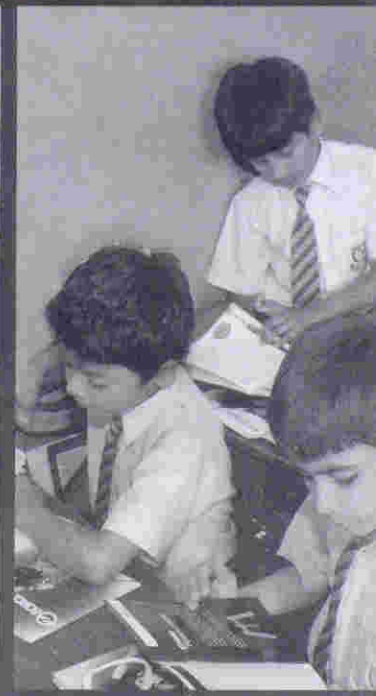


CREATING A SUSTAINABLE LEGACY



KESC QUARTERLY REPORT JUL-SEP 2012

COMPANY INFORMATION

BOARD OF DIRECTORS (BOD)

CHAIRMAN

Waqar Hassan Siddique

CHIEF EXECUTIVE OFFICER

Tabish Gauhar

DIRECTORS

Independent Director

Khalid Rafi

NON-EXECUTIVE DIRECTORS

Shan A. Ashary

Mubasher H. Sheikh

Omar Khan Lodhi

Wahid Hamid

Naveed Alauddin

Zafar Mahmood

(Statutory documentation in process)

Muhammad Zargham Eshaq Khan

(Statutory documentation in process)

EXECUTIVE DIRECTORS

Syed Arshad Masood Zahidi

Muhammad Tayyab Tareen

Syed Nayyer Hussain

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Syed Moonis Abdullah Alvi

BANKERS

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

Khalid Rafi	Chairman
Mubasher H. Sheikh	Member
Omar Khan Lodhi	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
Syed Nayyer 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 30 September 2012 on behalf of the Board of Directors. Key operational and financial results are listed below:

	JUL-SEPT 2012	Jul-Sept 2011
OPERATIONAL	(UNITS - GWH)	
Units generated (net of auxiliary)	2,372	2,054
Units purchased	1,860	1,910
Total units available for distribution	4,232	3,964
Units billed	2,900	2,664
Transmission & Distribution Losses %	31.5%	32.8%
 FINANCIAL	 (PKR IN MILLIONS)	
Revenue	49,456	38,042
Cost of fuel & power purchase	(40,977)	(32,969)
O&M Expenses	(4,212)	(4,464)
Other income/ Financial and Other Charges	(1,829)	(997)
Depreciation & Amortization	(2,202)	(1,927)
Taxation - net	2,072	113
Profit/(Loss) for the period	2,308	(2,202)
Profit/(Loss) per share - basic	(PKR) 0.09	(0.10)
- diluted	(PKR) 0.09	(0.09)
 EARNINGS BEFORE INTEREST ,TAX , DEPRECIATION AND AMORTIZATION (EBITDA)	 5,845	 1,312

FINANCIAL REVIEW

During the current period under review, the Company has posted net profit after tax of PKR 2,308 million as against net loss of PKR 2,202 million in the same quarter last year. This was mainly driven by reduction in Transmission & Distribution (T&D) Losses and efficiency improvement due to addition of BQPS -II power plant. In addition, the company has reversed the provision amounting to PKR 1,824 million against minimum tax liability for the tax years 2011 and 2012 based on the Appellate Tribunal Inland Revenue (ATIR) decision as explained under note 12 to the condensed interim financial information.

Notwithstanding a second consecutive profitable quarter, the Company continues to face the circular debt crisis with significant receivables due from Government and autonomous bodies, including Karachi Water and Sewerage Board and City District Government Karachi amounting to PKR 19,328 and PKR 5,399 million respectively. We continue to emphasize that it is imperative for the Government to urgently address the unfavorable impact of delay in settlement of Government receivables, with a longer term view to create an environment conducive to business continuity and growth in this key sector of the economy.

ACTIVITIES UNDER REVIEW

GENERATION EXPANSION & REHABILITATION

CLOSING CYCLE AT CCPP KORANGI

Proposals were requested from various EPC companies for closing the cycle on GT 1&2. As a result, a Slovakian EPC company which initially designed and installed the present HRSG on GT 3&4, was selected for further negotiation. An LOI was issued in July 2012 and detailed negotiations were done during October 2012. The contract is expected to be signed in early November 2012. The project will add around 27.5 MW of power output, with project duration of 18 months.

CLOSING CYCLE AT GEJB SITE & KORANGI

Proposals were asked for closing the cycle on GEJB engines at Site and Korangi. An addition of around 10MW per site is expected. Final negotiation meetings with shortlisted contractors shall start from November and the contract is expected to be awarded by December 2012.

560 MW BQPS - II CAPP

The newly commissioned 560MW BQPS-II Project operated at its full capacity during the review quarter, except for a brief period when the Steam Turbine went into forced outage in July 2012. The fault was fixed by OEM/EPC and since first week of Sep' 12, the station operation reverted to combined cycle mode.

TRANSMISSION NETWORK

The "Transmission Package" has shown progress in the review quarter with the submission of technical and commercial proposal by M/s ABB. This Package envisages addition of three grid stations at strategic locations, extension of Power Transformer Bays at six grid stations and 2 x 250 MVA Auto Transformer Bays at KDA and Maripur Grid Stations. The package also includes constructing New Transmission Lines to avoid overloading and increase the capability of KESC transmission network.

During the review quarter, closing of 220 kV ring was completed by the replacement of faulty underground section with overhead "220 kV Baldia - Maripur Circuit".

DISTRIBUTION

The twelve month rolling average Transmission & Distribution losses stand at 29.4% (as compared to 29.7% reported for the year ended 30 June 2012). The recovery ratio for the quarter ended September stood at 82.9%, a decrease of 3.8% over last year mainly due to a significant 20% reduction in recoveries from the Public Sector which is being mitigated by the Company through management of public sector payables. In two thirds of the city (in terms of energy supplied) the T&D losses are close to 20% with a 93% recovery ratio. In case of Industrial consumers, the recovery ratio is close to 100%. With regard to low recovery areas, several recovery oriented strategies are also being executed, including a rebate scheme for low consumption consumers, mass installment program and a policy requiring any Pole Mounted Transformer (PMT) repairs upon sufficient recoveries from the associated consumers.

The Aerial Bundle Cable (ABC) project is being rolled out in various parts of the city and the areas where these were installed earlier are showing positive results. Further, KESC is actively engaged with various leading international and local solutions providers for its Smart Grid initiative and is expected to finalize this program by December 2012. The Smart Grid initiative is the stepping stone for KESC to progress and become a world class utility - one where the focus is on infrastructure development and preventive maintenance, resulting in reduced outages, better customer service and overall greater transparency. The initial phase involves remotely managed smart meters at customer premises and transformers, along with the IT systems to manage the information. The ability to accurately monitor energy flows (allowing for loss identification, remote billing, and remote disconnection) and the network health (allowing for preventive maintenance and planning) will result in reduced energy losses, improved recoveries, increased productivity and better network service.

DISTRIBUTION SERVICE PROVIDER (DSP) ARRANGEMENT

With regards to high loss areas, the Distribution Service Provider (DSP) initiative has been initiated in two business centers since August 2012 with encouraging results. During the two months under DSP arrangements, the performance results of both IBCs had been quite encouraging. In September 2012, IBC Gadap was able to reduce the Distribution Loss by 11.7% while Orangi achieved a reduction of 6.6% over last year, indicating a positive trend.

SAP IS-U

SAP IS-U roll out has been successfully completed in seven Integrated Business Centres (IBCs) and covers 50% of the company revenue including the Public Sector. The next nine IBCs will be transformed with the technology move to SAP IS-U, IT infrastructure deployment (servers, fiber optical cable) and revamped customer service centers by the fourth quarter of the current financial year. These nine IBCs (Saddar, Garden, Bahadurabad, Tipu Sultan, North Karachi, F.B. Area, Bin Qasim, Shah Faisal and Lyari 1) will add to KESC's already restructured seven IBCs (Gulshan-e-Iqbal, North Nazimabad, Johar, Defence, Clifton, SITE and Korangi Industrial Area).

CORPORATE SOCIAL RESPONSIBILITY (CSR)

EMPOWERMENT PROGRAM - SOCIAL INVESTMENT PROGRAM

As part of its Social Investment Program (SIP), KESC has launched a unique "Empowerment Program" to provide relief to social welfare organizations in health and education sectors. KESC has signed memorandums of understanding (MoU) with five healthcare and educational institutions under SIP during the past few weeks. KESC would bear, Indus Hospital's 50 per cent of the cost of the electricity every month, 100 per cent cost of the electricity consumed by approximately 320 school units of The Citizens Foundation and its head office in Karachi, 100 per cent cost of the electricity consumed by two hospitals of Layton Rahmatulla Benevolent Trust located at Korangi and North Karachi, 100 per cent cost of the electricity consumed by Marie Adelaide Leprosy Centre (MALC), the later provides free medical aid to a large number of leprosy, eye and TB patients all across the country. KESC would also provide absolutely free electricity to Sindh Institute of Urology and Transplantation (SIUT) at its three dialysis centers in the City.

THOUGHT LEADERSHIP FORUM

KESC launched the "Thought Leadership Forum", organized on the day of 99th anniversary of the Company, i.e. September 13, 2012, at DHA Golf Club, Karachi. The chief guest, Dean & Director of IBA Karachi, Dr. Ishrat Husain addressed on "The Impact of Privatization on Sustainable Development". 180 corporate executives and KESC's top brass attended the session. These sessions will be held every two months highlighting the challenges faced by the energy sector and the country as a whole. Non-biased expert views will be expressed by the think tanks of the country on various issues, policies, privatization of the energy sector and on multiple dimensions concerned with long term sustainable economic value creation for the country at large.

STRATEGY AND BUSINESS DEVELOPMENT

MOU WITH ENGRO CORP

KESC has signed a multi-faceted Memorandum of Understanding (MoU) with Engro Corporation Ltd (Engro Corp) to cooperate on projects of mutual interest. The MoU would cover four key initiatives; fertilizer off-take agreement from KESC's Bio-gas waste-to-energy power project for generation of 22 MWs electricity; a 300-600 MW coal project at Thar; import of LNG as alternate fuel for KESC's generation plants, and supply of up to 65 MWs electricity to Engro's Polymer and Chemicals unit at Bin Qasim.

COAL CONVERSION

In response to the invitation to Bid floated in September, notable EPC Parties have conducted site visits and subsequent meetings with KESC team. KESC is in discussions with a privately held business conglomerate based in Indonesia. The group holds 5 mining concessions, and KESC has identified one of their mines for long term coal supply for the Project. Bright Eagle Enterprises Ltd (BEEGL) and KESC are working together on a formal petition/proposal to NEPRA for the Project.

BIO GAS

KESC is in the process of engaging a multilateral agency for ancillary studies, seeking EPC proposals and acquiring land for the project.

UNBUNDLING

As part of KESC's transition to an unbundled entity and as part of the first phase, the team has completed cost allocation mechanism of support service costs to core Business Units i.e. Generation, Transmission and Distribution. For this purpose, assessment cycles have been created in SAP application for monthly re-allocation of these costs back into core BUs. Furthermore, multiple structures are being assessed internally in order to determine the most efficient unbundling structure.

REDEEMABLE PREFERENCE SHARES (RPS)

Post balance sheet date the BOD of the Company, in accordance with the terms and conditions notified at the time of issue of RPS, decided to convert the RPS into ordinary shares of the Company.

BOARD OF DIRECTORS (BOD)

At Annual General Meeting (AGM) of the Company held on 8 October 2012, thirteen (13) directors were elected / reelected for a fresh three (3) year term. Mr. Khalid Rafi a professional Chartered Accountant of high repute was elected as an independent director and his presence on KESC BOD will add value and improve corporate governance. Mr. Imtiaz Kazi one of the three (3) GOP nominees was replaced by Mr. Zafar Mahmood, Secretary Ministry of Water & Power, GOP whereas, a KESP nominee Mr. Michael Essex was replaced and substituted by Mr. Wahid Hamid. The Board wishes to place on record appreciation of services of the outgoing directors and welcomes the incoming directors.

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, 31 October 2012


Tabish Gauhar
Chief Executive Officer

KARACHI ELECTRIC SUPPLY COMPANY LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2012

	Note	30 SEPTEMBER 2012 (UN-AUDITED)	30 June 2012 (Audited)
		(RUPEES IN '000)	
ASSETS			
Property, plant and equipment		167,540,371	169,031,230
Intangible asset		14,526	19,117
		<u>167,554,897</u>	<u>169,050,347</u>
Long-term loans		42,907	45,440
Long-term deposits and prepayments		118,701	118,701
		<u>167,716,505</u>	<u>169,214,488</u>
CURRENT ASSETS			
Due from the Government		317,750	317,750
Stores and spares		6,378,960	6,104,686
Trade debts	4	54,259,205	49,381,277
Loans and advances		459,106	504,801
Trade deposits and prepayments		2,360,246	2,214,629
Other receivables	5	40,884,093	41,519,735
Derivative financial assets		1,880,592	2,135,048
Taxation-net		1,187,953	-
Cash and bank balances		588,426	1,183,765
		<u>108,316,331</u>	<u>103,361,691</u>
TOTAL ASSETS		<u><u>276,032,836</u></u>	<u><u>272,576,179</u></u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital		92,957,949	92,957,949
RESERVES			
Capital reserves		509,172	509,172
Revenue reserves		5,372,356	5,372,356
Accumulated losses		(80,082,798)	(82,854,799)
Other reserve		(588,641)	(621,373)
		<u>(74,789,911)</u>	<u>(77,594,644)</u>
TOTAL EQUITY		<u>18,168,038</u>	<u>15,363,305</u>
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
		26,631,296	27,095,083
		<u>44,799,334</u>	<u>42,458,388</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term financing	6	39,787,314	43,183,473
Long term deposits		4,850,259	4,754,318
Deferred liabilities		5,169,072	5,158,406
Deferred revenue		15,916,549	16,103,412
Deferred tax liability		14,339,928	14,589,659
		<u>80,063,122</u>	<u>83,789,268</u>
CURRENT LIABILITIES			
Current maturity of long term financing		14,417,310	14,217,317
Trade and other payables	7	96,611,141	98,892,023
Accrued mark-up		3,594,686	3,739,614
Short term borrowings		30,843,327	23,420,575
Short term deposits		5,693,938	5,387,090
Current tax liability		-	661,926
Provisions		9,978	9,978
		<u>151,170,380</u>	<u>146,328,523</u>
CONTINGENCIES AND COMMITMENTS			
TOTAL EQUITY AND LIABILITIES		<u><u>276,032,836</u></u>	<u><u>272,576,179</u></u>

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.



Tabish Gauhar
Chief Executive Officer



Khalid Rafi
Director

KARACHI ELECTRIC SUPPLY COMPANY LIMITED
CONDENSED INTERIM PROFIT & LOSS ACCOUNT
FOR THE THREE MONTHS PERIOD ENDED 30 SEPTEMBER 2012 (UN-AUDITED)

	Note	THREE MONTHS ENDED	
		30 SEPTEMBER 2012	30 September 2011
(RUPEES IN '000)			
REVENUE			
Sale of energy – net		29,463,683	23,931,865
Tariff adjustment		19,938,024	14,056,108
Rental of meters and equipment		54,470	53,778
		<u>49,456,177</u>	<u>38,041,751</u>
EXPENDITURE			
Purchase of electricity	9	(18,567,634)	(17,827,514)
Consumption of fuel and oil	10	(22,410,223)	(15,141,242)
		<u>(40,977,857)</u>	<u>(32,968,756)</u>
Expenses incurred in generation, transmission and distribution		(3,492,216)	(3,341,977)
GROSS PROFIT		<u>4,986,104</u>	<u>1,731,018</u>
Consumers services and administrative expenses		(2,922,638)	(3,049,066)
Other operating expenses		(10,046)	(50,174)
Other operating income		1,589,530	752,796
		<u>(1,343,154)</u>	<u>(2,346,444)</u>
OPERATING PROFIT / (LOSS)		<u>3,642,950</u>	<u>(615,426)</u>
Finance cost	11	(3,408,015)	(1,699,772)
PROFIT / (LOSS) BEFORE TAXATION		<u>234,935</u>	<u>(2,315,198)</u>
Taxation-			
-Current		-	(239,491)
-Prior	12	1,823,548	-
-Deferred		249,731	352,391
		<u>2,073,279</u>	<u>112,900</u>
NET PROFIT / (LOSS) FOR THE PERIOD		<u>2,308,214</u>	<u>(2,202,298)</u>
(RUPEES)			
EARNING PER SHARE - BASIC		<u>0.09</u>	<u>(0.10)</u>
EARNING PER SHARE - DILUTED		<u>0.09</u>	<u>(0.09)</u>
(Rupees in '000)			
Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA)		<u>5,845,184</u>	<u>1,311,554</u>

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.



Tabish Gauhar
Chief Executive Officer



Khalid Rafi
Director

KARACHI ELECTRIC SUPPLY COMPANY LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS PERIOD ENDED 30 SEPTEMBER 2012 (UN-AUDITED)

	THREE MONTHS ENDED	
	30 SEPTEMBER 2012	30 September 2011
	(RUPEES IN '000)	
Net profit / (loss) for the period	2,308,214	(2,202,298)
Effective portion of changes in fair value of cash flow hedges	-	(23,193)
Net changes in fair value of cash flow hedges reclassified to profit and loss	32,732	-
	<u>32,732</u>	<u>(23,193)</u>
Total comprehensive income for the period	<u>2,340,946</u>	<u>(2,225,491)</u>

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.



Tabish Gauhar
Chief Executive Officer



Khalid Rafi
Director

**KARACHI ELECTRIC SUPPLY COMPANY LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS PERIOD ENDED 30 SEPTEMBER 2012 (UN-AUDITED)**

	Issued, Subscribed and Paid-up Capital		Reserves		Total				
	Ordinary shares	Preference shares	Capital reserves	Revenue reserves		Accumulated losses	*Other reserves	Total	
BALANCE AS AT 30 JUNE 2011	74,352,083	5,983,407	80,335,490	509,172	5,372,356	(87,352,960)	(1,333,345)	(82,784,778)	(2,449,288)
Total comprehensive income for the period ended 30 September 2011	-	-	-	-	-	(2,202,298)	-	(2,202,298)	(2,202,298)
Net loss for the period	-	-	-	-	-	-	-	(23,193)	(23,193)
Other comprehensive income	-	-	-	-	-	-	-	(23,193)	(23,193)
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	(23,193)	(23,193)
Total comprehensive income for the period	-	-	-	-	-	(2,202,298)	-	(2,225,491)	(2,225,491)
Incremental depreciation / amortization relating to surplus revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	-	-
BALANCE AS AT 30 SEPTEMBER 2011	74,352,083	5,983,407	80,335,490	509,172	5,372,356	(88,880,819)	(1,356,538)	(84,355,830)	(4,020,340)
Total comprehensive income for the period ended 30 June 2012	-	-	-	-	-	4,822,637	-	4,822,637	4,822,637
Net Profit for the period	-	-	-	-	-	-	-	4,822,637	4,822,637
Other comprehensive income	-	-	-	-	-	-	-	-	-
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	735,166	735,166
Total comprehensive income for the period	-	-	-	-	-	4,822,637	-	735,166	5,557,803
Incremental depreciation / amortization relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	-	-
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	-	-
Issuance of 3,442,69,737 ordinary shares @ Rs. 35 each - net of transaction cost	12,622,459	-	12,622,459	-	-	-	-	1,203,383	1,203,383
BALANCE AS AT 30 JUNE 2012	86,974,542	5,983,407	92,957,949	509,172	5,372,356	(82,854,799)	(621,373)	(71,594,644)	12,622,459
Total comprehensive income for the period ended 30 September 2012	-	-	-	-	-	2,308,214	-	2,308,214	2,308,214
Net Profit for the period	-	-	-	-	-	-	-	2,308,214	2,308,214
Other comprehensive income	-	-	-	-	-	-	-	-	-
Changes in fair value of cash flow hedges - net	-	-	-	-	-	-	-	32,732	32,732
Total comprehensive income for the period	-	-	-	-	-	2,308,214	-	32,732	2,340,946
Incremental depreciation / amortization relating to surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	-	-	-	-	-	-	-
BALANCE AS AT 30 SEPTEMBER 2012	86,974,542	5,983,407	92,957,949	509,172	5,372,356	(80,082,798)	(453,787)	(74,789,911)	18,168,038

* Fair value of cash flow hedges.

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.



Tabish Gauhar
Chief Executive Officer



Khalid Rafi
Director

KARACHI ELECTRIC SUPPLY COMPANY LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT
FOR THE THREE MONTHS PERIOD ENDED 30 SEPTEMBER 2012 (UN-AUDITED)

	Note	THREE MONTHS ENDED	
		30 SEPTEMBER 2012	30 September 2011
		(RUPEES IN '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	13	(1,382,495)	1,336,229
Deferred liabilities paid		(244,245)	(982,331)
Income tax paid		(26,332)	(31,805)
Receipt in deferred revenue		99,209	-
Finance cost paid		(2,888,371)	(2,672,201)
Interest received on bank deposits		99,471	109,282
NET CASH USED IN OPERATING ACTIVITIES		(4,342,762)	(2,240,826)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(714,941)	(1,074,137)
Proceeds from disposal of fixed asset		138,124	-
Long term loans		2,533	6,934
NET CASH USED IN INVESTING ACTIVITIES		(574,283)	(1,067,203)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subscription for right shares		-	3,903,753
Payment of long term financing		(3,196,986)	(2,386,826)
Short term borrowing		7,422,752	1,134,716
Security deposit from consumers		95,941	82,434
NET CASH GENERATED FROM FINANCING ACTIVITIES		4,321,707	2,734,077
NET DECREASE IN CASH AND CASH EQUIVALENT		(595,339)	(573,951)
Cash and cash equivalent at beginning of the period		1,183,765	1,268,670
CASH AND CASH EQUIVALENT AT END OF THE PERIOD		588,426	694,719

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.



Tabish Gauhar
Chief Executive Officer



Khalid Rafi
Director

Karachi Electric Supply Company Limited

Notes to the Condensed Interim Financial Information

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 72.82 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

	30 SEPTEMBER 2012 (UN-AUDITED) (RUPEES IN '000)	30 June 2012 (Audited)
	795,312	732,492
	53,463,893	48,648,785
4.1	54,259,205	49,381,277

CONSIDERED DOUBTFUL

Provision for impairment (against debts considered doubtful)

	18,131,405	17,682,730
	72,390,610	67,064,007
4.2	(18,131,405)	(17,682,730)
	54,259,205	49,381,277

- 4.1 This includes gross receivable of Rs. 27,930 million (30 June 2012: Rs. 22,790 million) due from Government and autonomus bodies, including Karachi Water and Sewerage Board and City District Government Karachi amounts to Rs.19,328 million (30 June 2012: Rs. 18,110 million) and Rs 5,399 million (30 June 2012 : Rs. 4,730 million) which also includes late payment surcharge of Rs.1,644 million (30 June 2012: Rs 1,552 million) and Rs.719 million (30 June 2012 : 676 million) respectively .

4.2 PROVISION FOR IMPAIRMENT (AGAINST DEBTS CONSIDERED DOUBTFUL)

Opening balance
Provision made during the period / year

	17,682,730	16,530,649
	628,961	2,461,753
	18,311,691	18,992,402

Provision on debts written off during the period / year

	(180,286)	(1,309,672)
	18,131,405	17,682,730

5. OTHER RECEIVABLES

CONSIDERED GOOD

Sales tax - net

	4,950,673	6,302,018
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Due from the Government of Pakistan in respect of:
- Tariff adjustment and Others
- Interest receivable from GOP on demand finance liabilities

	35,468,016	34,732,462
	237,173	237,173
	35,705,189	34,969,635

Receivable from provident Fund
Others

	66,018	77,404
	162,213	170,678
	40,884,093	41,519,735

CONSIDERED DOUBTFUL

Sales tax
Provision for impairment

	232,050	232,050
	(232,050)	(232,050)

Due from a Consortium of Suppliers of Power Plant
Provision for impairment

	363,080	363,080
	(363,080)	(363,080)

	40,884,093	41,519,735
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	30 SEPTEMBER 2012 (UN-AUDITED) (RUPEES IN '000)	30 June 2012 (Audited)
6 LONG-TERM FINANCING		
FROM BANKING COMPANIES AND FINANCIAL INSTITUTIONS - SECURED		
International Finance Corporation (IFC)	10,160,783	10,429,462
Syndicate term loan	4,800,000	5,120,000
Asian Development Bank (ADB)	12,252,551	12,590,484
Foreign currency term loan	1,106,931	1,223,429
Syndicated commercial facility	1,062,500	1,180,556
Syndicated structured term finance facility	8,075,000	8,500,000
Structured Islamic Term Financing - Musharka	2,250,000	2,400,000
Faysal Bank Limited Medium Term Loan	1,950,000	2,000,000
	<u>41,657,765</u>	<u>43,443,931</u>
Current maturity shown under current liabilities	<u>(7,820,372)</u>	<u>(7,690,379)</u>
	33,837,393	35,753,552
OTHERS - SECURED		
Due to Oil and Gas companies	606,938	606,938
Current maturity shown under current liabilities	<u>(606,938)</u>	<u>(606,938)</u>
UNSECURED		
GoP Loan for the electrification of Hub Area	26,000	26,000
Karachi Nuclear Power Plant	1,439,263	1,589,263
BYCO Petroleum Pakistan limited	1,129,658	1,189,658
	<u>2,568,921</u>	<u>2,778,921</u>
Current maturity thereof shown under current liabilities	<u>(1,190,000)</u>	<u>(1,120,000)</u>
Due to the Government and autonomous bodies - related parties	9,345,000	10,545,000
Current maturity thereof shown under current liabilities	<u>(4,800,000)</u>	<u>(4,800,000)</u>
	4,545,000	5,745,000
	<u>39,787,314</u>	<u>43,183,473</u>
7. TRADE AND OTHER PAYABLES		
TRADE CREDITORS		
Power purchases	45,249,637	49,365,405
Fuel and gas	37,958,180	36,295,333
Others	4,822,646	4,720,645
	<u>88,030,463</u>	<u>90,381,383</u>
Accrued expenses	1,949,016	1,968,919
ADVANCES / CREDIT BALANCES OF CONSUMERS		
Energy	433,772	410,302
Others	569,373	717,190
	<u>1,003,145</u>	<u>1,127,492</u>
Other liabilities	5,628,517	5,414,229
	<u>96,611,141</u>	<u>98,892,023</u>
8 CONTINGENCIES AND COMMITMENTS		
8.1 CONTINGENCIES		
8.1.1	Except as follows contingencies aggregating to Rs. 56,965.811 million (30 June 2012: Rs. 56,965.811 million) in respect of claims by the Company and Rs. 2,971.254 million (30 June 2012: Rs. 2,971.254 million) in respect of claims against the Company as disclosed in note 32.1 to the annual financial statements of the Company for the year ended 30 June 2012, have remained unchanged.	
8.1.2	In respect of the markup on overdue amount payable to NTDC, a major Government owned power supplier, the Company has not accrued mark up during the current period amounting to Rs. 292 million. The total markup not accrued till 30 September 2012 amounts to Rs 6,763 million.	
	In addition, the Company has not accrued late payment surcharge / interest during the current period amounting to Rs. 1,530 million pertaining to SSGC. The total interest not accrued till 30 September 2012 amounts to Rs. 10,294 million.	
	Based on the legal opinions, the company considers that the debts have arisen due to the circular debt situation and is not liable to pay the interest which has been fully explained in note 32.1.2 to the financial statements for the year ended 30 June 2012.	
8.2 CLAIMS NOT ACKNOWLEDGED AS DEBTS		
	Claims not acknowledged as debts as disclosed in notes 32.2 and 42 to the annual financial statements of the Company for the year ended 30 June 2012 except for the matters referred in note 12 have remain unchanged.	

	30 SEPTEMBER 2012 (UN-AUDITED) (RUPEES IN '000)	30 June 2012 (Audited)
8.3 COMMITMENTS		
Guarantees from banks	47,517	47,182
Contracts with respect to Transmission and Distribution Projects	1,076,812	1,011,904
Outstanding Letters of Credit	1,495,890	1,255,612
Commitment for payment in respect of Power Plant	377,717	376,517
Dividend on Preference Shares	1,079,516	1,034,516

	30 SEPTEMBER 2012 (UN-AUDITED) (RUPEES IN '000)	30 September 2011
9 PURCHASE OF ELECTRICITY		
National Transmission and Dispatch Company	11,309,399	11,849,771
Independent Power Producers (IPPs)	5,640,740	4,728,869
Karachi Nuclear Power Plant	1,605,934	1,223,417
Pakistan Steel Mills Corporation (Private) Limited	11,561	25,457
	<u>18,567,634</u>	<u>17,827,514</u>
10 CONSUMPTION OF FUEL AND OIL		
Natural gas	9,933,989	6,772,150
Furnace and other oils	12,476,234	8,369,092
	<u>22,410,223</u>	<u>15,141,242</u>
11 FINANCE COST		
MARK-UP / INTEREST ON:		
Mark-up / interest on short / long term borrowings	1,723,075	934,071
Late payment surcharge on delayed payments to creditors	285,493	120,219
Bank service , discounting charges and others	1,399,447	645,482
	<u>3,408,015</u>	<u>1,699,772</u>
12 TAXATION		

The company during the current period has reversed the provision against minimum tax liability for the tax years 2011 and 2012 based on the Appellate Tribunal Inland Revenue (ATIR) decision that, under proviso to section 113 of Income Tax Ordinance 2001, the minimum tax is not payable in case of a company which has declared gross tax loss before set off of depreciation and other inadmissible expenses. In the light of the said proviso, the Company filed income tax return for the tax year 2011 with no tax liability. However, the taxation officer amended the said order under section 122(5A) of the Ordinance and imposed minimum tax amounting to Rs. 1,408.752 million. The Company has filed appeal with Commissioner Inland Revenue Appeals against the said order and after rejection, the company filed an appeal in the ATIR. The ATIR has decided the case in favor of the Company vide its orders dated 31 July 2012. The Miscellaneous application filed by the department has also been decided by the ATIR in favour of the Company vide order dated 04 October 2012; resultantly orders of the taxation officer and Commissioner Appeals have been cancelled. In the light of the ATIR 's orders, the Company has reversed the provision against minimum tax liability amounting to Rs. 874.964 million for the tax year 2011 and keeping in view of the similarity of the issue involved in tax year 2012, the Company has also reversed the provision against minimum tax liability amounting to Rs.948.964 for the tax year 2012 in these financial statements.

13 CASH GENERATED FROM OPERATIONS		
Profit / (loss) before taxation	234,935	(2,315,198)
ADJUSTMENTS FOR NON-CASH CHARGES AND OTHER ITEMS:		
Depreciation and amortisation	2,202,234	1,926,980
Provision for deferred liabilities	254,910	305,951
Provision for slow moving stores	22,476	-
Amortization of deferred revenue	(286,072)	(274,708)
Cross Currency Swap	288,008	(114,028)
Provision for debts considered doubtful	628,961	925,629
Interest on consumer deposits	-	48,455
Gain on sale of fixed assets	(129,968)	-
Finance costs	2,743,443	1,550,395
Return on bank deposits	(99,471)	(109,282)
Working capital changes	(7,241,951)	(607,965)
	<u>13.1 (1,382,495)</u>	<u>1,336,229</u>

	30 SEPTEMBER 2012	30 September 2011
	(UN-AUDITED)	
	(RUPEES IN '000)	
13.1 WORKING CAPITAL CHANGES		
(INCREASE) / DECREASE IN CURRENT ASSETS		
Stores and spares	(296,750)	142,540
Trade debts	(5,506,889)	(3,984,353)
Loans and advances	45,695	(45,399)
Trade deposits and prepayments	(145,617)	1,408,424
Other receivables	635,642	(7,671,462)
	<u>(5,267,919)</u>	<u>(10,150,250)</u>
INCREASE / (DECREASE) IN CURRENT LIABILITIES		
Trade and other payables	(2,280,880)	9,259,710
Short-term deposits	306,848	282,575
	<u>(7,241,951)</u>	<u>(607,965)</u>

14 TRANSMISSION AND DISTRIBUTION LOSSES

The transmission and distribution losses for the current period were 31.5 % (30 September 2011: 32.8 %).

15 TRANSACTIONS / BALANCES WITH RELATED PARTIES

Related parties of the Company comprise holding company, associates, directors, key management personnel, major suppliers, retirement benefit plans and GOP. Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in this interim condensed financial information, are as follows:

	30 SEPTEMBER 2012	30 September 2011
	(UN-AUDITED)	
	(RUPEES IN '000)	
HOLDING COMPANY AND MAJOR SUPPLIERS		
Purchase	33,631,810	29,240,340
Late payment surcharge	77,826	63,537
AMOUNT PAYABLE INCLUDED IN		
- Trade and other payables	75,455,540	63,781,222
- Long term financing	10,474,658	14,145,000
- Accrued mark up	-	80,346
Short term loan	47,001	20,327
Retirement benefits	124,574	115,756
Advance against subscription for right shares	-	3,903,753

16 EVENT AFTER BALANCE SHEET DATE

Post balance sheet date the Board of Director of the Company, in accordance with the terms and conditions notified at the time of issue of Redeemable Preference Shares (RPS), decided to convert the RPS into ordinary shares of the company.

17 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 31, October 2012 by the Board of Directors of the Company.

18 GENERAL

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



Tabish Gauhar
Chief Executive Officer



Khalid Rafi
Director



ENLIGHTENING
LIVES SINCE
1913



KARACHI ELECTRIC
SUPPLY COMPANY

KHIDMAT MEIN ROSHAN

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