# Company Information

**Board of Directors (BOD)**

Chairman
Tabish Gauhar

Chief Executive Officer
Nayyer Hussain

Independent Director
Khalid Rafi

**Non-Executive Directors**

Frederic Sicre
Mubasher H. Sheikh
Muhammad Tayyab Tareen
Muhammad Zargham Eshaq Khan
Noor Ahmed
Omar Khan Lodhi
Saifullah Chattha
Shan A. Ashary
Wahid Hamid

**Executive Director**

Syed Arshad Masood Zahidi

**Board Audit Committee (BAC)**

| | |
|---|---|
| Khalid Rafi | Chairman |
| Mubasher H. Sheikh | Member |
| Muhammad Tayyab Tareen | Member |
| Tabish Gauhar | Member |
| Wahid Hamid | Member |

**Board Human Resource & Remuneration Committee (BHR&RC)**

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

**Board Finance Committee (BFC)**

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

**Chief Financial Officer and Company Secretary**

Syed Moonis Abdullah Alvi

**Chief Internal Auditor**

Khalilullah Shaikh

**Legal Adviser**

Abid S. Zuberi & Co.

**External Auditors**

KPMG Taseer Hadi & Company,
Chartered Accountants

**Share Registrar**

Central Depository Company of Pakistan Limited

**Bankers**

Albaraka Bank (Pakistan) Limited
Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Burj Bank Limited
Citibank N.A.
Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited
Habib Bank Limited
Industrial & Commercial Bank of China
KASB Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Standard Chartered Bank (Pakistan) Limited
Standard Chartered Modaraba
Summit Bank Limited
United Bank Limited

**Registered Office**

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

**Website**

www.ke.com.pk

# K-Electric Limited
(Formerly: Karachi Electric Supply Company Limited)

# Brief Review

I am pleased to present the un-audited accounts of K-Electric Limited (KE) for the half year ended 31 December 2013 on behalf of the Board of Directors. Key operational and financial results are summarized below:

| | | JUL-DEC 2013 | JUL-DEC 2012 |
|---|---|---|---|
| OPERATIONAL | | (UNITS - GWh) | |
| Units generated (net of auxiliary) | | 4,192 | 4,145 |
| Units purchased | | 3,690 | 3,661 |
| Total units available for distribution | | 7,882 | 7,806 |
| Units billed | | 5,831 | 5,581 |
| Transmission & Distribution Losses % | | 26.0% | 28.5% |
| | | (PKR - MILLIONS) | |
| FINANCIAL | | | Restated |
| Revenue | | 95,601 | 94,346 |
| Profit before taxation | | 4,234 | 849 |
| Taxation– net | | 484 | 2,326 |
| Profit for the period | | 4,718 | 3,175 |
| Earnings per share - BASIC/DILUTED | (Rupees) | 0.17 | 0.11 |
| Earnings before Interest ,Tax, Depreciation and Amortization (EBITDA) | | 14,624 | 13,404 |

NAME CHANGE OF THE COMPANY

With the completion of 100 years of its existence and to start a new century with a renewed identity and a strong resolve of bringing progress and success, the company has been re-named as "K-Electric Limited" after obtaining requisite statutory approvals and completing all corporate actions, effective from 16 January 2014.

Through dedication and concerted efforts, we aspire to provide thought leadership to the entire power sector and our performance has received appreciation from our customers and stakeholders, including the state and the corporate sector of Karachi. In this perspective, we have arrived at this important juncture in our onward journey and it was only appropriate that the Company be given a new name and a new identity as well.

K-Electric emergence is a testament of our successful transformation and a symbol of sustainability, community service and 'energy that moves life'. This is why, we envisage K-Electric as a modern and outward-looking organization that fully understands the growing challenges and would be able to change the face of the city and power it on its journey to greatness. This is a defining moment for all of us that will certainly lead us to our ultimate destination that is well-set to revive Karachi as the City of Lights.

FINANCIAL REVIEW:

During the period under review, your Company earned a profit after tax of PKR 4,718 million as compared to profit of PKR 3,175 million earned same period last year, posting a healthy growth of 48.5%. In terms of profit before tax, the growth is phenomenal and your company posted remarkable growth of 5 multiples. This is mainly on account of reduction in Transmission and Distribution (T & D) losses by 2.5 %, improvement in fleet efficiency from 35.7% to 37.5% and reduction in financial charges.

Operating and management cost of the company during the half year ended 31 December 2013 is nearly maintained at the same level in the same period last year. Finance cost was decreased mainly due to repayments of long term principal amount.

Despite the above, your company is continuously facing problems due to non-resolution of circular debt issues by the Government. Provincial and Federal government dues have now escalated to PKR 90 billion including Karachi Water and Sewerage Board and City District Government Karachi whose dues now amounts to PKR 27 billion and PKR 7 billion respectively. These receivable are significantly hampering the ability of the Company to operate smoothly. The Company has made numerous representations to the Government to urgently address this circular debt issue as it negatively impacts the cash flows of the company. Deliberations with the Government are underway and we hope that Government will give this serious issue a priority and it will be resolved in the near future.

During the current period, the Company has made changes in accounting policies in respect of employee retirement & other service benefits and classification of major capex spares from inventory to property plant and equipment in accordance with the requirements of IFRS- 19 (revised) and 16 respectively, the changes in accounting policies have been applied retrospectively and resulted in adjustments of prior year financial statements as explained in detail in notes 3.1 to 3.6 of this condensed interim financial information.

## FINANCING – CAPITAL RESTRUCTURING

### LAUNCH OF KE SUKUKS

SUKUK issue of the Company of up to PKR 6 billion with a green shoe option of up to PKR 500 million, aiming to diversify borrowing profile and to meet permanent working capital requirements of the Company, was approved by the Securities & Exchange Commission of Pakistan (SECP) and Karachi, Lahore and Islamabad Stock Exchanges. The Prospectus was published on 17 February and public subscription period of three (3) months commenced on 24 February 2014 and we are delighted to report that the issue is fully subscribed within 12 hours of its launch.

## ACTIVITIES UNDER REVIEW

### GENERATION EXPANSION and REHABILITATION

BQPS-II utilization was satisfactory during JUL-DEC 13, however the full benefits of the other completed projects could not be realized due to curtailed gas supply at the highly efficient gas operated KCCP, SGTPS-II and KGTPS-II stations. Total Gas supplied during the period was 177 MMCFD compared to 184 MMCFD in the corresponding period last year and consequently these stations remained underutilized. Through better utilization of BQPS-II, the fleet efficiency increased to 37.5% compared to 35.7% in the same period last year which represents a significant 5.1% increase. The efficiency of BQPS-II itself increased from 39.6% to 43.2%. In December 2013 the Steam Turbine issue at BQPS-II was fully resolved by replacement of a new Low Pressure Rotor and the efficiency of BQPS-II and the Fleet improved further.

BQPS-I and BQPS-II achieved International recognition in Quality Management System by achieving ISO 9001:2008 certifications. BQPS-I, SGTPS-II and KGTPS-II plants also attained international certification for compliance to ISO 14001:2004 Environmental Management Standard.

Major initiatives were planned and executed in the financial year under review to achieve improved reliability of generating units. Contractual Service Agreement (CSA) was signed with GE for the 560MW BQPS-II plant. During the review period, Combustion Inspection (CI) Maintenance of GT 1 and 3 at BQPS-II has been undertaken. Furthermore, negotiations with GE to extend the existing CSA at KCCPP-II also concluded, which would provide an additional 190,000 hours of GE service umbrella to KCCPP-II.

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

EPC contract was signed with Istroenergo Group (IEG) of Slovakia on 7 November 2012 for closing open cycle GT-1 and GT-2 at KCCPP by installing Heat Recovery Steam Generator (HRSG) and a second Steam Turbine. Notice to Proceed (NTP) was issued on 28 January 2013, Civil works of HRSG, ST and other major installations are in progress. The project will be completed in eighteen (18) month time with an investment of approximately US$ 40 million. It will improve the station's efficiency to 45% from 42% and the installed capacity will increase by approx 27 MW

*GE Jenbacher Plant – KGTPS and SGTPS – Closing open cycle*

The project to convert open cycle Gas Engine plants at KTGPS and SGTPS into combined cycle by installation of 32 HRSGs and one Steam Turbine at each station was negotiated and concluded with M/s Descon Engineering Ltd. and the revised EPC Contract for the project (US$ 53.5M) was signed on 12 October 2013, incorporating additional 5 bays for the new Grid. These two (2) projects would add 20MW capacity (10MW at each site) and would improve each plant's efficiency from 37% to 42%. Notice to Proceed (NTP) for KGTPS-II was issued on 12 December 2013 and the project will be completed in 18 months from the date of NTP. Application has been filed with NEPRA for de-commissioning of old GTs at KGTPS-II and SGTPS-II to make space available for completing these projects.

### TRANSMISSION NETWORK

Aiming at enhancing and improving the transmission capacity, stability and reliability of EHT network and in order to mitigate the long term load evacuation requirement, the achievements during the period are listed below:

*Capacity Enhancement*

Capacity of nine (9) Power Transformers of 30 MVA enhanced by 5 MVA each (total 45 MVA) by converting those from ONAN to ONAF by installing fans with auto control system.

Establishment and commissioning of two (2) mobile grids of 20 MVA each at KDA and Port Qasim providing additional 40 MVA transmission capacity.

*SITE and Korangi Expansion Projects*

EPC for KGTPS and SGTPS Generation Expansion Projects signed on 12 October 2013, mentioned under Generation Review above, also includes the following transmission infrastructure:

i) For KGTPS a new 132 kV GIS (14 bays) for which Notice to Proceed (NTP) has been issued on 12 December 2013 and PTOC is set on 12 June 2015.

ii) For SGTPS four (04) additional 132 kV GIS bays have been included for safe evacuation of Steam Turbine (ST) Load. NTP is likely to be issued in February 2014.

*Agha Khan Grid project*

It is a joint venture with Agha Khan Hospital and Medical College Foundation (AKHMCF) signed on 1 February 2013. The project is likely to be completed by October 2014.

*Transmission Package*

Revised scope of transmission package has been finalized and project development and financing arrangements for 1st phase of the package are underway.

### DISTRIBUTION

The Transmission and Distribution (T&D) losses of K-Electric during the period came down to 26% as compared to 28.5% for the same period last year, showing an accelerated reduction of 2.5%. The trend of reduction in T&D losses has gained momentum despite challenges presented by the prevailing economic condition and unstable law and order situation hampering the initiatives taken by the Company, particularly in eleven high loss distribution centers, where losses are in excess of 40%.

The Company maintained its strong focus on installation of Aerial Bundled Cabling (ABC), as a mean towards sustainable loss reduction in high loss areas despite external challenges and at times, violent resistance from illegal electricity consumers. ABC has been successfully rolled out to 73 pole mounted transformers (PMTs) in areas of Gulshan-e-Iqbal, Garden and North Nazimabad. The losses on these PMTs have been significantly reduced being in the high twenties to now in their low teens. The project is now being aggressively implemented in other areas of the city as well.

*Recovery*
The recovery ratio, excluding Public Sector Consumers (PSC), during the period under review stood at 92.6% showing an improvement of 2.5% over the same period last year, while recoveries from PSC stood at 68.6% reflecting 4.4% improvement over corresponding period last year. The low recovery ratio from PSC was mainly due to non-payment from Karachi Water and Sewerage Board (KWSB) and City District Government Karachi (CDGK). The Company has proactively engaged all the stakeholders including the Federal and Provincial Government to settle the dues against these state-owned entities.

Moreover, the current economic climate and tariff increase, as a result of gas shortages, has significantly eroded the consumers' propensity to pay. In this tough operating backdrop, the company undertook a number of measures yielding significant success to reduce this recovery gap. Rebate/Amnesty Scheme, collection agencies and recovery camps continue to facilitate low income group consumers to clear-out their long outstanding dues and bring them back on payment track.

*Network Health*
System improvement and upkeep of distribution network are on-going processes, with the additions of over 100 MW to the distribution system along with preventive maintenance program conducted on more than 100 feeders, feeder tripping reduced by more than 45%. The system is being continuously enhanced to cater to the city's ever increasing demand and ensure uninterrupted and reliable power to the city of Karachi.

*Customer Facilitation*
In line with the Company's strong emphasis on providing the best-in-class customer service, K-Electric introduced a full suite of mobile and e-services which ensure customer interaction with the company as effortless as it can be. Customers can now lodge all their billing and technical complaints from anywhere with ease and by registering their number, they can conveniently receive SMS alerts regarding load shed timings of their locality. If any of the customer's queries requires visit, 28 customer care centers are in place with state of the art infrastructure and professional staff to ensure customer visits are a trouble-free experience.

*Optimization*
Optimization of all resources has been a key-focused area in order to ensure effective usage of recently implemented SAP-ISU system across all the distribution centers. Major projects include, mobile meter reading to reduce errors in meter reading and Smart Grid system to enhance outage response time; resulting in optimization of key customer facing processes to enhance the customer experience, and implementation of operational KPI's to enable improved monitoring and hence increasing operational efficiency.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) and Sustainability Management
In line with KE's philosophy for the strategic implementation of the SEEDS framework we have continued working on ESG Initiatives, Social Investment Programs (SIP), Stakeholder Engagement and Thought leadership.

During the review period The Kidney Centre, Behbud Association Karachi and Bait-ul-Sukoon Cancer Hospital have been added to the Empowerment Program, whereby KE offers exemptions from electricity charges to welfare organizations in the healthcare and education sectors. In support of our SIP Partners, we endorsed their Zakat campaigns promoting them through different mediums free-of-cost.

The ESG initiatives taken include the development of content for Annual Report 2013 to conform to ICAP standards and to bring the Company closer to global Integrated Reporting norms. KE's sustainability case was also presented at the OICCI summit to representatives from leading organizations and industrial concerns of Pakistan.

The other initiatives include several employees of the Company volunteering their services for the TCF Rahbar Mentoring Sessions and Career Counseling for students from underprivileged backgrounds, stakeholders engagement by organizing presentations and visits to our facilities for groups representing different sects including the government and social-media notables, a companywide talent hunt following a transparent short-listing process by the expert judges and Thought Leadership umbrella under which Knowledge Sharing Sessions were conducted for students from leading engineering and business schools which include site visits, guest speaker sessions and extensive support for final-year projects.

## STRATEGY AND BUSINESS DEVELOPMENT
In line with Company's vision to provide affordable, reliable and uninterrupted power supply to the citizens of Karachi, KE has embarked upon long term, sustainable and economical alternative options of power generation. KE is in the process of converting its 1,260 MW (210 MW x 6) Bin Qasim Power Plant to Coal in phases, starting with 420 MW in the first phase of the project.

Pursuing Thar Coal development, KE is working with the UK based firm Oracle Coalfields, for the development of 600 MW mine mouth power plant at Thar Block VI and also supporting Sindh Engro Coal Mining Company for the development of 2 x 330 MW mine mouth power plant at Thar Block II.

In line with Company's Climate Change Policy, KE aims for bringing renewable energy into its generation portfolio. In this context, KE along with Aman Foundation and IFC is supporting Karachi Organic Energy (Pvt) Limited (KOEL) for the development of a Biogas power plant at Landhi Cattle Colony. Moreover, KE has started approaching active wind and hydropower developers to explore the possibility of joint development and/or power off take from their prospective wind and hydro power projects and transporting the electrical energy through wheeling arrangement.

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

1. The actions being taken by the company for operational and infrastructure rehabilitation program and commitment and support of the sponsors of the company and banking companies and financial institutions have been fully explained in detail in note 1.2 of this condensed interim financial information.

2. As explained in note 11.1.1 of this condensed interim financial information, the issue of late payment surcharge/ interest on delayed payments to / from government entities , which are part of the circular debt situation, is likely to be settled on net receivable / payable basis without accounting for any delayed payment surcharge / interest. The contention of the company is duly supported by legal opinions. However, being prudent, the Company has accounted for interest on receivable and payables on net basis.

## BOARD OF DIRECTORS (BOD)
During the period under review, two (2) GOP nominees on KE BOD, Mr. Naveed Alauddin and Mr. Zafar Mahmood were replaced and substituted by Mr. Noor Ahmed, Senior Joint Secretary (CF-II), Ministry of Finance, GOP and Mr. Saifullah Chattha, Secretary, Ministry of Water & Power, GOP respectively. 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.

**Nayyer Hussain**
Chief Executive Officer

Karachi, 25 February 2014

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

# Independent Auditor's Report to the Members on Review of Condensed Interim Financial Information

*Introduction*

We have reviewed the accompanying condensed interim balance sheet of K-Electric Limited ("the Company") (formerly Karachi Electric Supply Company Limited) as at 31 December 2013 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts for the six-month period then ended (here-in-after referred as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

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

*Conclusion*

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

*Emphasis of matter*

We draw attention to:

i) note 1.2 to the accompanying interim financial information which describes in detail the measures that the Company has taken which have resulted in improved financial performance and declining trend of transmission and distribution losses; and

ii) note 11.1.1 to the accompanying interim financial information which describes that in view of the continuing circular debt situation and non recovery from various consumers in the public sector, the management considers that late payment surcharge / interest on delayed payment will ultimately be settled on net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge / interest.

KPMG Taseer Hadi & Co.

The Company has also obtained legal opinions in this respect. Accordingly, the Company as described in the aforesaid note has instead of accruing interest on payables separately has accounted for interest on receivables and payables on a net basis.

Our conclusion is not qualified in respect of above matters.

*Other matters*

The figures for the three months period ended 31 December 2013, in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed and we do not express a conclusion on them.

**Date: 25 February 2014**

**Karachi**

**KPMG Taseer Hadi & Co.**
**Chartered Accountants**
**Amir Jamil Abbasi**

# K-Electric Limited

## (Formerly Karachi Electric Supply Company Limited)
## Condensed Interim Balance Sheet

*As at 31 December 2013*

| | Note | 31 December 2013 (Un-Audited) | 30 June 2013 (Audited) Restated |
|---|---|---|---|
| | | (Rupees in '000) | |
| ASSETS | | | |
| Property, plant and equipment | 5 | 163,030,090 | 164,681,401 |
| Intangible assets | | 396,289 | 504,823 |
| | | 163,426,379 | 165,186,224 |
| Long-term loans and advances | | 33,735 | 41,220 |
| Long-term deposits and prepayments | | 105,155 | 104,594 |
| | | 163,565,269 | 165,332,038 |
| CURRENT ASSETS | | | |
| Due from the Government | | 317,750 | 317,750 |
| Stores, spare parts and loose tools | | 4,813,178 | 4,607,043 |
| Trade debts | 6 | 67,108,112 | 62,843,648 |
| Loans and advances | | 494,369 | 418,979 |
| Trade deposits and short term prepayments | | 2,068,595 | 2,736,495 |
| Other receivables | 7 | 43,463,058 | 38,498,853 |
| Derivative financial assets | | 3,097,865 | 2,523,006 |
| Taxation-net | | 888,209 | 810,957 |
| Cash and bank balances | | 1,333,611 | 790,396 |
| | | 123,584,747 | 113,547,127 |
| TOTAL ASSETS | | 287,150,016 | 278,879,165 |
| EQUITY AND LIABILITIES | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Share capital | | 96,261,551 | 96,261,551 |
| Reserves | | | |
| Capital reserves | | 509,172 | 509,172 |
| Share premium | | 1,500,000 | 1,500,000 |
| Revenue reserves | | 5,372,356 | 5,372,356 |
| Accumulated losses | | (69,057,293) | (74,674,804) |
| Other reserve | | (425,006) | (490,460) |
| | | (62,100,771) | (67,783,736) |
| TOTAL EQUITY | | 34,160,780 | 28,477,815 |
| SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT | | 24,337,016 | 25,236,527 |
| | | 58,497,796 | 53,714,342 |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Long term financing | 8 | 20,804,566 | 24,901,685 |
| Long term deposits | | 5,496,693 | 5,114,912 |
| Deferred liabilities | | 5,305,095 | 5,299,062 |
| Deferred revenue | | 15,808,059 | 15,600,186 |
| Deferred tax liability | | 13,104,545 | 13,588,899 |
| | | 60,518,958 | 64,504,744 |
| CURRENT LIABILITIES | | | |
| Current maturity of long term financing | | 13,933,466 | 14,964,692 |
| Trade and other payables | 9 | 102,711,879 | 96,214,810 |
| Accrued mark-up | | 5,848,504 | 5,776,415 |
| Short term borrowings | 10 | 39,891,489 | 37,608,485 |
| Short term deposits | | 5,737,946 | 6,085,699 |
| Provisions | | 9,978 | 9,978 |
| | | 168,133,262 | 160,660,079 |
| CONTINGENCIES AND COMMITMENTS | 11 | | |
| TOTAL EQUITY AND LIABILITIES | | 287,150,016 | 278,879,165 |

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

**Nayyer Hussain**
Chief Executive Officer

**Shan A. Ashary**
Director

# K-Electric Limited

## (Formerly Karachi Electric Supply Company Limited)
## Condensed Interim Profit & Loss Account (Un-Audited)

*For the six months period ended 31 December 2013*

| | Note | Six Months Period Ended | | Three Months Period Ended | |
|---|---|---|---|---|---|
| | | 31 December 2013 | 31 December 2012 (Restated) | 31 December 2013 | 31 December 2012 (Restated) |
| | | (Rupees in '000) | | | |
| REVENUE | | | | | |
| Sale of energy – net | | 68,413,331 | 56,333,702 | 34,727,155 | 26,870,019 |
| Tariff adjustment | | 27,078,743 | 37,903,619 | 11,552,248 | 17,965,595 |
| Rental of meters and equipment | | 108,953 | 108,845 | 54,494 | 54,375 |
| | | 95,601,027 | 94,346,166 | 46,333,897 | 44,889,989 |
| EXPENDITURE | | | | | |
| Purchase of electricity | 12 | (40,065,495) | (37,835,082) | (21,226,988) | (19,267,448) |
| Consumption of fuel and oil | 13 | (32,958,909) | (35,773,724) | (13,145,475) | (13,363,501) |
| | | (73,024,404) | (73,608,806) | (34,372,463) | (32,630,949) |
| Expenses incurred in generation, transmission and distribution | | (7,353,562) | (7,085,448) | (3,485,410) | (3,579,243) |
| GROSS PROFIT | | 15,223,061 | 13,651,912 | 8,476,024 | 8,679,797 |
| Consumers services and administrative expenses | | (7,289,275) | (7,181,087) | (3,992,873) | (4,258,449) |
| Other operating expenses | | (575,356) | (66,969) | (494,857) | (56,924) |
| Other operating income | | 2,701,749 | 2,566,215 | 1,702,656 | 976,685 |
| | | (5,162,882) | (4,681,841) | (2,785,074) | (3,338,688) |
| OPERATING PROFIT | | 10,060,179 | 8,970,071 | 5,690,950 | 5,341,109 |
| Finance cost | 14 | (5,826,533) | (8,120,680) | (2,961,512) | (4,712,665) |
| PROFIT BEFORE TAXATION | | 4,233,646 | 849,391 | 2,729,438 | 628,444 |
| Taxation: | | | | | |
| - Current | | - | - | - | - |
| - Prior | | - | 1,823,548 | - | - |
| - Deferred | | 484,354 | 502,206 | 241,312 | 252,475 |
| | | 484,354 | 2,325,754 | 241,312 | 252,475 |
| NET PROFIT FOR THE PERIOD | | 4,718,000 | 3,175,145 | 2,970,750 | 880,919 |
| | | (Rupees) | | | |
| EARNING PER SHARE - BASIC / DILUTED | | 0.17 | 0.11 | 0.11 | 0.03 |
| | | (Rupees in '000) | | | |
| Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA) | | 14,624,824 | 13,403,825 | 7,991,812 | 7,558,640 |

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

**Nayyer Hussain**
Chief Executive Officer

**Shan A. Ashary**
Director

# K-Electric Limited

*(Formerly Karachi Electric Supply Company Limited)*

## Condensed Interim Statement of Comprehensive Income (Un-audited)

*For the six months period ended 31 December 2013*

| | Six Months Period Ended | | Three Months Period Ended | |
|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 (Restated) | 31 December 2013 | 31 December 2012 (Restated) |
| | (Rupees in '000) | | | |
| Net profit for the period | 4,718,000 | 3,175,145 | 2,970,750 | 880,919 |
| *Items that are or may be reclassified to profit and loss account* | | | | |
| Net changes in fair value of cash flow hedges reclassified to profit and loss account | 65,454 | 65,454 | 32,727 | 32,722 |
| *Items that will never be reclassified to profit and loss* | | | | |
| Effect of change in accounting policy with respect to accounting for actuarial gains and losses | - | 232,639 | - | 116,319 |
| Total comprehensive income for the period | 4,783,454 | 3,473,238 | 3,003,477 | 1,029,960 |

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

**Nayyer Hussain**
Chief Executive Officer

**Shan A. Ashary**
Director

# K-Electric Limited

*(Formerly Karachi Electric Supply Company Limited)*

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

*For the six months period ended 31 December 2013*

| | Issued, Subscribed and Paid-up Capital | | | | Reserves | | | | | | Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | Redeemable preference shares | Transaction costs | Total share capital | Capital reserves | Share premium | Revenue reserves | Accumulated losses | Other reserves | Total | Total |
| | (Rupees in '000) | | | | | | | | | | |
| **Balance as at 30 June 2012 as previously reported** | 87,271,178 | 6,000,000 | (313,229) | 92,957,949 | 509,172 | - | 5,372,356 | (82,854,798) | (621,373) | (77,594,643) | 15,363,306 |
| Effect of retrospective change in accounting policy with respect to accounting for actuarial gains and losses | - | - | - | - | - | - | - | (518,552) | - | (518,552) | (518,552) |
| Effect of retrospective change in accounting policy with respect to accounting for depreciation of major spare parts, servicing and stand by equipments | - | - | - | - | - | - | - | (297,968) | - | (297,968) | (297,968) |
| **Balance as at 30 June 2012 restated** | 87,271,178 | 6,000,000 | (313,229) | 92,957,949 | 509,172 | - | 5,372,356 | (83,671,318) | (621,373) | (78,411,163) | 14,546,786 |
| *Total comprehensive income for the six month period ended 31 December 2012* | | | | | | | | | | | |
| Net profit for the period - restated | - | - | - | - | - | - | - | 3,175,145 | - | 3,175,145 | 3,175,145 |
| *Other comprehensive income Changes in fair* value of cash flow hedges - net | - | - | - | - | - | - | - | - | 65,454 | 65,454 | 65,454 |
| Total comprehensive income / (loss) for the period | - | - | - | - | - | - | - | 3,175,145 | 65,454 | 3,240,599 | 3,240,599 |
| Effect of retrospective change in accounting policy with respect to accounting for actuarial gains and losses | - | - | - | - | - | - | - | 232,639 | - | 232,639 | 232,639 |
| Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax | - | - | - | - | - | - | - | 932,670 | - | 932,670 | 932,670 |
| *Transaction with owners recorded directly in equity* | | | | | | | | | | | |
| Issuance of 1,394,857,142 ordinary shares @ Rs 3.5 each | 4,882,001 | - | (33,477) | 4,848,524 | - | - | - | - | - | - | 4,848,524 |
| Cancellation of 1,714,285,713 redeemable preference shares | - | (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 | 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 December 2012 restated** | 96,653,179 | - | (391,628) | 96,261,551 | 509,172 | 1,500,000 | 5,372,356 | (79,330,864) | (555,919) | (72,505,255) | 23,756,296 |
| *Total comprehensive income for the six month period ended 30 June 2013* | | | | | | | | | | | |
| Net profit for the period | - | - | - | - | - | - | - | 3,497,535 | - | 3,497,535 | 3,497,535 |
| *Other comprehensive income* | | | | | | | | | | | |
| Changes in fair value of cash flow hedges - net | - | - | - | - | - | | - | - | 65,459 | 65,459 | 65,459 |
| Total comprehensive income / (loss) for the period | - | - | - | - | - | - | - | 3,497,535 | 65,459 | 3,562,994 | 3,562,994 |
| Effect of retrospective change in accounting policy with respect to accounting for actuarial gains and losses | - | - | - | - | - | - | - | 232,639 | - | 232,639 | 232,639 |
| Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax | - | - | - | - | - | - | - | 925,886 | - | 925,886 | 925,886 |
| **Balance as at 30 June 2013 restated** | 96,653,179 | - | (391,628) | 96,261,551 | 509,172 | 1,500,000 | 5,372,356 | (74,674,804) | (490,460) | (67,783,736) | 28,477,815 |
| *Total comprehensive income for the six month period ended 31 December 2013* | | | | | | | | | | | |
| Net profit for the period | - | - | - | - | - | - | - | 4,718,000 | - | 4,718,000 | 4,718,000 |
| *Other comprehensive income* | | | | | | | | | | | |
| Changes in fair value of cash flow hedges - net | - | - | - | - | - | - | - | - | 65,454 | 65,454 | 65,454 |
| Total comprehensive income / (loss) for the period | - | - | - | - | - | - | - | 4,718,000 | 65,454 | 4,783,454 | 4,783,454 |
| Incremental depreciation relating to surplus on revaluation of property, plant and equipment - net of deferred tax | - | - | - | - | - | - | - | 899,511 | - | 899,511 | 899,511 |
| **Balance as at 31 December 2013** | 96,653,179 | - | (391,628) | 96,261,551 | 509,172 | 1,500,000 | 5,372,356 | (69,057,293) | (425,006) | (62,100,771) | 34,160,780 |

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

**Nayyer Hussain**
Chief Executive Officer

**Shan A. Ashary**
Director

# K-Electric Limited

*(Formerly Karachi Electric Supply Company Limited)*

## Condensed Interim Cash Flow Statement (Un-Audited)

*For the six months period ended 31 December 2013*

| | Six Months Period Ended 31 December 2013 | Six Months Period Ended 31 December 2012 (Restated) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | (Rupees in '000) | |
| Profit before taxation | 4,233,646 | 849,391 |
| Adjustments for non-cash charges and other items: | | |
| Depreciation and amortisation | 4,564,645 | 4,433,754 |
| Provision for deferred liabilities | 424,139 | 509,777 |
| Provision for slow moving stores, spare parts and loose tools | - | 27,977 |
| Provision for debts considered doubtful | 3,001,613 | 2,737,914 |
| Gain on sale of fixed assets | (56,062) | (134,585) |
| Finance costs | 5,826,533 | 8,120,680 |
| Amortization of deferred revenue | (597,106) | (575,881) |
| Return on bank deposits | (164,073) | (142,119) |
| Operating profit before working capital changes | 17,233,335 | 15,826,908 |
| Working capital changes | | |
| (Increase) / decrease in current assets | | |
| Stores, spares and loose tools | (206,135) | (623,331) |
| Trade debts | (7,266,077) | (6,939,664) |
| Loans and advances | (75,390) | 32,256 |
| Trade deposits and prepayments | 667,900 | 187,412 |
| Other receivables | (4,964,205) | 2,989,889 |
| | (11,843,907) | (4,353,438) |
| Increase / (decrease) in current liabilities | | |
| Trade and other payables | 7,798,391 | (5,449,836) |
| Short-term deposits | (347,753) | 382,971 |
| | 7,450,638 | (5,066,865) |
| Cash generated from operations | 12,840,066 | 6,406,605 |
| Deferred liabilities paid | (418,106) | (420,957) |
| Advance tax | (77,252) | (53,916) |
| Receipts from customers recorded as deferred revenue | 804,979 | 581,316 |
| Finance cost paid | (5,635,475) | (6,222,113) |
| Interest received on bank deposits | 164,073 | 142,122 |
| Net cash used in operating activities | (5,161,781) | (5,973,548) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditure incurred | (2,875,440) | (1,571,672) |
| Proceed from disposal of fixed assets | 126,700 | 162,003 |
| Long term loans | 7,485 | 12,354 |
| Long-term deposits | (561) | (3,018) |
| Net cash used in investing activities | (2,741,816) | (1,400,333) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Subscription of shares | - | 4,882,000 |
| Payment of long term financing - net | (7,058,039) | (11,405,722) |
| Transaction cost for capital issuance | - | (78,399) |
| Short term borrowing acquired | 1,999,256 | 6,327,296 |
| Security deposit from consumers | 381,781 | 187,910 |
| Net cash used in financing activities | (4,677,002) | (86,915) |
| Net increase / (decrease) in cash and cash equivalent | 259,467 | (1,054,191) |
| Cash and cash equivalent at beginning of the period | (6,927,479) | (2,172,509) |
| Cash and cash equivalent at end of the period | (6,668,012) | (3,226,700) |

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

**Nayyer Hussain**
Chief Executive Officer

**Shan A. Ashary**
Director

# K-Electric Limited

(Formerly Karachi Electric Supply Company Limited)

## Notes to the Condensed Interim Financial Information (Un-Audited)

For the six months period ended 31 December 2013

1. THE COMPANY AND ITS OPERATIONS

1.1 K-Electric Limited formerly (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.

On 16 January 2014 the Company after obtaining all necessary statutory approvals has changed its name from Karachi Electric Supply Company Limited to K-Electric Limited.

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

The registered office of the Company is situated at KE House (formerly KESC House), 39-B, Sunset Boulevard, Phase II, DHA, Karachi. KES Power Limited (the holding company) holds 69.20 percent (30 June 2013: 69.20 percent) shares in the Company.

1.2 During the period, the Company has registered a profit of Rs.4,718 million (31 December 2012: Profit of Rs. 3,175 million re-stated), resulting in accumulated losses of Rs. 69,057 million (30 June 2013: Rs. 74,675 million re-stated ) as of the balance sheet date. The Management of the Company is continuing with the operational and infrastructure rehabilitation program commenced after the privatization of the Company, with the objective of converting the Company into a profitable entity and has taken operational and financial measures to support such rehabilitation program. The program include:

1.2.1 Generation – Expansion and Rehabilitation

a) The second combine cycle power plant (BQPS – II) having ISO capacity of 560 MW, has been set-up at Bin Qasim. The contract for setting up the plant was awarded in June 2008. The three gas turbines started commercial operation in May 2012 whereas the steam turbine started commercial operation in June 2012. The plant has significant impact on the overall fuel efficiency and profit margins of the Company.

b) Other operational and financial measures taken in prior years for expansion, rehabilitation of generation capacity included:

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

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

- Enhance the capacity and efficiency through installation of steam turbines at SGTP, KGTP and two units of CCPP-I. This will add 47 MW to the capacity and have significant impact on the overall fuel efficiency and profit margins of the company.

- Convert two units of BQPS 1 into coal (cheaper fuel), commercial operation from this project is expected within a period of 2 and half years.

1.2.2 Transmission and Distribution Network – Expansion and Rehabilitation

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

1.2.3 Financial measures

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

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

1.2.4 Sponsors support

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

This condensed interim financial information of the Company for the six month period ended 31 December 2013 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provision of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directive issued under the Companies Ordinance,1984 have been followed.

2.2 This condensed interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2013.

2.3 This condensed interim financial information is un-audited and is being submitted to the shareholders as required by listing regulations of Karachi, Lahore and Islamabad Stock Exchanges vide section 245 of the Companies Ordinance, 1984. The figures for the six months period ended 31 December 2013 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation adopted in the preparation of these condensed interim financial information are the same as those applied in the preparation of the annual financial for the year ended 30 June 2013 except as mentioned below:

Amendments to certain existing standards and new interpretations on approved accounting standards effective during the period either were not relevant to the Company's operations or did not have any significant impact on the accounting policies of the Company except where changes affected presentation and disclosure in this condensed interim financial information.

### 3.1 Change in accounting policy - Employee retirement and other service benefits

IAS 19 (revised) ' Employee benefits' amends the accounting for employment benefits which became effective to the Company from 1 July 2013. The changes introduced by the IAS 19 (revised) are as follows:

(a) The standard requires past service cost to be recognised immediately in profit or loss;

(b) The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit assets or liability and the discount rate, measured at the beginning of the year:

(c) There is new term "remeasurement". This is made up of actuarial gains and losses, the differences between actual investment returns and return implied by the net interest cost: and

(d) The amendment requires an entity to recognise remeasurements immediately in other comprehensive income. Actuarial gains or losses beyond corridor limits were previously amortised over the expected future services of the employees.

Revised accounting policy as a result of amendment to IAS 19 is as follows:

### 3.2 Employee retirement and other service benefits

The Company operates an approved unfunded defined benefit gratuity scheme for all its employees, offers post retirement medical coverage to its eligible employees and their dependents and provides rebate on their electricity bills to its eligible retired employees. Provision are made to cover the obligations on the basis of actuarial valuation and are charged to Profit and loss account using the Project Unit Credit Method. Actuarial gains and losses are recognised immediately in other comprehensive income.

### 3.3 Effect of change in accounting policy

This change in accounting policy has been accounted for retrospectively in accordance with International Accounting Standard - 8 "Accounting policies, Changes in Accounting Estimates and Errors", these have resulted in adjustment of prior year financial statements.

Effects of retrospective application of change in accounting policy are as follows:

Un-recognised actuarial gains and losses of prior periods have been recognised in the statement of financial position through other comprehensive income. The cumulative balance for un-recognised actuarial losses that existed as at June 30 , 2012 as well as the actual amounts recognised for the year ended 2012-13 have been presented and disclosed as part of the statement of changes in equity, while the corresponding period adjustment through other comprehensive income is presented and disclosed as part of the Statement of Comprehensive Income. The balance sheet also presents the prior year numbers as restated, due to the said change.

| | As at 30 June, 2013 | | |
|---|---|---|---|
| | As previously reported | Effect of change | As Restated |
| | ------------------ | (Rs in 000) | ------------------- |
| **Effect on statement of financial position** | | | |
| Increase in payable to deferred liabilities | 5,245,788 | 53,274 | 5,299,062 |
| Increase in accumulated losses | 74,267,606 | 53,274 | 74,320,880 |

| | Six months period ended on 31 December 2013 | Six months period ended on 30 June 2013 | Six months period ended on 31 December 2012 | Prior to July 01, 2012 |
|---|---|---|---|---|
| | ---------------------- | (Rs in 000) | ---------------------- | |
| **Effect on other comprehensive Income** | | | | |
| Actuarial gains / (losses) reclassified to other comprehensive income | - | 232,639 | 232,639 | (518,552) |

3.4 Change in accounting policy - Property, Plant and Equipment

During the current period, Company with effect from 01 July 2013 adopted the amendments to International Financial Reporting Standards (IFRS) ( IAS-16 ) which clarifies the accounting of spare parts, stand-by equipment and servicing equipment and recognized major spare parts, stand-by equipment and servicing equipment as property, plant and equipment as they meet the definition of property, plant and equipment as per IAS -16 and depreciate these spares over the remaining useful lives of the plant and machinery to which they belong. Previously these were classified as consumable spares / inventory under the then relevant provisions of IAS 16.

Changes in accounting policy of property plant and equipment is as follows:

3.5 Property, Plant and Equipment

Initial recognition

The cost of an item of property, plant and equipment is recognized as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of such item can be measured reliably. Recognition of the cost in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Major Spare parts, stand-by equipment and servicing equipment are also recognized in property plant and equipment when they meet the definition of property plant and equipment.

Depreciation

Depreciation is charged to profit and loss account, applying the straight line method whereby costs of assets, less their residual values, is written off over their estimated useful lives. Depreciation on Transmission and Distribution Network related major spare parts, stand-by equipment and servicing equipment is charged after one year from the date of purchase of such spares.

3.6 Effect of change in accounting policy

This change in accounting policy has been accounted for retrospectively in accordance with International Accounting Standard - 8 "Accounting policies, Changes in Accounting Estimates and Errors", these have resulted in adjustment of prior year / period financial statements.

Effects of retrospective application of change in accounting policy are as follows:

Depreciation on major spare parts , stand-by equipments and servicing equipments of prior periods have been recorded by adjusting the appropriate line items of condensed interim profit and loss account. The cumulative depreciation balance that existed as at 30 June 2012 and as well the depreciation amount for the financial year ended 2012-13 have been presented and disclosed as part of the statement of changes in equity. While the corresponding period adjustments has been incorporated through adjusting the appropriate line items of condensed interim profit and loss account.

The Statement of Financial Position also presents the prior year numbers as restated due to the said change.

| | As at 30 June 2013 | | |
|---|---|---|---|
| | As previously reported | Effect of change | As Restated |
| | (Rupees in '000) | | |
| Effect on statement of financial position | | | |
| Increase in operating fixed assets | 163,011,738 | 1,669,663 | 164,681,401 |
| Increase in accumulated losses | 74,267,606 | 353,924 | 74,621,530 |
| Decrease in stores, spares and loose tools | 6,630,630 | 2,023,587 | 4,607,043 |

| | Six months period ended on 31 December 2013 | Six months period ended on 30 June 2013 | Six months period ended on 31 December 2012 | Prior to July 01, 2012 |
|---|---|---|---|---|
| | (Rupees in '000) | | | |
| Effect on condensed Interim Profit and Loss account | | | | |
| Depreciation | (32,814) | (27,978) | (27,978) | (297,968) |

| | As at 30 June 2013 | | |
|---|---|---|---|
| | As previously reported | Effect of change | As Restated |
| | (Rupees in '000) | | |
| Total effect of changes in accounting policy | | | |
| Accumulated losses | 74,267,606 | 407,198 | 74,674,804 |

## 4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

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

Judgments and estimates made by the management in the preparation of this condensed interim financial information are the same as those that were applied to the financial statements as at and for the year ended 30 June 2013.

4.2 The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2013.

| 5. PROPERTY, PLANT AND EQUIPMENT | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) (Restated) |
|---|---|---|
| | (Rupees in '000) | |
| Operating fixed assets | 152,679,239 | 155,260,215 |
| Capital work-in-progress | 10,350,851 | 9,421,186 |
| | 163,030,090 | 164,681,401 |

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

| | Additions | Transfer In | Transfer from | Disposals | |
|---|---|---|---|---|---|
| | | | | Cost | Accumulated depreciation |
| | ---------------- (Rupees in '000) ---------------- | | | | |
| Building on freehold land | 42,033 | - | - | - | - |
| Plant and machinery | 770,212 | - | - | - | - |
| Transmission and distribution network | 836,127 | - | - | 206,121 | 137,190 |
| Others | 86,128 | - | - | 14,759 | 13,053 |
| Capital work-in-progress | 2,620,000 | - | 1,734,500 | - | - |
| Major spare parts, stand-by equipments and servicing equipments | 431,157 | - | 175,718 | - | - |
| | 4,785,657 | - | 1,910,218 | 220,880 | 150,243 |

| 6. | TRADE DEBTS | Note | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) |
|---|---|---|---|---|
| | | | (Rupees in '000) | |
| | **Considered good** | | | |
| | Secured – against deposits from consumers | | 616,166 | 629,323 |
| | Unsecured | | 66,491,946 | 62,214,325 |
| | | *6.1* | 67,108,112 | 62,843,648 |
| | **Considered doubtful** | | 25,792,546 | 23,150,546 |
| | | | 92,900,658 | 85,994,194 |
| | Provision for impairment (against debts considered doubtful) | *6.2* | (25,792,546) | (23,150,546) |
| | | | 67,108,112 | 62,843,648 |

6.1 This includes gross receivable of Rs. 37,064 million (30 June 2013: Rs. 33,127 million) due from Government and autonomous bodies, including Karachi Water and Sewerage Board and City District Government Karachi amounting to Rs. 26,377 million (30 June 2013: Rs. 23,047 million) and Rs. 6,795 million (30 June 2013 : Rs. 6,064 million) less unrecorded late payment surcharge from them of Rs. 2,198 million (30 June 2013: Rs 1,950 million) and Rs. 963 million (30 June 2013: Rs. 857 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.

6.2 Provision for impairment (against debts considered doubtful)

| | | |
|---|---|---|
| Opening balance | 23,150,546 | 17,682,730 |
| Provision made during the period / year | 3,001,613 | 6,155,460 |
| | 26,152,159 | 23,838,190 |
| Provision on debts written off during the period / year | (359,613) | (687,644) |
| | 25,792,546 | 23,150,546 |

| 7. | OTHER RECEIVABLES | Note | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) |
|---|---|---|---|---|
| | **Considered good** | | | |
| | Sales tax - net | | 5,694,200 | 5,431,920 |
| | Due from the Government of Pakistan in respect of: | | | |
| | - Tariff adjustment and Others | *7.1* | 37,420,187 | 32,704,935 |
| | - Interest receivable from GoP on demand finance liabilities | | 237,173 | 237,173 |
| | | | 37,657,360 | 32,942,108 |
| | Others | | 111,498 | 124,825 |
| | | | 43,463,058 | 38,498,853 |
| | **Considered doubtful** | | | |
| | Sales tax | | 236,922 | 232,050 |
| | Provision for impairment | | (236,922) | (232,050) |
| | | | - | - |
| | Due from a Consortium of Suppliers of Power Plant | | 363,080 | 363,080 |
| | Provision for impairment | | (363,080) | (363,080) |
| | | | - | - |
| | | | 43,463,058 | 38,498,853 |

7.1 The amount has been adjusted on account of certain NEPRA determinations which the Company is not in agreement with and has taken up with relevant authorities for resolution. These also include certain adjustments relating to NEPRA.

| | Note | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) |
|---|---|---|---|
| **8. LONG-TERM FINANCING** | | (Rupees in '000) | |
| From banking companies and financial institutions - Secured | | | |
| International Finance Corporation (IFC) | | 6,788,116 | 7,094,755 |
| Syndicate term loan | | 3,200,000 | 3,840,000 |
| Asian Development Bank (ADB) | | 8,638,194 | 9,016,526 |
| Foreign currency term loan | | 546,517 | 769,904 |
| Syndicated commercial facility | | 472,222 | 708,333 |
| Syndicated structured term finance facility | | 5,950,000 | 6,800,000 |
| Structured Islamic Term Financing - Musharakah | | 1,500,000 | 1,800,000 |
| Faysal Bank Limited - medium term loan | | 1,575,000 | 1,800,000 |
| | | 28,670,049 | 31,829,518 |
| Current maturity shown under current liabilities | | (8,588,030) | (8,288,096) |
| | | 20,082,019 | 23,541,422 |
| Others - Secured | | | |
| Due to oil and gas companies | | 560,250 | 606,938 |
| Current maturity shown under current liabilities | | (560,250) | (606,938) |
| | | - | - |
| Unsecured | | | |
| GoP loan for the electrification of Hub Area | | 26,000 | 26,000 |
| Gul Ahmed Energy Limited | 8.1 | 1,127,812 | - |
| Karachi Nuclear Power Plant | | 689,263 | 989,263 |
| BYCO Petroleum Pakistan limited | | 319,658 | 669,658 |
| | | 2,136,733 | 1,658,921 |
| Current maturity thereof shown under current liabilities | | | |
| Due to Gul Ahmed Energy Limited | | (520,528) | - |
| Due to Karachi Nuclear Power Plant | | (600,000) | (600,000) |
| Due to BYCO Petroleum Pakistan Limited | | (319,658) | (669,658) |
| | | (1,440,186) | (1,269,658) |
| Due to the Government and autonomous bodies - related parties | | 3,345,000 | 5,745,000 |
| Current maturity thereof shown under current liabilities | | (3,345,000) | (4,800,000) |
| | | - | 945,000 |
| | | 20,804,566 | 24,901,685 |

8.1 This represents remaining amount of outstanding Non Esclable Capacity Purchase Price Component (NEC FEI outstanding amount) under schedule 6 of Power Purchase Agreement payable to Gul Ahmed Energy Limited (GAEL), the Company earlier disputed its obligation under PPA to pay this amount to GAEL by raising dispute invoice notices. Company during the current period by entering an agreement with GAEL agreed to settle this outstanding amount in 30 equal monthly settlement installments starting from September 2013.

| | | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) |
|---|---|---|---|
| 9. TRADE AND OTHER PAYABLES | *Note* | (Rupees in '000) | |
| Trade creditors | | | |
| Power purchases | | 38,336,322 | 31,161,135 |
| Fuel and gas | | 40,604,615 | 47,715,353 |
| Others | | 4,664,409 | 3,538,889 |
| | | 83,605,346 | 82,415,377 |
| Murabaha finance facilities | *9.1* | 2,480,000 | 1,500,000 |
| Accrued expenses | | 2,076,370 | 2,059,114 |
| Advances / credit balances of consumers | | | |
| Energy | | 605,058 | 646,923 |
| Others | | 1,055,927 | 1,142,066 |
| | | 1,660,985 | 1,788,989 |
| Other liabilities | | 12,889,178 | 8,451,330 |
| | | 102,711,879 | 96,214,810 |

9.1 During the current period the company obtained murabaha financing facilities under Islamic mode of financing from banks for payment to fuel suppliers and working capital financing needs to the extent of Rs. 980 million (2013: 1,500 million). These facilities carries profit rate of six month KIBOR plus 1.65 to 2 % p.a. (2013: 1.70 to 1.75% p.a.). These are secured against current assets under joint parri passu charge letters of hypothecation.

| | | |
|---|---|---|
| 10. SHORT-TERM BORROWINGS – Secured | | |
| From banking companies | | |
| Short term borrowings | | |
| Bridge term finance facility | 2,012,570 | 2,032,922 |
| Bills payable | 24,858,809 | 20,886,303 |
| Short term running finances | 8,001,623 | 7,717,875 |
| Short term loan | 1,000,000 | 2,500,000 |
| Structured invoice financing | 2,346,536 | 2,500,000 |
| From others | | |
| KES Power Limited - holding company | 45,358 | 45,572 |
| KESC Azm Certificates | 1,626,593 | 1,925,813 |
| | 39,891,489 | 37,608,485 |

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

11.1.1 In respect of mark-up on the arrears payable to National Transmission and Dispatch Company (NTDC), a major government owned power supplier, the Company has reversed the mark-up accrued for the period from 1 July 2009 to 31 March 2010 amounting to Rs. 1,432 million during the year ended 30 June 2010 and also has not accrued mark- up amounting to Rs. 6,720 million for the period from 1 April 2010 to 31 December 2013 with the exception as mentioned below. Further, the Company has not accrued any mark-up on the overdue power purchase agreement (PPA) with the exception as mentioned below. Clause 9.3 of the PPA clearly defines the mechanism for settlement of NTDC dues whereby Ministry of Finance (MOF) has to pay Company's tariff differential receivable directly to NTDC. Accordingly, MOF has been releasing Company's tariff differential receivable directly to NTDC and till 31 December 2013 MOF has released Rs. 222,149 million directly to NTDC from time to time since the date of signing PPA on account of Company's tariff differential receivables. Management believes that overdue amount have only arisen due to circular debt situation caused by delayed settlement of the Company's tariff differential claims by the MOF Government of Pakistan ("GoP") as well as delayed settlement of energy dues (including Late Payment Surcharge due from KW&SB, CDGK ) by certain Public Sector Consumers.

NTDC has claimed an amount of Rs 15,457 million on account of mark-up on arrears and delayed payments under Power Purchase Agreement (PPA) up to 30 June 2012 which the Management has not acknowledged as debts and further considers the amount calculated to be much higher than the Management's own calculations.

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

In respect of interest payable to Sui southern Gas Company Limited (SSGC), the Company has not accounted for / discontinued accrual of interest effective from 1 July 2010 till circular debt issue is settled and the Company is supplied with the gas as committed. The interest not accrued for the period as claimed by SSGC in their invoices from July 2010 to December 2013 amounts to Rs.19,344 million which is disputed by the management and the management is of the view that the Company is not liable and will not pay any interest on the amount payable based on the same principle that the reduction in gas supply, together with the delayed settlement of energy dues (including Late Payment Surcharge due from KW&SB, CDGK) by Government Entities, have a direct impact on the liquidity of the Company.

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

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

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

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

- the lawyer contends that they are confident that the Company will not be held liable by a competent court to the extent of amount due from KW&SB and other Government entities not received by the Company. The legal opinion effectively recognizes a right of set off based on various meetings with Government of Pakistan (GoP) and decisions taken in meetings with GoP on circular debt issue. In other words in view of involvement of the GoP, who is indirectly liable to pay the amounts due from KW&SB, etc., to the Company and entitled to receive the amount payable by the Company to SSGC (as the majority owner in SSGC), the Company would be legally entitled to the same treatment in respect of its receivables and payables.

- another legal advisor contends that

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

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

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

11.1.2 National Electric Power Regulatory Authority (NEPRA) has issued a corrigendum vide its letter no. NEPRA/TRF-133/KESC-2009/10401-10404 dated 23 November 2012 whereby determination of Schedule of Tariff (SoT) for the period July 2009 to March 2010 had to be adjusted by Rs. 2.79/kWh, an increase for all the categories of consumer uniformly (except for life line consumers). However, due to error the SoT was inadvertently adjusted for four consumer categories and the effect of the error was carried forward in the subsequent determined SoTs up to quarter January 2012 – March 2012. Accordingly, NEPRA has issued a revised SoT which resulted in decrease of approximately Paisa 14/kWh in the determined tariff. The said corrigendum resulted in retrospective and unilateral decrease in previously determined rates of tariff for certain consumer categories resulting in a decrease in tariff differential claim amounting to Rs. 5,242 million from MoW&P for the relevant period ended 31 December 2013.

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

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

11.1.3 As per the Gas infrastructure and Development Cess Act, 2011 (the Act), certain companies as specified in the Act (including Sui Southern Gas Company) shall collect and pay Gas infrastructure and Development Cess (GIDC) in such manner as the Federal Government may prescribe. As per the second schedule of the Act, GIDC of Rs. 27 per MMBTU was applicable on the Company. Through Finance Bill 2012 – 2013, an amendment was made to the Act whereby the rate of GIDC applicable on the Company was increased to Rs. 100 per MMBTU. On 10 October 2010, the Company filed a suit bearing number 1389/2012 wherein it has impugned the Act on the ground that the rate of GIDC has been enhanced without any lawful justification and authority. The Honourable High Court of Sindh at Karachi vide its ad-interim order dated 10 October 2012 has restrained SSGC from charging GIDC above Rs. 27 per MMBTU. Consequently, on account of High Court order SSGC invoices the Company at Rs. 27 per MMBTU and accordingly the Company continues to record GIDC at Rs. 27 per MMBTU.

In a similar suit filed in the Peshawar High Court, the Court had granted an order on the levy of GID Cess, which was then challenged in the Supreme Court of Pakistan. The Supreme Court has recently issued an interim injunction setting aside the order granted by Peshawar High Court. However, this has no bearing on the ad-interim injunction presently operating in favor of company's suit number 1389/2012. However, the final judgement in the appeal pending before the Honourable Supreme Court will have a direct bearing on suit number 1389/2012 and therefore the company has also filed intervener application in Civil Appeal number 1540/2013.

The matter of applicability of receiving Rs. 73 per MMBTU is pending with the competent court. The amount of differential of GID Cess of Rs. 73 per MMBTU from 10 October 2012 to 31December 2013 amounts to Rs. 5,022 million. The likelihood of incurrence of liability on account of GID Cess differential is low and accordingly no liability has been booked in this regard. Further, in case the GID Cess is made applicable the same is recoverable by them through tariff adjustment.

11.2 Claims not acknowledged as debts

Claims not acknowledged as debts as disclosed in notes 31.2 and 31.3 to the annual financial statements for the year ended 30 June 2013 have remain unchanged.

| | | Note | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) |
|---|---|---|---|---|
| | | | (Rupees in '000) | |
| 11.3 | Commitments | | | |
| | Guarantees from banks | | 232,507 | 49,611 |
| | Contracts with respect to Transmission and Distribution Projects | | 1,484,702 | 1,479,378 |
| | Outstanding Letters of Credit | | 2,204,404 | 1,683,962 |
| | Payment in respect of maintenance of Combined Cycle Power Plant (220MW) | | 639,725 | 197,599 |
| | Payment in respect of extension of Combined Cycle Power Plant (220 MW) | | 1,019,296 | 1,187,374 |
| | Dividend on Preference Shares | *11.3.1* | 1,119,453 | 1,119,453 |

11.3.1 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 December 2013 | 31 December 2012 |
|---|---|---|---|
| 12. | PURCHASE OF ELECTRICITY | (Un-audited) | |
| | | (Rupees in '000) | |
| | National Transmission and Dispatch Company | 25,269,897 | 24,582,282 |
| | Independent Power Producers (IPPs) | 12,800,212 | 10,591,657 |
| | Karachi Nuclear Power Plant | 1,995,386 | 2,661,143 |
| | | 40,065,495 | 37,835,082 |
| 13. | CONSUMPTION OF FUEL AND OIL | | |
| | Natural gas | 16,871,757 | 16,431,738 |
| | Furnace and other oils | 16,087,152 | 19,341,986 |
| | | 32,958,909 | 35,773,724 |
| 14. | FINANCE COST | | |
| | Mark-up / interest on: | | |
| | Mark-up / interest on short / long term borrowings | 3,106,006 | 3,766,598 |
| | Late payment surcharge on delayed payments to creditors | 884,571 | 2,383,108 |
| | Bank service, discounting charges and others | 1,835,956 | 1,970,974 |
| | | 5,826,533 | 8,120,680 |

## 15. TRANSMISSION AND DISTRIBUTION LOSSES

The transmission and distribution losses for the current period were 26.02% (30 June 2013: 27.82%). The trend of transmission and distribution losses over the years / period is as follows:

| | |
|---|---|
| 2001-2002 | 41.11% |
| 2002-2003 | 40.78% |
| 2003-2004 | 37.84% |
| 2004-2005 | 34.23% |
| 2005-2006 | 34.43% |
| 2006-2007 | 34.23% |
| 2007-2008 | 34.12% |
| 2008-2009 | 35.85% |
| 2009-2010 | 34.89% |
| 2010-2011 | 32.20% |
| 2011-2012 | 29.70% |
| 2012-2013 | 27.82% |
| 31 December 2013 | 26.02% |

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

## 16. 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 the financial statements are as follows:

| | | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| | Detail of transactions with related parties during the period | (Un-audited) (Rupees in '000) | |
| 16.1 | Byco Petroleum Pakistan Limited, Associated Company | | |
| | Purchases | 3,975,603 | 7,231,270 |
| | Financial charges / Late payment surcharge | 235,451 | 170,516 |
| 16.2 | Government related entities | | |
| 16.2.1 | National Transmission and Despatch Company | | |
| | Purchases | 25,269,897 | 24,582,282 |
| 16.2.2 | Pakistan State Oil Company Limited | | |
| | Purchases | 12,183,881 | 12,256,488 |
| | Late payment surcharge | 445,329 | 85,210 |
| 16.2.3 | Sui Southern Gas Company Limited | | |
| | Purchases | 16,871,757 | 16,431,738 |
| 16.3 | Provident Fund | | |
| | Contribution to Provident Fund | 241,726 | 246,076 |

| | | 31 December 2013 (Un-audited) | 30 June 2013 (Audited) |
|---|---|---|---|
| | Detail of balances with related parties as at period / year end | (Rupees in '000) | |
| 16.4 | KES Power Limited, Parent company | | |
| | Short term loan payable | 45,358 | 45,572 |
| 16.5 | Byco Petroleum Pakistan Limited, Associated Company | | |
| | Amount payable included in creditors | 2,440,194 | 2,705,331 |
| | Amount payable included in long term financing | 319,658 | 669,658 |
| 16.6 | Government related entities | | |
| 16.6.1 | National Transmission and Despatch Company | | |
| | Amount payable included in creditors | 29,868,719 | 20,726,349 |
| | Amount payable included in long term financing | 3,345,000 | 5,745,000 |
| 16.6.2 | Pakistan State Oil Company Limited | | |
| | Amount payable included in creditors | 9,526,068 | 12,089,435 |
| 16.6.3 | Sui Southern Gas Company Limited | | |
| | Amount payable included in creditors | 28,638,353 | 32,920,587 |
| 16.7 | Provident Fund | | |
| | Payable to Provident Fund | 104,913 | 79,143 |

These amounts have been settled subsequently.

16.8 The Company holds 50% of the total share capital of Karachi Organic Energy (Private) Limited (KOEL) by virtue of investment in 2 ordinary shares having face value of Rs. 10 each which amounts to total investment of Rs. 20. KOEL has been incorporated for set up and operation of a biogas project.

## 17. Reclassification

Certain prior period figures have been reclassified to reflect more appropriate presentations of events and transactions for the purpose of comparisons. Major reclassifications made are as follows

- Rs. 843 million has been reclassified from Expenses incurred in generation, transmission and distribution to Consumers services and administrative expenses.

## 18. GENERAL

The condensed interim financial information was authorized for issue on 25 February 2014 by the Board of Directors of the Company.

**Nayyer Hussain**
Chief Executive Officer

**Shan A. Ashary**
Director