFC)

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

Brief Review

I am pleased to present the Condensed Interim Financial Information of the Company for the period ended 31 March 2013 on behalf of Board of Directors. Key operational and financial results are listed below:

	Jan-Mar 2013	Jan-Mar 2012
<u>OPERATIONAL</u>		
	(UNITS - GWh)	
Units generated (net of auxiliary)	1,400	1,210
Units purchased	1,724	1,740
Total units available for distribution	3,124	2,950
Units billed	2,312	2,149
Transmission & Distribution Losses	26.0%	27.2%
	(PKR - MILLIONS)	
<u>FINANCIAL</u>		
Revenue	41,658	32,871
Profit / (loss) before taxation	1,120	(2,306)
Taxation – net	250	185
Profit / (loss) for the period	1,370	(2,121)
Earnings/(Loss) per share	(PKR) 0.05	(0.08)
Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)	5,778	957

FINANCIAL REVIEW:

During the current quarter total revenue increased by 26.7% which was mainly attributable to 1) increase in units billed by 7.6% on account of 5.9% more units available for distribution and 1.2% reduction in T&D losses (1.2%) and 2) escalation in fuel and power purchase cost resulting in an increase in total tariff. KESC generation increased by 15.8% over the corresponding period last year which was mainly due to combined cycle operation of the 560MW Bin Qasim Power Station-II. Current quarter fleet efficiency has also increased significantly from 33.5 % to 38.5 % for the same reason.

The Transmission & Distribution (T&D) Losses during current quarter decreased to 26.0% as compared to 27.2% same period last year, showing a reduction of 1.2%. Whereas (T&D) Losses for the nine month period ended 31 March decreased to 27.8 % from 29.6% same period last year showing a reduction of 1.8 %. The recovery ratio however, has been remained under severe pressure owing to reduction in recoveries from public sector consumers and deteriorating law & order situation.

The Company incurred a net profit of PKR 1,370 million during the current quarter as against a net loss of PKR 2,121 million during same period last year. While looking at nine months period ended 31 March 2013 the company's profit touched PKR 4,573 million as compared to net loss of PKR 4,956 million in the corresponding period last year.

The Company continues to face worsening circular debt crisis with rising receivables balances due from the Government and related entities on account of tariff differential claims and energy dues (including Karachi Water & Sewerage Board and City District Government Karachi). These receivable, coupled with reduced supply of Gas, are significantly affecting the ability of the Company to operate smoothly and maintain the load shed regime successfully implemented in the past few years. We continue to emphasize that it is imperative for the Government to urgently address the unfavorable impacts of delay in settlement of Government receivables and optimum supply of Gas to the power sector with a longer term view since continued un-interrupted supply to the industries will create an environment conducive to business continuity and growth of the economy.

FINANCING – CAPITAL RESTRUCTURING

Launch of Islamic SUKUK

With a view to diversify the borrowing profile and in order to meet permanent working capital expenditure financing requirements of the Company, the management is aiming to float Islamic SUKUK of up to PKR 6 billion, including green shoe option of PKR 2 billion subject to regulatory approvals and after completing necessary corporate actions.

ACTIVITIES UNDER REVIEW

GENERATION EXPANSION & REHABILITATION

560 MW Bin Qasim Combined Cycle Power Plant (BQPS II)

The 560 MW Bin Qasim Combined Cycle Power Plant, operational since May 2012, is demonstrating its benefits through its high efficiency. Hence, KESC's Fleet efficiency improved from 33.5% in the corresponding quarter of 2012 (Jan-Mar'12) to 38.5% in Jan-Mar'13. In order to ensure smooth and reliable operation of gas turbines, KESC has signed a five year "Comprehensive Service Agreement" with General Electric on 15th Feb 2013.

Korangi Combine Cycle Power Plant (KCCPP)

At KCCPP where out of four (4) gas turbines, two (2) are in combined cycle mode with One Steam turbine, whereas the remaining two (2) Gas Turbines are operating in open cycle mode. KESC has signed an EPC contract to close the open cycle of remaining two (2) Gas turbines. EPC will install a Heat Recovery Steam Generator (HRSG) and a Steam Turbine so that these GTs can also operate in combined cycle mode. EPC was awarded to M/s IEG, a Slovakian company in November 2012. NTP (Notice to Proceed) has been given in January this year. Upon completion of the project, station efficiency will increase to 45.5% from 42 % and the installed capacity will increase to 245 MW from 220MW. The Project will take about 18-20 months to complete with an estimated cost of US\$ 40 million.

SGTPS & KGTPS (GE-JB)

At SGTPS and KGTPS stations, 32 gas engines of 2.739MW capacity are installed. Owing to the policy of continued investment for improving efficiency and enhancing capacity, KESC is negotiating with EPC companies for closing the cycle and putting up HRSGs and one steam turbine at each site. The contract is expected to be finalized soon. Capacity enhancement of 10MW at each of this station is anticipated. The efficiency of the station shall increase to 39%.

TRANSMISSION NETWORK

Transmission Package

Scope clarification and review is in progress on proposed Transmission Package for further capacity enhancement and to improve the reliability and stability of EHT Network.

1. Three completely new 132 KV Grid Stations with interlinking 132 KV lines.
2. 132 KV One Double Circuit & One Single Circuit.
3. Six 40 MVA Power Trafo with associated switch gears and Bays.
4. Two new 250 MVA 220/132 kv Auto Trafo bays with Autos.

DISTRIBUTION

The Transmission and Distribution (T&D) losses during nine months ending 31 March 2013 stood at **27.8 %** as compared to **29.6 %** for the same period last year, showing a reduction of **1.8%**. **For the Jan-Mar quarter T&D losses showed a reduction of 1.2% over corresponding period last year.** The journey of transformation of your company continued despite challenges presented by the prevailing economic slowdown and unstable law and order situation hampering initiatives, particularly in 11 High Loss Distribution Centers, where losses are in excess of 50 percent.

The current economic climate and tariff increase over the years, as a result of gas shortages and increase in Furnace Oil prices, has significantly eroded the consumers' propensity to pay. Furthermore, efforts were hampered by a significant number of non-productive days due to the law and order situation in the city affecting the high loss areas the most. However, despite adverse factors, the Recovery Ratio during the period under review stood at **90.1%** (excluding PSC RR which stood at 66.4%). In this tough operating backdrop, your company undertook a number of measures yielding significant success to reduce this recovery gap.

Rebate/Amnesty Scheme and other initiatives have been introduced to facilitate consumers to clear-out their long outstanding dues with a long-term view of changing their payment behavior. With ever-increasing energy costs resulting in an abrupt increase in our defaulter base, these projects are not only designed to be beneficial to KESC, but cater to the needs of our low-income consumer base.

In addition to our continued focus on process improvements, the company planned certain key capex initiatives including Aerial Bundled Cabling (ABC), which acts as a catalyst for sustainable loss reduction in areas infested with illegal consumption of electricity despite various external challenges and at times violent resistance from illegal electricity users. ABC has been successfully rolled out on 47 Pole Mounted Transformers (PMTs) in areas of Gulshan-

e-Iqbal, Garden and North Nazimabad. Losses have been significantly reduced on these PMTs and based on the success of the pilot ABC Project is being rolled out in other areas of the city.

Smart Grid Project is a key strategic initiative to establish KESC as a commercially feasible, best in class utility, serving as a role model for utilities in the country as well as in the region. The project aims to reduce losses through improved energy monitoring (impact on the economic viability of the company) and a Distribution Network Management System to improve operations and reduce network outage response time resulting in operational efficiency and improved customer service. KESC will be initiating the project comprising of 5,000 customers in the last quarter of the current financial year and it is expected to take one year for completion. With these ground breaking initiatives at the convergence of core strategies and societal benefit, your company will continue to enhance sustainable value-creation in future.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Under our ESG Initiatives, we have formulated an extensive **Climate Change Policy** which was announced on the eve of Earth Hour to reinforce our commitment to adopting a balanced and responsible approach that reduces carbon emissions and ensures social and environmental gains.

In the recent past our efforts have been commended and we have been the recipients of a plethora of awards and accolades, most recently being recognized for our initiatives with an International CSR Excellence Award from the National Forum for Environment & Health in collaboration with the UN Environmental Program and also by the CSR Association of Pakistan for Innovation and Sustainability Reporting.

As part of the Emergency relief program, KESC provided relief to those affected by the Abbas Town tragedy in the form of exemptions from all outstanding electricity dues and those for the next six months.

Partnered with The Citizens' Foundation (TCF) to provide solar study lamps to high-achieving students from under-privileged backgrounds. 600 Study Lamps were distributed.

KESC Centenary Program

Stepping into our 100th year of existence, in-depth planning has been conducted to celebrate this momentous occasion with a series of events, programs and initiatives engaging different stakeholder groups, working our way up to the 13th of September, the day that marks our anniversary. Corporate Communications remained proactive in keeping internal and external customers engaged and abreast of all major developments within the organization.

STRATEGY AND BUSINESS DEVELOPMENT

In line with Company's vision to provide affordable, reliable and uninterrupted power supply to the citizens of Karachi, KESC is moving forward on investing in long term, sustainable and economical alternative options of generation. The shareholders were apprised, in Annual Report of the Company in sufficient detail, of KESC's initiatives which include the development of 22 MW Karachi Bio-Waste to Energy Project through partnership with local and foreign entities including IFC, GE and Aman Foundation, the initiative to convert 420 MW of its BQPS-I facility from furnace oil (FO) to coal, the power off-take from 600 MW mine-mouth coal power plant to be developed by Sindh Engro Coal Mining Company (SECMC) in Thar region and a fast track LNG import option utilizing the existing Engro Vopak terminal, which is contingent on GoP approval. Pursuant to the Climate Change Policy, KESC has started approaching wind power developers for the off-take of clean power. All the said projects are being actively pursued.

ACKNOWLEDGEMENTS

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

Karachi, 26 April 2013



Nayyer Hussain
Chief Executive Officer

Karachi Electric Supply Company Limited
Condensed Interim Balance Sheet
As at 31 March 2013

	31 March 2013 (Un-Audited)	30 June 2012 (Audited)
	(Rupees in '000)	
ASSETS		
Property, plant and equipment	164,495,379	169,031,230
Intangible asset	559,114	19,117
	<u>165,054,493</u>	<u>169,050,347</u>
Long-term loans	30,331	45,440
Long-term deposits and prepayments	104,593	118,701
	<u>165,189,417</u>	<u>169,214,488</u>
CURRENT ASSETS		
Due from the Government	317,750	317,750
Stores and spares	6,462,820	6,104,686
Trade debts	55,434,575	49,381,277
Loans and advances	526,929	504,801
Trade deposits and prepayments	1,931,188	2,214,629
Other receivables	46,688,646	41,519,735
Derivative financial assets	2,473,905	2,135,048
Taxation-net	924,827	-
Cash and bank balances	1,182,840	1,183,765
	<u>115,943,480</u>	<u>103,361,691</u>
TOTAL ASSETS	<u>281,132,897</u>	<u>272,576,179</u>
EQUITY AND LIABILITIES		
SHARE CAPITAL AND RESERVES		
Share capital	96,261,551	92,957,949
Reserves		
Capital reserves	509,172	509,172
Share premium	1,500,000	-
Revenue reserves	5,372,356	5,372,356
Accumulated losses	(76,885,313)	(82,854,799)
Other reserve	(523,187)	(621,373)
	<u>(70,026,972)</u>	<u>(77,594,644)</u>
Total equity	<u>26,234,579</u>	<u>15,363,305</u>
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	<u>25,698,627</u>	<u>27,095,083</u>
	<u>51,933,206</u>	<u>42,458,388</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Long term financing	28,491,471	43,183,473
Long term deposits	4,999,373	4,754,318
Deferred liabilities	5,295,188	5,158,406
Deferred revenue	15,895,867	16,103,412
Deferred tax liability	13,837,722	14,589,659
	<u>68,519,621</u>	<u>83,789,268</u>
CURRENT LIABILITIES		
Current maturity of long term financing	14,837,818	14,217,317
Trade and other payables	105,865,116	98,892,023
Accrued mark-up	5,245,388	3,739,614
Short term borrowings	28,954,241	23,420,575
Short term deposits	5,767,529	5,387,090
Current tax liability	-	661,926
Provisions	9,978	9,978
	<u>160,680,070</u>	<u>146,328,523</u>
CONTINGENCIES AND COMMITMENTS		
TOTAL EQUITY AND LIABILITIES	<u>281,132,897</u>	<u>272,576,179</u>

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Nayyer Hussain
Chief Executive Officer



Khalid Rafi
Director

Karachi Electric Supply Company Limited
Condensed Interim Profit & Loss Account (Un-audited)
For the nine months period ended 31 March 2013

	Nine months period ended		Three months period ended	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	(Rupees in '000)			
REVENUE				
Sale of energy – net	78,977,415	63,003,768	22,643,713	17,928,773
Tariff adjustment	56,863,675	42,833,254	18,960,056	14,888,332
Rental of meters and equipment	163,126	162,277	54,281	54,401
	136,004,216	105,999,299	41,658,050	32,871,506
EXPENDITURE				
Purchase of electricity	(58,904,086)	(54,111,344)	(21,069,004)	(18,803,704)
Consumption of fuel and oil	(46,481,783)	(37,402,855)	(10,708,059)	(10,228,894)
	(105,385,869)	(91,514,199)	(31,777,063)	(29,032,598)
Expenses incurred in generation, transmission and distribution	(10,483,683)	(10,557,616)	(2,583,201)	(3,607,004)
GROSS PROFIT	20,134,664	3,927,484	7,297,786	231,904
Consumers services and administrative expenses	(11,084,020)	(8,429,124)	(4,745,945)	(2,730,695)
Other operating expenses	(183,981)	(154,970)	(117,012)	(50,196)
Other operating income	3,677,823	3,598,883	1,111,608	1,460,294
	(7,590,178)	(4,985,211)	(3,751,349)	(1,320,597)
OPERATING PROFIT / (LOSS)	12,544,486	(1,057,727)	3,546,437	(1,088,693)
Finance cost	(10,546,935)	(4,400,698)	(2,426,255)	(1,217,526)
PROFIT / (LOSS) BEFORE TAXATION	1,997,551	(5,458,425)	1,120,182	(2,306,219)
Taxation -				
- Prior	1,823,548	-	-	-
- Current	-	(637,406)	-	(180,856)
- Deferred	751,936	1,139,295	249,730	365,766
	2,575,484	501,889	249,730	184,910
NET PROFIT / (LOSS) FOR THE PERIOD	4,573,035	(4,956,536)	1,369,912	(2,121,309)
EARNING PER SHARE	0.18	(0.19)	0.05	(0.08)
	(Rupees)			
	(Rupees in '000)			
Earning Before Interest, Tax, Depreciation and Amortization (EBITDA)	19,182,010	5,023,834	5,778,184	957,463

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Nayyer Hussain
Chief Executive Officer



Khalid Rafi
Director

Karachi Electric Supply Company Limited
Condensed Interim Statement of Comprehensive Income (Un-audited)
For the nine months period ended 31 March 2013

	<u>Nine months period ended</u>		<u>Three months period ended</u>	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	----- (Rupees in '000) -----			
Net profit / (loss) for the period	4,573,035	(4,956,536)	1,369,912	(2,121,309)
<i>Items that are reclassified or may be reclassified subsequently to profit and loss account</i>				
Effective portion of changes in fair value of cash flow hedges	-	(106,202)	-	(49,535)
Net changes in fair value of cash flow hedges reclassified to profit and loss account	98,186	-	32,722	-
	98,186	(106,202)	32,722	(49,535)
Total comprehensive income for the period	4,671,221	(5,062,738)	1,402,634	(2,170,844)

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Nayyer Hussain
Chief Executive Officer



Khalid Rafi
Director

Karachi Electric Supply Company Limited
Condensed Interim Statement of Changes in Equity (Un-audited)
For the nine months period ended 31 March 2013

	Issued, Subscribed and Paid-up Capital				Reserves					Equity Total	
	Ordinary shares	Redeemable preference shares	Transaction costs	Total share capital	Capital reserves	Share premium	Revenue reserves	Accumulated losses	Other reserves		Total
	----- (Rupees in '000) -----										
Balance as at 30 June 2011	74,516,236	6,000,000	(180,746)	80,335,490	509,172	-	5,372,356	(87,332,960)	(1,333,346)	(82,784,778)	(2,449,288)
<i>Total comprehensive income for the nine months period ended 31 March 2012</i>											
Net loss for the period	-	-	-	-	-	-	-	(4,956,536)	-	(4,956,536)	(4,956,536)
<i>Other comprehensive income</i>											
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	-	(106,202)	(106,202)	(106,202)
Total comprehensive (loss) for the period	-	-	-	-	-	-	-	(4,956,536)	(106,202)	(5,062,738)	(5,062,738)
Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	2,115,835	-	2,115,835	2,115,835
<i>Transaction with owners recorded directly in equity</i>											
Issuance of 1,543,550,599 ordinary shares @ Rs 3.5 each	5,402,425	-	(39,627)	5,362,798	-	-	-	-	-	-	5,362,798
Balance as at 31 March 2012	79,918,661	6,000,000	(220,373)	85,698,288	509,172	-	5,372,356	(90,173,661)	(1,439,548)	(85,731,681)	(33,393)
<i>Total comprehensive income for the three months period ended 30 June 2012</i>											
Net profit for the period	-	-	-	-	-	-	-	5,461,040	-	5,461,040	5,461,040
<i>Other comprehensive income</i>											
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	-	818,175	818,175	818,175
Total comprehensive income for the period	-	-	-	-	-	-	-	5,461,040	818,175	6,279,215	6,279,215
Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	1,857,822	-	1,857,822	1,857,822
<i>Transaction with owners recorded directly in equity</i>											
Issuance of 2,100,719,138 ordinary shares @ Rs 3.5 each	7,352,517	-	(92,856)	7,259,661	-	-	-	-	-	-	7,259,661
Balance as at 30 June 2012	87,271,178	6,000,000	(313,229)	92,957,949	509,172	-	5,372,356	(82,854,799)	(621,373)	(77,594,644)	15,363,305
<i>Total comprehensive income for the nine months period ended 31 March 2013</i>											
Net profit for the period	-	-	-	-	-	-	-	4,573,035	-	4,573,035	4,573,035
<i>Other comprehensive income</i>											
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	-	98,186	98,186	98,186
Total comprehensive income for the period	-	-	-	-	-	-	-	4,573,035	98,186	4,671,221	4,671,221
Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	1,396,451	-	1,396,451	1,396,451
<i>Transaction with owners recorded directly in equity</i>											
Issuance of 1,394,857,142 ordinary shares @ Rs 3.5 each (refer note 6.1)	4,882,001	-	(33,477)	4,848,524	-	-	-	-	-	-	4,848,524
Cancellation of 1,714,285,713 redeemable preference shares (refer note 6.2)	-	(6,000,000)	-	(6,000,000)	-	-	-	-	-	-	(6,000,000)
Issuance of 1,285,714,284 ordinary shares in lieu of cancellation of redeemable preference shares (refer note 6.2)	4,500,000	-	(44,922)	4,455,078	-	-	-	-	-	-	4,455,078
Share premium on issuance of ordinary shares in lieu of cancellation of redeemable preference shares	-	-	-	-	-	1,500,000	-	-	-	1,500,000	1,500,000
Balance as at 31 March 2013	96,653,179	-	(391,628)	96,261,551	509,172	1,500,000	5,372,356	(76,885,313)	(523,187)	(70,026,972)	26,234,579

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Nayyer Hussain
Chief Executive Officer



Khalid Rafi
Director

Karachi Electric Supply Company Limited
 Condensed Interim Cash Flow Statement (Un-audited)
 For the nine months period ended 31 March 2013

	Note	Nine Months Ended	
		31 March 2013	31 March 2012
(Rupees in '000)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	15	14,997,191	6,746,742
Deferred liabilities paid		(627,818)	(1,798,997)
Income tax paid		(74,984)	(226,357)
Receipt from customers recorded as deferred revenue		662,103	453,925
Finance cost paid		(8,710,630)	(8,084,343)
Interest received on margin deposits		275,276	293,397
Net cash from / (used) in operating activities		6,521,138	(2,615,633)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(2,671,593)	(3,509,744)
Proceeds from disposal of fixed asset		180,698	375,522
Long term loans		15,109	15,854
Long term deposits		14,108	(65)
Net cash used in investing activities		(2,461,678)	(3,118,433)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subscription for right shares		4,882,000	10,753,040
Repayment of long term financing		(14,642,708)	(4,310,975)
Transaction cost for capital issuance		(78,397)	(39,629)
Short term borrowing		5,533,666	(542,994)
Security deposit from consumers		245,055	274,528
Net cash (used) / generated from financing activities		(4,060,384)	6,133,970
Net (decrease) / increase in cash and cash equivalent		(925)	399,904
Cash and cash equivalent at beginning of the period		1,183,765	1,268,670
Cash and cash equivalent at end of the period		1,182,840	1,668,574

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.



Nayyer Hussain
 Chief Executive Officer



Khalid Rafi
 Director

Karachi Electric Supply Company Limited
Notes to the Condensed Interim Financial Information
For the nine months period ended 31 March 2013

1. THE COMPANY AND ITS OPERATIONS

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

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

The registered office of the Company is situated at KESC House, 39-B, Sunset Boulevard, Phase II, DHA, Karachi. KES Power Limited (the holding company) holds 69.20 percent (30 June 2012: 72.82 percent) shares in the Company.

2. STATEMENT OF COMPLIANCE

This condensed interim financial information has been prepared in condensed form in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting and is being submitted to shareholders in accordance with the requirements of section 245 of the Companies Ordinance, 1984. This condensed interim financial information does not include all of the information required for annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2012.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation which have been used in the preparation of this condensed interim financial information are the same as those applied in preparation of the annual financial statements for the year ended 30 June 2012.

4. TRADE DEBTS

Considered good

Secured – against deposits from consumers

Unsecured

31 March 30 June
2013 2012
(Un-Audited) (Audited)
(Rupees in ‘000)

	556,202	732,492
	54,878,373	48,648,785
4.2	55,434,575	49,381,277

Considered doubtful

Provision for impairment (against debts considered doubtful)

	21,570,283	17,682,730
	77,004,858	67,064,007
4.1 & 4.3	(21,570,283)	(17,682,730)
	55,434,575	49,381,277

4.1 During the current period, the Company has carried out a review of estimates used in provision for impairment against debts considered doubtful in order to ascertain the reasonableness of such estimates. Based on the review, the Company has revised the percentages used in calculation of impairment in different consumer ageing brackets. The revision has resulted in an increase in provision for impairment (against debts considered doubtful) by Rs 1,387 million during the current period.

4.2 This includes gross receivable of Rs.30,401 million (30 June 2012: Rs. 22,790 million) due from Government and autonomous bodies, including Karachi Water and Sewerage Board (KW&SB) and City District Government Karachi (CDGK) amounting to Rs. 21,868 million (30 June 2012: Rs. 18,110 million) and Rs. 5,347 million (30 June 2012 : Rs. 4,730 million) less unrecorded late payment surcharge due from KW&SB and CDGK amounting to Rs. 1,847 million (30 June 2012: Rs 1,552 million) and Rs. 783 million (30 June 2012 : Rs. 676 million) respectively. It is Management's contention that the calculation of late payment surcharge on Public Sector Consumers should be made on the same basis as the accrued interest on delayed payments on account of circular debt situation. If the similar basis is adopted, then the above receivable amount would substantially increase.

	31 March 2013 (Un-Audited)	30 June 2012 (Audited)
	(Rupees in '000)	
4.3 Provision for impairment (against debts considered doubtful)		
Opening balance	17,682,730	16,530,649
Provision made during the period / year	4,444,420	2,461,753
	22,127,150	18,992,402
Provision on debts written off during the period / year	(556,867)	(1,309,672)
	21,570,283	17,682,730

5. OTHER RECEIVABLES

Considered good

Sales tax - net	5,506,242	6,302,018
Due from the Government of Pakistan (GOP) in respect of:		
- Tariff adjustment and Others	40,805,121	34,732,462
- Interest receivable from GoP on demand finance liabilities	237,173	237,173
	41,042,294	34,969,635
Receivable from provident Fund	-	77,404
Others	140,110	170,678
	46,688,646	41,519,735

Considered doubtful

Sales tax	232,050	232,050
Provision for impairment	(232,050)	(232,050)
	-	-
Due from a Consortium of Suppliers of Power Plant	363,080	363,080
Provision for impairment	(363,080)	(363,080)
	-	-
	46,688,646	41,519,735

5.1 The amount has been adjusted according to NEPRAs' determinations in relation to Gas Load Management Plan (GLMP) price differential of furnace oil. However, the Company is not in agreement with those determinations and has taken up with relevant authorities for resolution.

6. SHARE CAPITAL

31 March 2013 (Un-Audited) (Number of Shares)	30 June 2012 Audited		31 March 2013 (Un-Audited) (Rupees in '000)	30 June 2012 Audited
Authorized share capital				
32,857,142,857	32,857,142,857	Ordinary shares of Rs. 3.5 each fully paid	115,000,000	115,000,000
2,857,142,857	2,857,142,857	Redeemable Preference shares of Rs. 3.5 each fully paid	10,000,000	10,000,000
35,714,285,714	35,714,285,714		125,000,000	125,000,000
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
14,448,119,262	11,767,547,836	Ordinary shares of Rs. 3.5 each fully paid <i>6.1 & 6.2</i>	50,568,417	41,186,417
-	1,714,285,713	Redeemable Preference shares of Rs. 3.5 each fully paid	-	6,000,000
14,493,490,367	13,527,204,654		51,022,128	47,640,128
Issued for consideration other than cash				
304,512,300	304,512,300	Ordinary shares of Rs. 10 each fully paid	3,045,123	3,045,123
1,783,456,000	1,783,456,000	Ordinary shares of Rs. 10 each fully paid	17,834,560	17,834,560
6,534,077,300	6,534,077,300	Ordinary shares of Rs. 10 each fully paid	65,340,773	65,340,773
4,366,782,389	4,366,782,389	Ordinary shares of Rs. 3.50 each fully paid	15,283,738	15,283,738
12,988,827,989	12,988,827,989		101,504,194	101,504,194
27,482,318,356	26,516,032,643		152,526,322	149,144,322
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
27,615,194,245	26,648,908,532		153,855,081	150,473,081
-	-	Reduction in capital	(57,201,902)	(57,201,902)
27,615,194,245	26,648,908,532		96,653,179	93,271,179
-	-	Transaction costs on issuance of shares	(391,628)	(313,230)
27,615,194,245	26,648,908,532		96,261,551	92,957,949

6.1 During the current period, the shareholders of the Company, by way of a special resolution passed in the extraordinary general meeting of the Company, held on 08 October 2012, resolved the issuance of additional share capital to International Finance Corporation and Asian Development Bank. As a result of the said resolution, the Company issued 698,071,428 ordinary shares and 696,785,714 ordinary shares having a face value of Rs. 3.5 each to International Finance Corporation and Asian Development Bank respectively. The issuance of shares was made pursuant to terms of the amended subscription agreement dated 05 May 2010 whereby the Senior Lenders exercised their right to convert their debt of USD 25 million each into ordinary shares of the Company.

- 6.2 During the current period, the Company has converted its redeemable preference shares into ordinary shares of the Company. The conversion of redeemable preference shares to ordinary shares was executed as per the resolution passed by the Board of Directors in their meeting dated 31 October 2012 and in accordance with Article 4 of the Subscription Agreement dated 14 November 2005 which required the Company to convert all its remaining redeemable preference shares to ordinary shares in case the Company is not able to redeem the full amount of redeemable preference shares by the redemption date. As per the terms of conversion, each redeemable preference shareholder shall become the holder of three ordinary shares for every four redeemable preference share held. Consequently, the Company converted 1,714,285,713 redeemable preference shares having face value of Rs. 3.5 each which amount to Rs. 6,000 million into 1,285,714,284 ordinary shares having face value of Rs. 3.5 each which amounts to Rs. 4,500 million resulting in a share premium of Rs. 1,500 million.

	31 March 2013 (Un-Audited)	30 June 2012 (Audited)
	(Rupees in '000)	
7. LONG-TERM FINANCING		
From banking companies and financial institutions - Secured		
International Finance Corporation (IFC)	7.1 7,416,832	10,429,462
Syndicate term loan	4,160,000	5,120,000
Asian Development Bank (ADB)	7.1 9,420,534	12,590,484
Foreign currency term loan	893,675	1,223,429
Syndicated commercial facility	826,389	1,180,556
Syndicated structured term finance facility	7,225,000	8,500,000
Structured Islamic Term Financing - Musharka	1,950,000	2,400,000
Faysal Bank Limited Medium Term Loan	1,850,000	2,000,000
	33,742,430	43,443,931
Current maturity shown under current liabilities	(8,180,880)	(7,690,379)
	25,561,550	35,753,552
Others - Secured		
Due to Oil and Gas companies	606,938	606,938
Current maturity shown under current liabilities	(606,938)	(606,938)
	-	-
Unsecured		
GoP Loan for the electrification of Hub Area	26,000	26,000
Karachi Nuclear Power Plant	1,139,263	1,589,263
BYCO Petroleum Pakistan limited	869,658	1,189,658
	2,008,921	2,778,921
Current maturity thereof shown under current liabilities	(1,250,000)	(1,120,000)
Due to the Government and autonomous bodies - related parties	6,945,000	10,545,000
Current maturity thereof shown under current liabilities	(4,800,000)	(4,800,000)
	2,145,000	5,745,000
	28,491,471	43,183,473
7.1 Pursuant to the amended subscription agreements signed between Senior Lenders (International Finance Corporation and Asian Development Bank) and the Company, the Senior Lenders have exercised their option to subscribe and convert their outstanding liability up to an amount of USD 50 million (USD 25 million each of International Finance Corporation and Asian Development Bank) into ordinary share capital of the Company by way of issuance of shares other than right as referred to in note 6.1.		
7.2 Terms and conditions for the remaining financing facilities other than in note 7.1 are the same as disclosed in note 20 to the annual financial statements for the year ended 30 June 2012.		

	31 March 2013 (Un-Audited)	30 June 2012 (Audited)
	(Rupees in '000)	
8 TRADE AND OTHER PAYABLES		
Trade creditors		
Power purchases	49,969,529	49,365,405
Fuel and gas	40,917,024	36,295,333
Others	<u>3,258,945</u>	<u>4,720,645</u>
	94,145,498	90,381,383
Accrued expenses	1,996,537	1,968,919
Advances / credit balances of consumers		
Energy	<u>506,767</u>	410,302
Others	<u>1,044,336</u>	717,190
	1,551,103	1,127,492
Other liabilities	<u>8,171,978</u>	5,414,229
	<u>105,865,116</u>	<u>98,892,023</u>

9. SHORT TERM BORROWINGS

From banking companies

Bridge term finance facility	<u>2,171,374</u>	2,171,374
Bills payable	<u>18,434,487</u>	15,966,960
	20,605,861	18,138,334
Short term running finances	<u>5,876,323</u>	3,356,274
Short term loan	-	221,121
Al-Baraka Murhabha facility 9.1	<u>500,000</u>	-
KES Power limited - holding company	<u>46,244</u>	47,001
KESC Azm Certificates 9.2	<u>1,925,813</u>	1,657,845
	8,348,380	5,282,241
	<u>28,954,241</u>	<u>23,420,575</u>

9.1 During the current period, the Company has availed Murhaba facility from Al-Baraka Bank (Pakistan) Limited to meet its working capital requirements, with the limit of Rs 500 million. This facility is repayable in 180 days and carries mark up at the rate six month Kibor + 1.70 % per annum, and is secured by way of specific charge on Grid stations and joint pari passu charge over current assets.

9.2 During the current period, the Company issued remaining AZM certificates to general public and the total subscription money received there against amounted to 1,926 Rs.million (30 June 2012 : Rs. 1,658 million). Terms and conditions of these certificates as disclosed in note 27 to the annual financial statements have remain unchanged.

9.3 Terms and conditions for the remaining financing facilities other than in note 9.1 are the same as disclosed in note 27 to the annual financial statements for the year ended 30 June 2012.

10 CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Contingencies as disclosed in note 12.1 to the condensed interim financial information for the six months period ended 31 December 2012 have remain unchanged.

10.2 Claims not acknowledged as debts

Claims not acknowledged as debts as disclosed in note 32.2 and 32.3 to the annual financial statements of the Company for the year ended 30 June 2012 remain unchanged.

	31 March 2013 (Un-Audited) (Rupees in '000)	30 June 2012 (Audited)
10.3 Commitments		
Guarantees from banks	49,192	47,182
Contracts with respect to Transmission and Distribution Projects	<u>1,255,285</u>	<u>1,011,904</u>
Outstanding Letters of Credit	<u>1,267,967</u>	<u>1,255,612</u>
Commitment for payment in respect of maintenance of Combined cycle Power Plant (220MW)	<u>393,416</u>	<u>376,517</u>
Commitment for payment in respect of extension in Combined cycle power plant (220 MW)	<u>3,440,993</u>	-
Dividend on Preference Shares	10.4 <u>1,034,516</u>	<u>1,034,516</u>

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

	31 March 2013 (Un-Audited) (Rupees in '000)	31 March 2012
11 PURCHASE OF ELECTRICITY		
National Transmission and Dispatch Company	39,842,692	38,060,192
Independent Power Producers (IPPs)	15,434,024	13,031,551
Karachi Nuclear Power Plant	3,584,386	2,956,118
Pakistan Steel Mills Corporation (Private) Limited	42,984	63,483
	<u>58,904,086</u>	<u>54,111,344</u>

12 CONSUMPTION OF FUEL AND OIL

Natural gas	21,666,007	17,967,164
Furnace and other oils	24,815,776	19,435,691
	<u>46,481,783</u>	<u>37,402,855</u>

13 FINANCE COST

Mark-up / interest on:

Mark-up / interest on short / long term borrowings	5,030,796	2,437,442
Late payment surcharge on delayed payments to creditors	2,962,941	406,744
Bank service, discounting charges and others	2,553,199	1,556,512
	<u>10,546,935</u>	<u>4,400,698</u>

14 TAXATION

The Taxation Officer passed assessment orders under section 122(A) of the Income Tax Ordinance, 2001 (the Ordinance) in respect of tax years 2010 and 2011 and made certain disallowances and additions ensuing in minimum tax liability of Rs. 543 million and Rs. 1,408 million for the tax year 2010 and 2011 respectively. Taxation Officer held that the tariff differential claim is part of Turnover and also added back total depreciation allowance instead of depreciation related to cost of sales of the Company for the purpose of computing minimum tax liability under section 113 of the Ordinance.

The Company filed appeal with CIR(A) against the said assessment orders. The appeal was rejected by CIR(A), thereby maintaining the decision of ACIR. Subsequently, the Company filed appeal before Appellate Tribunal Inland Revenue (ATIR) against order of CIR(A) for tax year 2011. ATIR has decided the case in favor of the Company vide its orders dated 31 July 2012 and 04 October 2012 whereby order of learned CIR(A) was vacated and order passed by Taxation Officer was cancelled. The order was passed in favor of the Company mainly considering subsidy to be not part of turnover. The Company based on the order passed by ATIR has reversed, during the current period, the minimum tax liability amounting to Rs. 874 million for tax year 2011. Further, keeping in view of the similarity of the issue involved in tax year 2012, the Company has also reversed, during the current period, the provision against minimum tax liability amounting to Rs. 948 million for the tax year 2012 in these condensed interim financial information.

	31 March 2013	31 March 2012
	(Un-Audited)	
	(Rupees in '000)	
15 CASH GENERATED FROM OPERATIONS		
Profit / (loss) before taxation	1,997,551	(5,458,425)
Adjustments for non-cash charges and other items:		
Depreciation and amortization	6,637,524	6,081,560
Provision for deferred liabilities	764,599	845,356
Provision for slow moving stores	50,453	78,673
Amortization of deferred revenue	(869,649)	(852,604)
Exchange gain on long term financing	-	(248,986)
Provision for debts considered doubtful	4,444,420	2,147,504
Interest on consumer deposits	-	145,365
Gain on sale of fixed assets	(150,775)	(357,177)
Finance costs	10,546,935	4,400,698
Return on margin deposits	(275,276)	(293,397)
Working capital changes	15.1 (8,148,592)	258,175
	<u>14,997,191</u>	<u>6,746,742</u>
15.1 (Increase) / decrease in current assets		
Stores, spares and loose tools	(408,587)	436,261
Trade debts	(10,497,718)	(5,605,231)
Loans and advances	(22,128)	(17,157)
Trade deposits and prepayments	283,441	(2,536,273)
Other receivables	(5,168,911)	(14,916,333)
	<u>(15,813,903)</u>	<u>(22,638,733)</u>
Increase / (decrease) in current liabilities		
Trade and other payables	7,284,872	22,514,319
Short-term deposits	380,439	382,589
	<u>(8,148,592)</u>	<u>258,175</u>

16 TRANSMISSION AND DISTRIBUTION LOSSES

The transmission and distribution losses for the current period were 27.8 % (31 March 2012: 29.6%).

17 TRANSACTIONS / BALANCES WITH RELATED PARTIES

Related parties of the Company comprise of associated companies, state-controlled entities, staff retirement benefit plans, and the company's directors and key management personnel.

Details of transactions / balances with related parties not disclosed elsewhere in this condensed interim financial information are as follows:

	31 March 2013	31 March 2012
	(Un-Audited)	
	(Rupees in '000)	
KES Power Limited, Parent Company		
Reversal of accrued mark up	80,346	-
Major suppliers		
Purchase	100,749,059	92,301,254
Late payment surcharge	1,294,226	322,448
	31 March 2013	30 June 2012
	(Un-Audited) (Audited)	
	(Rupees in '000)	
Major suppliers		
Amount payable included in		
- Trade and other payables	87,951,599	77,818,205
- Long term financing	7,814,658	11,734,658
Retirement benefits		
- Contribution to Provident Fund	369,377	494,194
- (Payable) to / Receivable from Provident Fund	(47,376)	77,404
KES Power Limited, Parent Company		
Short term loan	46,244	47,001
Accrued mark up	-	80,346

18 DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information were authorized for issue on 26 April 2013 by the Board of Directors of the Company.

19 GENERAL

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



Nayyer Hussain
Chief Executive Officer



Khalid Rafi
Director



ENLIGHTENING
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1913



KARACHI ELECTRIC
SUPPLY COMPANY

KHIDMAT MEIN ROSHAN

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