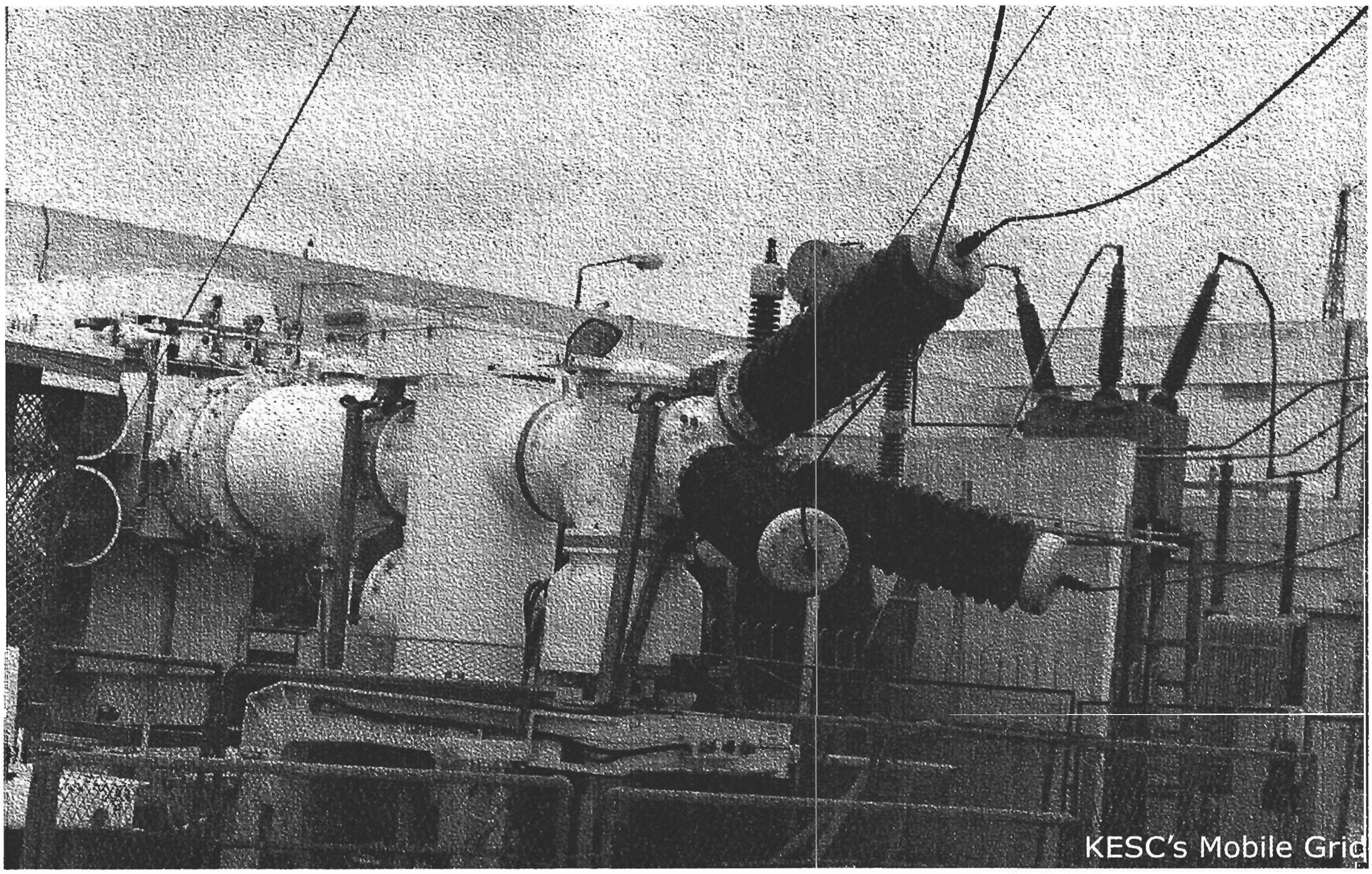
The Karachi Electric Supply Corporation Limited



KESC's Mobile Grid

93rd
ANNUAL REPORT
Accounts For The Year Ended June 30, 2005

93rd
Annual Report

Accounts For The Year Ended June 30, 2005

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THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

VISION STATEMENT

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

MISSION STATEMENT

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

CORPORATE VALUES

Our Management and Employees

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

Our Shareholders

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

Our Consumers

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

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

(Incorporated in 1913)

BOARD OF DIRECTORS

CHAIRMAN
Mr. Riaz Ahmed Khan

MANAGING DIRECTOR
Brigadier Tariq Saddozai

DIRECTORS
Mr. M. Khusrow Khawaja
Mr. Asghar Ali Randhawa
Mr. Tariq Iqbal Khan
Mr. S. Ali Raza
Mr. Zakir Mahmood
Mr. Shafiqur Rehman Paracha
Mr. Khalid Firoz
Dr. Mirza Ikhtiar Baig

CHIEF FINANCIAL OFFICER
Mr. Jalaluddin Qureshi

CORPORATE SECRETARY
Mr. Oswald Pearl

DIRECTORS' AUDIT COMMITTEE
(constituted in compliance with Code of Corporate Governance)

Mr. M. Khusrow Khawaja	...	Chairman
Brig. Tariq Saddozai	...	Member
Mr. Tariq Iqbal Khan	...	Member
Mr. Khalid Firoz	...	Member
Dr. Mirza Ikhtiar Baig	...	Member

BANKERS
- National Bank of Pakistan
- United Bank Limited
- Allied Bank Limited
- My Bank Limited
- Standard Chartered Bank
- Faysal Bank Limited
- Habib Bank Limited
- MCB Bank Limited
- First Women Bank Limited
- Citi Bank N.A.
- KASB Bank Limited
- Askari Commercial Bank

AUDITORS
Ford Rhodes Sidat Hyder & Company

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

NOTICE OF MEETING

Notice is hereby given that the 95th Annual General Meeting of the Karachi Electric Supply Corporation Ltd. will be held at Navy Welfare Centre, Liaquat Barracks, Karachi on Wednesday, 30th November 2005 at 10:00 a.m. to transact the following business:-

ORDINARY BUSINESS

(1) To confirm Minutes of the Annual General Meeting held on 2nd December 2004.

(2) To receive and adopt the Directors' Report and the Audited Accounts (with Auditors' Report) for the year ended 30th June 2005.

(3) To appoint Auditors in place of those retiring and fix their remuneration for 2005-06.

(4) Any other business with the permission of Chair.

Transfer Books of the Corporation will remain closed from 23.11.2005 to 30.11.2005 (both days inclusive).

By order of the Board
THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

OSWALD PEARL
CORPORATE SECRETARY

Karachi: November 01, 2005

N.B.

i) The shareholders will please notify change in their addresses, if any.

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

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

iv) Form of Proxy is enclosed.

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

v) Pursuant to the provision of Section 80 & 81 of the Companies Ordinance 1984, a member may, if he opts, deposit with the Company a nomination conferring on one or more persons the right to acquire the interest in the shares therein specified in the event of his death.

CHAIRMAN'S REVIEW

Gentlemen,

It gives me great pleasure to welcome you to the 95th Annual General Meeting of the Karachi Electric Supply Corporation Limited and to present before you the Directors' Report, Audited Accounts and Auditors Report for the financial year 2004-05.

2. As you go through the details of accounts you will note that with the continuous efforts of the present management the operational and financial affairs of the KESC are showing signs of significant improvements. The better performance during the year under report has helped in achieving major targets in our plan to turn around KESC as an efficient and viable organization. The T&D losses have been reduced by 3.6% over last year and 6.9% over 2001-02. The reductions in losses has resulted in additional revenue generation, decrease in loss suffered by KESC over the last five years and consequent decline in GoP's subsidy to KESC from Rs. 16.7 billion in 2001-02 to Rs. 6.5 billion in the year under report. Management of KESC now stands committed to turnaround the utility into a profitable business by FY 2007 with the implementation of Financial Improvement Plan, for system improvement of the KESC system and reduction of T&D losses to 24%,.

OPERATIONAL RESULTS

3. The actual capability of the KESC's generating stations for the year 2004-05 was 1387 MW as against installed capacity of 1,756 MW. The maximum demand in the KESC licenced area for the year under report was 2,197 MW. The operational activities of the Corporation are as under:

Description	2004-05 MWH	2003-04 MWH
1. Units generated (KESC)	9,304,292	9,724,274
2. Units sent out (KESC)	8,642,490	9,062,598
3. Units purchased from Tapal, Gul Ahmed, Kanupp and Pasmic	1,873,148	1,876,411
4. Units purchased from WAPDA	2,415,904	1,787,760
5. Total available for distribution	12,931,542	12,726,769
6. Units billed	8,416,367	7,822,688
7 Interdepartmental consumption	88,801	88,701
8. T&D losses	34.2%	37.8%

4. KESC own generation has reduced over the previous year due to outage of KTPS Units 1&2 and BQPS Units-2, 3 & 5 for rehabilitation / restoration work. The shortfall in KESC system has been met through import of power from WAPDA, IPPS, and KANUPP & PASMIC. The units billed have increased by 7.6% during the year under report.

REVENUE & EXPENDITURE

5. The financial statements for financial year under review indicate increase in total revenue and expenditure amounting to Rs. 1,479 million and Rs. 5,062 million respectively. Resultantly the loss gone up by Rs. 3,583 million over the previous year. It is pertinent to note that due to GoP subsidy in respect of tariff reduction, payment to NRL and subsidy to meet cash shortfall during the year, KESC has been able to turn loss into profit. The summarized results are given below:

Rs. Million

DESCRIPTION	2004-05	2003-04	Incr./ decr.%
A. INCOME			
Revenue from sale of energy	38,415	37,291	3.0
Other income	1,401	1,046	34.0
	39,816	38,337	3.9
B. EXPENDITURE			
Cost of fuel and power purchased	40,792	35,712	14.2
Depreciation	2,996	2,891	3.6
Financial and other charges	138	743	- 81.4
Provision for doubtful debts	2,308	2,997	- 23.0
Other expenses	5,463	4,292	27.3
	51,697	46,635	10.9
C. Profit before tax & subsidy	-11,881	-8,298	43.2
D. Subsidies from GoP	12,544	9,572	31.0
E. Profit before tax	663	1,274	- 47.9

6. The increase in revenue from sale of energy by 3.01% is mainly due to increase in sales by 7.6% & reduction in T&D losses by 3.6%. Cost of fuel and power purchases rose by 14.22% over previous year due to increase in furnace oil and gas prices. During the year under review KESC has not been allowed any tariff increase by the GoP despite three determinations of NEPRA for overall increase in FAS

by Ps. 26/kWh in three quarters of FY 2004-05 due to variations in fuel prices. The increase in other expenditure is mainly due to increase in salaries and wages of employees' w.e.f. July 2004 and resultant increase in other benefits, appointment of contract employees for restructuring of billing zones, and price escalation of medicines, petrol, diesel and office O&M expenses during the year.

FINANCIAL IMPROVEMENT PLAN FOR SYSTEM IMPROVEMENT OF KESC NETWORK AND REDUCTION OF T&D LOSSES:

PC-1 for Rs.13.7 billion for system improvement of KESC network and reduction of T&D losses was approved in September 2002, out of which Rs.2.5 billion has been released so far. For the balance funds of Rs.11.1 billion, Rs.3.0 billion is expected to be arranged through bank loans with GoP guarantee.

Physical progress achieved up to June 2005:

The project includes restoration of KESC's generation capacity by 143 MW, addition / replacement of 10x40 MVA power transformers, establishment/up-gradation of 12 grid stations and 9 transmission lines, SCADA for computerized load management and schemes for reduction of T&D losses from 41% to 24% by 2007. Progress on the schemes is given below:

a. **Restoration of generation capacity**
The major portion (113 MW) of the restoration target (143 MW) has been achieved. The material for the remaining 30 MW, being the rehabilitation of Bin Qasim unit-4 will reach at site by March 2006. The work will be carried out in April 2006 as soon as KESC is in position to shut down the plant after completion of new HUBCO-KESC link.

b. **Reinforcement of Transformers at Existing Grids**
The existing transmission system of KESC is over loaded. To address the problem of load shedding due to overloading of power transformers and to facilitate electricity connections to new consumers, addition of 10x40 MVA Power Transformers in existing grids was planned. Out of planned 10, 4 transformers were commissioned at North Karachi, Gulshan-e-Iqbal, Valika and Gulistan-e-Johar Grid Stations in FY 2003-04 The remaining 6 transformers have been commissioned at Korangi West, Airport, Garden East, Queens Road, Baldia and Federal 'B' Area Grid Stations during the year under report. Furthermore, Nineteen (19) 4 MVAR Capacitor Banks have been commissioned at different Grid Stations.

c. **Establishment of Grid Stations, Addition of Transmission Lines and SCADA System**
For comprehensive system improvement of KESC network, establishment of 12 new 220/132 kV Grid Stations (including up-gradation of existing 4 Grid Stations) and 9 allied underground cable / transmission lines were planned for commissioning by June 2007.

Land for 4 Grid stations is available with KESC. The Government of Sindh has allotted the land for 3 Grid stations. For 4 Grid stations, to be established in centre of the city, no Government land is available and the same is being arranged from private land owners. The Board of Directors has already approved purchase of land for 2 Grid stations on 5th September 2005. The land for Memon Goth Grid station is under approval of Chief Minister Sindh. Process is continuing with private land owners and expected to finalize soon.

Contract for up-gradation of existing 3 Grid Stations i.e. Mauripur, West Wharf and Old Town Grid Station has been awarded to successful bidder M/s. Siemens Consortium on 9 July 2005. Bids for establishment of 132 kV PRL, Gulshan-e-Maymar and Korangi South Grid Stations opened on 4th July 2005 and are under evaluation with the consultants.

For SCADA System, applications for pre-qualification as invited by KESC have been received on 12th July 2005 and are under scrutiny. Furthermore, the Consultant is preparing bids for the remaining grid stations and allied transmission lines.

d. **Progress of the schemes for theft reduction:**

	Schemes Implemented upto June 2005	Nos.
1.	Restructuring of 14 Zones in sub divisions	90
2.	Shifting of Industrial meters outside the premises	18,180

3.	Shifting of Residential / Commercial meters	264,528
4.	Kundas converted into new connections	28,511
5.	Conversion of O/H copper services to un-armored 4-core cable	29,092
6.	Installation of check meters on PMTs & Sub-stations.	4,145
7.	Installation of LT breakers on PMTs & sub-stations	52
8.	Bus bar arrangement in multi-storied buildings	7,955
9.	Meters Replacements	64,769
10.	Improvement of 11kV Feeders - Fault Locators	1,518
11.	Installation of LT Capacitors	1,060

CONSUMERS SERVICES

The Management of the Corporation is in touch to redress the consumers' complaints instantly. The restructuring of zones has facilitated the consumers by providing one window operation and rectification of complaints in the shortest possible time. It has also helped the KESC in achieving reduction of losses, vis-à-vis increase in revenue.

Besides, the KESC has given new connections to 77,073 consumers during the year under report as against 49,432 connections for the corresponding period of last year. A total of 79,553 consumers were brought on billing panel during 2004-05.

GENERATION EXPANSION PLANS

The total generating capacity available to KESC from all sources is 1,550 megawatts whereas the demand in KESC licenced area reached to 2,197 megawatts as of June 2005. The shortage of power in KESC system is met by import from WAPDA/NTDC up to a maximum of 500 MW, due to limitation of transmission lines. Thus the remaining shortfall is met by load shedding. In order to overcome the power shortage GoP has already allocated 240 megawatts plant from UAE for KESC, which will be shifted and installed by UAE at KTPS & BQPS in the year 2007. Work on Hubco-KESC link already started by Siemens to ensure 1,000 MW to KESC will be completed by April 2006.

On the directive of Ministry of Water and Power the KESC has prepared PC-I for one unit of 360 megawatts (Gross) combined cycle gas turbine unit along with 9.3 kilometers double circuit, 220 transmission lines from KTPS to Korangi Creek Grid Station. Besides, with the concurrence of Ministry of Water and Power KESC has negotiated a 30 years tariff for purchase of electricity with Defence Co-generation Limited (DCL). The tariff has been approved by NEPRA, PPA was signed on 29 January 2005. The plant, to be completed by 2007, will provide 80 megawatts to the KESC's Power Strapped System. Two private sector projects (Western Electric & Fauji Korangi Project) having a capacity of about 150 MW each, have been issued Letters of Interest (LOI) They are at the preliminary stages and yet to sign the Power Purchase Agreement, Implementation Agreement and Gas supply agreement.

CONCLUSION

Efforts to privatize KESC have made much headway during the year under report. Bidding was held on 4 February 2005, in which two pre-qualified parties had participated. M/s. Kanooz Al-Watan of Saudi Arabia offered the highest bid of Rs. 1.65 per share for 73% shares of the KESC. The bidding was accepted by the GoP. Since M/s. Kanooz Al-Watan did not make the required payment to GoP therefore the deal with M/s. Kanooz Al-Watan was cancelled. Now the matter is again in advanced stage of finalization with the Privatization Commission.

I am thankful to all participants who have spared their precious time for the Annual General Meeting of the Corporation and assure you that we shall continue our efforts to make the KESC a profitable consumer-friendly and efficient organization. The smooth operation of the KESC is of vital importance for the better services of the people and economic growth of the country.

I am thankful to my colleagues and members of KESC Board of Directors, customers and shareholders for their cooperation extended to the Corporation and hope that their cooperation shall continue for better results. I am also thankful to Ministry of Water & Power, Finance & Economic Affairs, Planning Division, the Provincial Governments of Sindh and Balochistan, City District Government and Local Authorities for their help and cooperation.

RIAZ AHMED KHAN
CHAIRMAN

Directors Report to the Members

1. The Board of Directors present herewith Ninety-third Annual Report on the working of the Corporation with Audited Financial Statements for the year ended June 30, 2005.

FINANCIAL RESULTS:	**(Rupees in thousand)**
2. From the statements of Accounts it will be observed that after meeting all operational and administrative costs including Depreciation and subsidy from GoP to meet cash sort fallo and before taxation the accounts show a profit of	663,102
Less Turnover Tax for the current year	199,121
	463,981
To which must be added (loss) brought forward from previous year.	(16,506,250)
Making a total (Loss) carried over to next year	(16,042,269)

3. It is informed that :

   i The matre of KESC financial condition has fully been explained in the Chairman Review and notes to the accounts. It is also informed that KESC had met all its financial obligations during the year under report.

   ii. The net difference in output and input General Sales Tax as on June 30, 2005 is Rs. 2,224 million, receivable from Collector of Sales Tax. Matter of GST refund is under ative consideration by the Central Board of Revenue and favourable outcome is expected shortly.

   iii. With regard to contingent liabilities, the matter has fully been explained in note No. 30.1. The disputes, however, are expected to be resolved very soon in favour of KESC.

   iv. The main factor responsible for T&D loses are old and outdated Distribution network and theft of electricity, the situation has now started improving with the work under the financial improvement plan according to which the funds are to be provided by the Federal Government. It is expectged that after completion of the project, the T&D losses will be reduced to the level of 24% by the year 2006-07.

   v. An amont of Rs. 10,208 million is available under the head Provision for Doubtful Debts up to June 2005 which is already 58% of the dues outstanding for more than one years. Efforts are being made by the Management by offering various relief packages to collect these dues as such no additional provision is required to be made in the financial statements.

   vi. The internal stock control system and procedure relating to stores have been thoroughly studied and examined by the management. Action is being initiated to computerize all the stores of KESC anddirectly link with the Computer and Accounts Departments. Improvement in the systems and proper record keeping of stores is expected by the year end.

DIRECTORS ARE PLEASED TO REPORT AND THE AUDITORS, IN THEIR REPORT TO THE MEMBERS, CERTIFIED THAT:

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

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

c. Appropriate accounting policies as stated in the notes annexed to the accounts have been consistently applied except for the change in accounting policy as referred in note 3.16.2 to the accompanying financial statements. The accounting estimates are based on reasonable and prudent judgement.

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

e. The Government of Pakistan (GoP), being the majority shareholder in the capital of KESC, approved, last year, Financial Restructuring Plan for KESC entailing conversion of GoP & GoP guaranteed loans of Rs.65.341 billion into equity and reduction of paid up capital of the Company by Rs.57.202 billion to extinguish accumulated loss. The above Restructuring Plan has since been implemented with the approval of KESC shareholders, permission of SECP & confirmation of High Court of Sindh. Consequently, massive negative equity of the Company has turned into positive figure.

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

g. The system of internal control is sound in design and effective in implementation, however, record keeping pocedures in respect of stores & spares are being strengthened. In this regard, Corporation is planning to take suitable action to streamline and strenghten interenal conrols over this area.

h. Key operating and financial data of the Company for the last ten years are given on page 13.

i. The Company is in the process of consolidation and restructuring to extinguish the accumulated loss and stage a turn around and has as such not declared dividend / bonus shares.

j. The details of KESC on-going projects and future prospects have been sufficiently covered by the Chairman in his review.

k. The value of the investments of KESC Provident Fund is Rs.1,442,450,080 as on 30.06.2005, whereas gratuity scheme of the Company is not funded and pension scheme does not exist.

ON BEHALF OF THE BOARD OF DIRECTORS

Brigadier Tariq Saddozai
Managing Director

M. Khusrow Khawaja
Director

Karachi: October 29, 2005

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF GOOD CORPORATE GOVERNANCE

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

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

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

2. The company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present there are two seats reserved for minority / private non-executive independent directors as per policy of GOP. A private director currently occupies one seat whereas remaining one will be filled in during forthcoming election of directors.

3. The Directors of the Company have confirmed that none of them is serving as a Director in more than ten listed companies, including this Company, except Director Tariq Iqbal Khan, Chairman & MD, NIT who has been given necessary permission by SECP in this regard.

4. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a stock exchange or has been declared as a defaulter by that stock exchange.

5. The Directors filled up casual vacancies occurring on the Board within thirty days, except two where the nomination / appointment is awaited from the Government of Pakistan. The Directors of the Company are nominated / appointed by the Government of Pakistan.

6. The Company has prepared a "Statement of Ethics & Business Practices", duly approved by the Board of Directors. The same is being circulated among the employees of the Company.

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

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

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

10. The meetings of the Board were presided over by the Chairman and in his absence, by a Director elected by the Board for the purpose and the Board met -07- times during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

11. The Board has approved appointment of CFO deputationist from the Federal Government, Company Secretary and Heads of all Departments, including their remuneration and terms & conditions of employment, as recommended by the CEO under KESC Rules.

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

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

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

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

16. The Board has formed an Audit Committee, it comprises of five members. All of them except the CEO are non-executive Directors including the Chairman of the Committee.

17. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been framed and the Committee was duly informed for compliance.

18. The Board has set up an effective internal audit function for the Company.

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

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

21. We confirm that all other material principles contained in the Code have been fully complied with. However, internal controls over record keeping in respect of stores & spares are being strengthened.

ON BEHALF OF THE BOARD OF DIRECTORS

Brigadier Tariq Saddozai
Managing Director

Karachi, October 29, 2005

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

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Corporation's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2005.

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

Karachi, October 29, 2005

Income and where it went

	July-June 2004-2005		July-June 2003-2004	
	(Rupees in thousand)			
	Amount	**%**	**Amount**	**%**
Our Income was:				
From sale of energy	38,415,633	**96.48**	37,291,281	**97.27**
From other sources	1,400,723	**3.52**	1,045,209	**2.73**
	39,816,356	**100.00**	**38,336,490**	**100.00**
We paid out and provided:				
Generation expenses				
Sui gas	15,392,807	**38.66**	15,730,327	**41.03**
Fuel oil	7,691,629	**19.32**	5,056,313	**13.19**
Other expenses	670,708	**1.68**	597,128	**1.56**
Total generation expenses	23,755,144	**59.66**	21,383,768	**55.78**
Power purchased	17,706,647	**44.47**	14,925,002	**38.93**
Transmission, Distribution & Public lamps expenses	2,588,118	**6.50**	2,040,374	**5.32**
Consumers services & billing expenses	932,312	**2.34**	761,611	**1.99**
Administration & General expenses	916,666	**2.30**	536,664	**1.40**
Prov. for Doubtful Debts	2,308,337	**5.80**	2,997,064	**7.82**
Depreciation	2,996,502	**7.53**	2,891,551	**7.54**
Financial charges	138,064	**0.35**	620,976	**1.63**
Other Charges	355,022	**0.89**	477,805	**1.24**
(Deficit) before tax & Subsidy	(11,880,456)	**(29.84)**	(8,298,325)	**(21.65)**
	39,816,356	**100.00**	**38,336,490**	**100.00**

Historical Highlights

S. No.	Description		1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
1.	Units Generated	MILL KWH	8,057	7,458	7,318	6,613	7,745	7,989	8,709	8,808	9,274	**9,304**
2.	Units Purchased	MILL KWH	1,329	1,869	3,030	4,007	3,701	3,688	3,406	3,809	3,664	**4,289**
3.	Units Sold	MILL KWH	6,021	5,640	6,385	6,131	6,430	6,924	6,717	7,041	7,912	**8,505**
4.	Revenue from sale of energy	Rs. MILL	15,988	15,797	20,726	23,285	25,035	28,118	29,841	32,279	36,543	**38,415**
5.	Other revenue	Rs. MILL	351	494	413	496	1,007	722	1,027	1,105	1,045	**1,401**
6.	Total revenue	Rs. MILL	**16,339**	**16,291**	**21,139**	**23,781**	**26,042**	**28,840**	**30,868**	**33,384**	**37,588**	**39,816**
7.	Expenses:											
	i Cost of fuel	Rs. MILL	7,393	10,981	10,777	9,312	12,202	17,717	19,272	21,051	20,787	**23,085**
	ii Cost of Power Purchased	Rs. MILL	1,704	3,444	7,740	11,401	13,916	13,780	13,191	15,582	14,925	**17,707**
	iii O&M Cost	Rs. MILL	2,613	3,375	2,402	3,220	3,227	3,220	3,629	3,536	3,835	**5,073**
	iv Depreciation	Rs. MILL	2,844	1,719	2,140	2,726	2,821	2,755	2,829	2,963	2,892	**2,996**
	v Financial Charges	Rs MILL	1,793	2,112	3,162	3,042	5,481	5,725	7,750	1,985	910	**138**
	vi Provision for doubtful debts	Rs. MILL	450	458	1,698	1,213	1,094	1,729	1,071	2,008	2,249	**2,308**
	vii Other Charges	Rs. MILL	11	982	77	231	88	115	867	153	289	**390**
	Total expenses	Rs. MILL	**16,808**	**23,071**	**27,996**	**31,145**	**38,829**	**45,041**	**48,609**	**47,278**	**45,887**	**51,697**
8.	Net (Loss) / Profit	Rs. MILL	(469)	(6,780)	(6,857)	(7,364)	(12,787)	(16,201)	(17,741)	(13,894)	(8,299)	**(11,881)**
	Net subsidy for settlement of WAPDA dues	Rs. MILL	-	-	-	-	-	-	-	5,751	9,572	**12,544**
	Loss after subsidy	Rs. MILL	(469)	(6,780)	(6,857)	(7,364)	(12,787)	(16,201)	(17,741)	(8,143)	1,273	**663**
9.	Taxation	Rs. MILL	82	1,173	1,177	119	130	152	154	168	187	**199**
10.	(loss) / Profit after taxation	Rs. MILL	**(551)**	**(7,953)**	**(8,034)**	**(7,483)**	**(12,917)**	**(16,353)**	**(17,895)**	**(8,311)**	**1,086**	**464**
20.	Dividend	%	-	-	-	-	-	-	-	-	-	-

Operating Results of Generating Stations

		July-June 2004-2005	July-June 2003-2004
Installed Capacity	MW	**1,756**	1,756
Actual Capability	MW	**1,387**	1,435
Firm Capacity	MW	**1,387**	1,435
Maximum Demand	MW	**2,197**	2,073
Units Generated	MWH	**9,304,292**	9,724,274
Auxiliary Consumption	MWH	**661,802**	661,676
	%	**7.1**	6.8
Units Sent out	MWH	**8,642,490**	9,062,598
Total Power Purchased	MWH	**4,289,052**	3,664,171
Total Units available	MWH	**12,931,542**	12,726,769
Interdepartmental consumption and free electricity to Officers & Staff	MWH	**88,801**	88,701
Units Billed	MWH	**8,416,367**	7,822,688
T & D Losses		**4,426,374**	4,815,380
Units	%	**34.2**	37.8

* This includes Gas Turbines capability in ISO condition

Transmission and Distribution System

Description			As on June 30, 2004	Additions during 2004-05	As on June 30, 2005
Transmission System					
220 KV Overhead	—	Route Kilometers	131.886	—	**131.886**
	—	Circuit Kilometers	263.772	—	**263.772**
220 KV Overhead	—	Route Kilometers	6.264	—	**6.264**
	—	Circuit Kilometers	12.528	—	**12.528**
132 KV Overhead	—	Route Kilometers	330.483	4.2	**334.683**
	—	Circuit Kilometers	526.354	4.2	**530.554**
132 KV Underground	—	Route Kilometers	64.882	—	**64.882**
	—	Circuit Kilometers	74.160	—	**74.160**
66 KV Overhead	—	Route Kilometers	181.731	—	**181.731**
	—	Circuit Kilometers	212.500	—	**212.500**
66 KV Underground	—	Route Kilometers	6.270	—	**6.270**
	—	Circuit Kilometers	6.630	—	**6.630**
220/132/66/11 KV Grid Stations	Nos.		52	—	**52**
Transmission capacity in MVA					
Auto Transformers:					
220/132 KV		MVA	2,500	—	**2,500**
132/66 KV		MVA	195	—	**195**
		Total	2,695	—	**2,695**
Grid power transformers:					
132/11 KV		MVA	3,134	130	**3,264**
66/11 KV		MVA	245.5	(30.0)	**215.5**
		Total	3,379.5	100	**3,479.5**
Distribution System					
11 KV Overhead	—	Kilometers	2,099.417	70.300	**2,169.717**
11 KV Underground	—	Kilometers	3,910.678	153.400	**4,064.078**
400 V Overhead	—	Kilometers	9,506.001	77.700	**9,583.701**
400 V Underground	—	Kilometers	883.021	38.300	**921.321**
11 KV Distribution S/S/PMTs		Nos.	8,568	725	**9,293**
11 KV Distribution capacity		MVA	3,751.740	130.000	**3,881.740**
Street Lights			231,752	1,875	**233.627**

Load Frequency

Description		2003-2004	2004-2005
1. System evening peak demand	MW	2,073	**2,197**
2. Day peak demand	MW	2,005	**2,104**
3. Base demand (Night)	MW	880	**860**
4. System load factor	%	73.56%	**70.25%**

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED as at JUNE 30, 2005 and the related profit and loss account, the cash flow statement and the statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

  (i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, the cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and, respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2005 and of the profit, its cash flows and changes in equity for the year then ended; and

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

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

  (i) as fully explained in note 2 to the accompanying financial statements, the Corporation, during the current year, incurred loss before subsidy of Rs.11,880 (2004: Rs.8,298) million, as a result of which its accumulated losses amounted to Rs.16,042 (2004: Rs.16,506) million at the end of the current year. These conditions, along with other matters, as set forth in the above referred note, indicate the existence of a material uncertainty which may cast significant doubt about the Corporation's ability to continue as a going concern. However, in view of the mitigating factors, as discussed in the aforesaid note, these financial statements have been prepared on a going concern basis, the validity of which is dependent upon the potential financial assistance from the new owners of the Corporation and / or the Government of Pakistan (GoP), and the success of the action plan being implemented by the management of the Corporation, as explained in the above referred note;

(ii) the ultimate outcome of the matter stated in note 14.1 to the accompanying financial statements concerning sales tax of Rs.2,224 (2004: Rs.1,668) million, shown under other receivables as due from the Collectorate of Sales Tax, cannot presently be determined, and, hence, pending the resolution thereof, no provision has been made for the same in the accompanying financial statements;

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

(iv) as referred to in note 47.1 to the financial statements, transmission and distribution losses are approximately 34.23% of the total electricity generated during the year. The management of the Corporation maintains that one of the factors attributable to these losses is the alleged theft of electricity, which has directly affected the profitability of the Corporation. These factors, in view of the management, if controlled effectively, may enable the Corporation to minimize its overall losses. The amount of theft, however, remains indeterminate;

(v) as disclosed in note 10.2.2 to the accompanying financial statements, included in trade debts is an aggregate sum of Rs.17,631 (2004: Rs.16,333) million, representing balances outstanding for more than one year [including government duties and taxes, amounting to Rs.2,496 (2004: Rs.1,438) million as worked out by the Corporation]. The Corporation has made a provision of Rs.10,145 (2004: Rs.8,510) million against these balances, pursuant to its accounting policy, as stated in note 3.9 to the accompanying financial statements. Pending the outcome of the efforts currently being made by the management to recover these balances, no additional provision has been made by the Corporation in the accompanying financial statements; and

(vi) as stated in notes 9.1 and 33.4 to the accompanying financial statements, internal controls in respect of recording and valuation of stores, spares and loose tools need strengthening as major rectifications and adjustments were required in this account at the end of the current year.

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Karachi, October 29, 2005

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
BALANCE SHEET AS AT JUNE 30, 2005

	Note	2005	2004
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets			
Property, plant and equipment	4	**41,864,330**	42,443,153
Long-term investments	5	**-**	55,522
Long-term loans	6	**146,563**	160,108
Long-term deposits	7	**3,959**	5,934
Deferred cost	8	**-**	2,687
		42,014,852	42,667,404
CURRENT ASSETS			
Stores, spares and loose tools	9	**3,428,612**	2,839,273
Trade debts	10	**8,446,002**	8,856,538
Loans and advances	11	**193,145**	354,358
Trade deposits and prepayments	12	**23,522**	13,707
Accrued interest	13	**5,072**	6,034
Other receivables	14	**3,316,762**	3,039,300
Taxation-net	15	**165,075**	191,610
Cash and bank balances	16	**2,445,832**	4,543,996
		18,024,022	19,844,816
TOTAL ASSETS		**60,038,874**	62,512,220
EQUITY AND LIABILITES & RESERVES			
Share capital	17	**46,084,762**	30,801,024
Reserves			
Capital reserves	18	**509,667**	509,938
Revenue reserves	19	**5,372,356**	5,372,356
Accumulated losses		**(16,042,269)**	(16,506,250)
		35,924,516	20,177,068
Government of Pakistan funds pending conversion into equity	20	**-**	6,080,738
NON-CURRENT LIABILITIES			
Long term financing	21	**1,771,563**	15,705,938
Long-term deposits	22	**2,813,117**	2,581,869
Defferred liabilities	23	**3,412,775**	3,223,914
Deferred credits	24	**5,003,059**	3,454,759
Specific grant from the Government of Pakistan	25	**378,315**	1,507,668
		13,378,829	26,474,148
CURRENT LIABILITIES			
Trade and other payables	26	**8,517,736**	7,455,708
Accrued mark-up	27	**524,869**	467,631
Short-term deposits	28	**966,381**	1,141,190
Provision	29	**409,168**	398,362
Current maturity of long-term financing		**317,375**	317,375
		10,735,529	9,780,266
CONTINGENCIES AND COMMITMENTS	30	**-**	-
TOTAL EQUITY AND LIABILITIES		**60,038,874**	62,512,220

The annexed notes from 1 to 53 form an integral part of these financial statements.

Brigadier Tariq Saddozai
Managing Director

M. Khusrow Khawaja
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2005

	Note	2005	2004
		(Rupees in thousand)	
REVENUE			
Sale of energy - net	31	**38,415,633**	37,291,281
Rental of meters and equipment		**187,549**	177,845
		38,603,182	37,469,126
EXPENDITURE			
Consumption of fuel and oil	32	**(23,084,436)**	(20,786,640)
Expenses incurred in generation, transmission, distribution and public lamps	33	**(6,186,874)**	(5,482,810)
Purchase of electricity	34	**(17,706,647)**	(14,925,002)
		(46,977,957)	(41,194,452)
GROSS LOSS		**(8,374,775)**	(3,725,326)
Consumers services and administrative expenses	35	**(4,190,869)**	(4,341,581)
Other operating income	36	**1,213,173**	867,363
Other operating expenses	37	**(527,985)**	(477,805)
		(3,505,681)	(3,952,023)
OPERATING LOSS		**(11,880,456)**	(7,677,349)
Financial cost	38	**-**	(620,976)
LOSS BEFORE SUBSIDY		**(11,880,456)**	(8,298,325)
Subsidy from the Government of Pakistan	39	**12,543,558**	9,572,000
PROFIT BEFORE TAXATION		**663,102**	1,273,675
Taxation	40	**(199,121)**	(187,885)
PROFIT AFTER TAXATION		**463,981**	1,085,790
BASIC AND DILUTED EARNING PER SHARE (Rupee)	41	**0.04**	0.12

The annexed notes from 1 to 53 form an integral part of these financial statements.

Brigadier Tariq Saddozai
Managing Director

M. Khusrow Khawaja
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2005

	Note	2005	2004
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	42	**4,810,509**	5,800,790
Payment to worker's profit participation fund		**(67,098)**	(2)
Gratuity paid		**(143,000)**	(128,173)
Other post retirement benefits paid		**(80,000)**	(77,000)
Income tax paid		**(172,586)**	(145,153)
Financial charges paid		**(80,825)**	(997,340)
Interest received on bank deposits		**36,880**	24,539
Net cash generated from operating activities		**4,303,880**	4,477,661
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(2,823,089)**	(949,043)
Proceeds from disposal of fixed assets		**35,934**	29,316
Proceeds from disposal of store items		**68,519**	21,273
Proceeds from disposal of investments		**56,000**	-
Deferred credits		**747,384**	1,435,903
Long-term loans		**13,545**	25,938
Long-term deposits		**1,976**	(636)
Net cash used in investing activities		**(1,899,731)**	562,751
CASH FLOWS FROM FINANCING ACTIVITIES			
Term finance certificates (Redeemable capital)		**-**	(5,174,998)
Long-term financing		**(4,731,375)**	(188,243)
GoP funds pending conversion into equity		**-**	97,328
Specific grant from Government of Pakistan		**-**	429,668
Security deposit from consumers		**229,201**	144,752
Deferred liabilities		**(139)**	42
Net cash generated used in financing activities		**(4,502,313)**	(4,691,451)
NET INCREASE IN CASH AND CASH EQUIVALENT		**(2,098,164)**	348,961
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**4,543,996**	4,195,035
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	43	**2,445,832**	4,543,996

The annexed notes from 1 to 53 form an integral part of these financial statements.

Brigadier Tariq Saddozai
Managing Director

M. Khusrow Khawaja
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2005

	Share Capital (Note: 17)	Capital Reserves (Note: 18)	Revenue Reserves (Note: 19)	Accumulated Loss	Total
	(Rupees in thousand)				
Balance at June 30, 2003	30,801,024	509,985	5,372,356	(17,592,040)	19,091,325
Fire and machinery breakdown insurance	-	(47)	-	-	(47)
Net profit for the year	-	-		1,085,790	1,085,790
	-	(47)	-	1,085,790	1,085,743
Balance at June 30, 2004	30,801,024	509,938	5,372,356	(16,506,250)	20,177,068
Increase in share capital	15,283,738	-	-	-	15,283,738
Fire and machinery breakdown insurance	-	(271)	-	-	(271)
Net profit for the year	-		-	463,981	463,981
	15,283,738	(271)	-	463,981	15,747,448
Balance at June 30, 2005	46,084,762	509,667	5,372,356	(16,042,269)	35,924,516

The annexed notes from 1 to 53 form an integral part of these financial statements.

Brigadier Tariq Saddozai
Managing Director

M. Khusrow Khawaja
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

1. THE CORPORATION AND ITS OPERATIONS

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

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

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

2. GOING CONCERN ASSUMPTION

2.1 During the current year, the Corporation incurred loss before subsidy of Rs. 11,880 (2004: Rs.8.298) million, as a result of which its accumulated losses amounted to Rs.16,042 (2004: Rs.15,506) million as at June 30, 2005, against the issued, subscribed and paid-up capital of Rs.46,085 million (2004: Rs.30,801 million) as at that date. The Corporation has been sustaining losses and facing severe liquidity problems for the last so many years due to heavy line losses, pilferage of electricity, increase in fuel prices, etc. To rectify these problems and put the Corporation on track, the management of the Corporation has, amongst other things, implemented a plan of action to curb illegal connections, reduce the transmission and distribution (T&D) losses, speed-up recoveries and curtail non-development expenditure. Consequently, the transmission and distribution losses during the current year were 34.23% as opposed to 37.84% during the year ended June 30, 2004.

2.2 The Corporation prepared a plan, involving an investment of Rs.13,698 million for system improvement and reduction of T&D losses on October 28, 2003. The implementation of the said plan is spread over a period of four years, commencing 2002-2003. In this regard, the GoP has agreed to provide funds for the project out of the public sector development program and, accordingly, disbursed a sum of Rs.2,591 million up to the year ended June 30, 2004. No funds in respect of the above referred plan were, however, disbursed during the current year.

The management of the Corporation has already commenced its expenditure on the improvement plan and has incurred a sum of Rs.2,232 million up to the end of the current year as follows:

	Planned	Actual
	-----Rs. in million-----	
- Restoration of generation capacity	750	350
- Transmission system stability	6,358	295
- Establishment of SCADA system	2,400	-
- Schemes for theft reduction	4,190	1,587
	13,698	2,232
June 30, 2004	13,698	1,169

The plan envisages restoration of generation capacity by 143 MW, establishment of 12 grid stations, laying of 9 transmission lines and major improvement in the distribution network.

2.3 In addition to the aforesaid steps, the GoP is also committed to provide full financial support to the Corporation to make it viable in the foreseeable future. In this regard, as stated in detail in note 39 to the financial statements, the GoP, has provided the following subsidies during the year for:

	Rs. in million
operational cash shortfall	6,482.000
tariff relief to the consumers	725.000
settlement of old dues of KANUPP	922.558
settlement of the dues of National Refinery	4,414.000
	12,543.558

2.4 The measures stated in note 2.3 above are expected to contribute towards the improvement of the financial position of the Corporation. Additionally, the efforts of the management and financial assistance from new owners and / or GoP are also expected to enable the Corporation to make a turnaround. Accordingly, these financial statements have been prepared on a going concern basis.

2.5 During the current year, significant progress has been made with regard to the privatization of the Corporation. Bidding for privatization was held on February 4, 2005 wherein two pre-qualified parties had participated. M/s. Kanooz Al-Watan of Saudi Arabia offered the highest bid of Rs. 1.65 per share for the 73% shares of the Corporation. Thereafter, the said bid was accepted by the GoP. However, M/s. Kanooz Al-Watan did not make the required payment to the GoP and, hence, their bid was cancelled.

M/s. Hassan Associates, being the second highest bidder, matched the bid of Rs. 1.65 per share made by M/s. Kanooz Al-Watan. The offer by M/s. Hassan Associates has been accepted by the Cabinet Comittee on Privatization (CCoP) in its meeting held on September 26, 2005 with certain conditions to meet the technicalities of the bidding documents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of Compliance

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

3.2 Basis of measurement

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

3.3 Property, plant and equipment

(i) Operating fixed assets

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

Cost in relation to plant and machinery, grid stations, overhead mains and transformers signify historical costs and exchange differences, if any, arising on conversion of long-term foreign currency loans adjusted to the related loan bearing assets. Stores and spares, which form part of the contract under which the project was undertaken, are also capitalized with plant and machinery.

Depreciation is charged to income using the straight-line method. Full year's depreciation is charged on additions during the year whereas no depreciation is charged on deletions during the year. In case of extension and addition in existing units, depreciation is provided from the date of actual commissioning and in respect of material replacements and modernization, from the date of capitalization. Cost of subsequent acquisition of stores and spares under specific agreement for specific project are depreciated over the remaining economic useful life of such plant and machinery. The rates used are stated in note 4.1 to the financial statements.

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

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount and impairment losses are recognized in the profit and loss account.

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

(ii) Capital work-in-progress

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

3.4 Borrowing costs

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

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

3.5 Long-term investments

Investments are classified as either "held for trading", "held to maturity" and "available for sale".

3.5.1 Available for sale

These are initially recognized at cost, being the fair value of the consideration given including the acquisition charges associated with the investment. After initial recognition, these investments are re-measured at fair value, unless fair value cannot be reliably measured. For investments that are traded in organized financial markets, the fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the balance sheet date. The securities for which a quoted market price is not available, other valuation methodology is used, subject to a review for impairment at each balance sheet date.

Any gain or loss arising from the change in the fair value of investments held for trading and available for sale and on de-recognition or impairment is included in the profit and loss account of the period in which it arises.

3.5.2 Held to maturity

Investments which have fixed or determinable payments and are intended to be held to maturity are initially recognized at cost and subsequently measured at amortized cost using effective interest rate method less provision for impairment, if any.

3.6 Long term loans, advances and deposits

These are stated at cost.

3.7 Deferred cost

Deferred cost comprising trial production loss of new generating units, civil engineering works involving additions / alterations over rupees 0.1 million, are written-off over 5 years, commencing the financial year in which such costs are incurred.

3.8 Stores, spares and loose tools

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

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

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

3.9 Trade debts

These are recognised and carried at original billed amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made in accordance with the policy laid down hereunder. Bad debts are written-off when identified.

Disconnected consumers

Provision is made for doubtful debts at 100% in respect of energy dues of disconnected consumers.

Connected consumers

The Corporation, in accordance with the Board of Directors' approval, makes provision on outstanding balance, excluding dues of Federal / Provincial Government and Local Bodies, on the following basis:

balances outstanding for 4 years and more	100%
balances outstanding for 3 years to 4 years	80%
balances outstanding for 2 years to 3 years	40%

3.10 Loans, advances and trade deposits

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

3.11 Other receivables

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

3.12 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and cash with banks.

3.13 Deferred credits

Amounts received from consumers for providing service connections, extension of mains and street lights are initially credited to deferred credits, with 5% thereof taken to the profit and loss account each year.

3.14 Employee benefits

3.14.1 Defined benefit gratuity scheme

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

3.14.2 Defined contributory provident fund

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

3.14.3 Medical benefits

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

3.14.4 Electricity rebate

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

3.14.5 Earned leave

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

3.15 Actuarial gains and losses

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

3.16 Taxation

3.16.1 Current

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

3.16.2 Deferred

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3.17 Trade and other payables

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

3.18 Foreign currency translations

Transactions in foreign currency are translated into rupees at foreign exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to rupees at the rates of foreign exchange ruling on that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary transactions in foreign currencies are accounted for in rupees at the rates of exchange prevailing on the date of transaction.

3.19 Provisions

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

3.20 Revenue recognition

3.20.1 Energy sale

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

3.20.2 Late payment surcharge

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

3.20.3 Rebate on electricity duty

Rebate on electricity duty is recognised at the rates specified by the Government (currently 3% of the duty collected).

3.20.4 Government grant

General Grant
General grant received by the Corporation is recognised in the profit and loss account in the year in which it is received.

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

3.21 Financial instruments

All financial assets and liabilities are recognised at the time when the Corporation becomes party to the contractual provisions of the instrument and are derecognised in case of assets, when the contractual rights under the instrument are realised, expired or surrendered and in case of liability, when the obligation is discharged, cancelled or expired.

Any gain / loss on the recognition and derecognition of the financial assets and liabilities is included in the profit and loss for the period in which it arises.

3.22 Offsetting of financial assets and financial liabilities

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

	Note	2005	2004
		(Rupees in thousand)	

4. PROPERTY, PLANT AND EQUIPMENT

	Note	2005	2004
Operating fixed assets	4.1	**41,633,421**	42,118,303
Capital work-in-progress	4.2	**230,909**	324,850
		41,864,330	42,443,153

4.1 OPERATING FIXED ASSETS

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2004	Additions	(Disposals)	As at June 30, 2005	Rate	As at July 01, 2004	Charge for the year	(On disposals)	As at June 30, 2005	As at June 30, 2005
	(Rupees in thousand)				%	(Rupees in thousand)				
Leasehold land	99,269	191,673	-	290,942	-	-	-	-	-	290,942
Buildings on leasehold land	2,634,003	79,170	-	2,713,173	2	802,641	63,808	-	866,449	1,846,724
Plant and machinery	28,976,932	151,367	(57,207)	29,071,092	5 to 20	17,051,797	1,142,692	(51,514)	18,142,975	10,928,117
Transmission and distribution network	45,017,533	2,227,427	-	47,244,960	3 to 10	17,231,830	1,945,698	-	19,177,528	28,067,432
Renewals of mains and services	1,014,455	50,417	-	1,064,872	20	863,118	96,521	-	959,639	105,233
Furniture, air-conditioners and office equipment	404,682	21,830	(66)	426,446	10 to 15	336,781	20,198	(66)	356,913	69,533
Tools and general equipment	357,357	8,384	-	365,741	10 to 15	291,479	12,936	-	304,415	61,326
Computers and related equipment	97,089	30,212	-	127,301	14.30-33.33	71,966	10,691	-	82,657	44,644
Simulator equipment	67,713	-	-	67,713	14.30	67,713	-	-	67,713	-
Vehicles	492,365	108,625	(6,212)	594,778	15 to 25	325,770	52,462	(2,924)	375,308	219,470
June 30, 2005	**79,161,398**	**2,869,105**	**(63,485)**	**81,967,018**		**37,043,095**	**3,345,006**	**(54,504)**	**40,333,597**	**41,633,421**
June 30, 2004	**76,717,461**	**2,465,471**	**(21,534)**	**79,161,398**		**33,900,156**	**3,159,202**	**(16,263)**	**37,043,095**	**42,118,303**

	Note	2005	2004
		(Rupees in thousand)	
4.1.1 Depreciation for the year		**3,345,006**	3,159,202
Amortization of deferred credits	24	**(348,504)**	(267,651)
		2,996,502	2,891,551

	Note	2005	2004
		(Rupees in thousand)	
4.1.2 The depreciation charge for the year has been allocated as follows:			
Expenses incurred in generation, transmission & distribution and public lamps	33	**2,928,048**	2,845,308
Consumers services and administration expenses	35	**68,454**	46,243
		2,996,502	2,891,551

4.1.3 During the current year, the Corporation changed its accounting estimate in respect of the rate of depreciation on 'computers and related equipment' whereby, with effect from the current year, the rate of depreciation on certain computers and related equipment has been changed from 14.30% per annum to 33.33% per annum to better reflect the pattern of utilization of economic benefits derived from such assets.

Had the Corporation not made the above referred change, depreciation charge would have been lower by Rs.0.932 million and profit after taxation for the current year would have increased by the same sum.

4.1.4 The details of deposal of fixed assets:

		Original cost	Accumu-lated depre-ciation	Written down value	Net sales proceeds	Gain on disposal	Mode of disposal	Particulars of Buyers
		(Rupees in thousand)						
Generating Station								
Boilers		21,925	19,726	2,199	11,300	9,101	Auction	M/s. Bashir Ahmed Khan & Sons, Karachi
Boilers		21,925	19,726	2,199	11,300	9,101	Auction	M/s. Jalaluddin & Co., Karachi
Engine		13,357	12,062	1,295	10,000	8,705	Auction	Mr. Abdul Latif, Karachi
Furniture								
Others (written down values not exceeding Rs.50,000 each		66	66	-	-	-	Scrapped	
Vehicles								
Suzuki Mehran	AFN 679	258	46	212	212	-	Theft	National Insurance Company, Karachi
Suzuki Mehran	AFP 235	258	46	212	212	-	---do---	---------------do---------------
Suzuki Mehran	AFP 383	258	46	212	212	-	---do---	---------------do---------------
Suzuki Mehran	AFP 689	258	46	212	212	-	---do---	---------------do---------------
Suzuki Mehran	GA 6287	265	-	265	265	-	---do---	---------------do---------------
Suzuki Mehran	GA 6294	265	-	265	265	-	---do---	---------------do---------------
Suzuki Mehran	GA 6318	265	-	265	265	-	---do---	---------------do---------------
Suzuki Mehran	AHV 618	274	-	274	274	-	---do---	---------------do---------------
Suzuki Cultus	AET 618	483	173	310	310	-	---do---	---------------do---------------
Suzuki Cultus	AET 083	483	173	310	310	-	---do---	---------------do---------------
Suzuki Potohar Jeep	BC 2252	210	189	21	21	-	---do---	---------------do---------------
Suzuki Ravi	CN 2608	271	98	173	173	-	---do---	---------------do---------------
Suzuki Ravi	CN 2363	271	98	173	173	-	---do---	---------------do---------------
Suzuki Ravi	CN 2602	271	98	173	173	-	---do---	---------------do---------------
Others (written down values not exceeding Rs.50,000 each		2,122	1,911	211	257	46	Various	Various
		63,485	54,504	8,981	35,934	26,953		

4.2 CAPITAL WORK-IN-PROGRESS

	Note	Plant and machinery	Transmission system	Distribution system	Others (note 4.2.3)	Total
		(Rupees in thousand)				
Opening balance		435	106,223	169,951	48,241	324,850
Additions during the year:						
System improvement	4.2.1	66,918	343,481	898,919	-	1,309,318
Others		-	99,661	971,394	-	1,071,055
		66,918	443,142	1,870,313	-	2,380,373
		67,353	549,365	2,040,264	48,241	2,705,223
Transferred to operating fixed assets		51,885	492,012	1,882,493	-	2,426,390
Written off and charged to other operating expenses	4.2.2	435	-	47,248	241	47,924
		52,320	492,012	1,929,741	241	2,474,314
		15,033	**57,353**	**110,523**	**48,000**	**230,909**
	2004	435	106,223	169,951	48,241	324,850

4.2.1 Pursuant to the approval of the Ministry of Water and Power, vide sanction authority letter, No.P-III-1(2)/2002, dated April 08, 2003, April 17, 2004 and May 14, 2004, sums of Rs.1,078 million, Rs.1,059 million and Rs.454 million, aggregating to Rs.2,591 million, were released to the Corporation during the current year for necessary system improvement against which the Corporation incurred an aggregate sum of Rs.2,486 (2004: Rs.1,176) million thereon up to the end of the current year.

4.2.2 This comprises costs, incurred in prior years, relating to items of plant and machinery, distribution system and civil works, written off during the current year on account of their obsolescence.

4.2.3 This represents expenses incurred by the Corporation in prior years in respect of the proposed Head Office building. Pending the privatization of the Corporation, as discussed in note 2.5, work on the said building has not commenced.

5. LONG-TERM INVESTMENTS

	Note	**2005**	2004
		(Rupees in thousand)	
Unquoted - Available for sale			
7,000,000 (2004 7,000,000) fully paid Ordinary shares of Rs. 10 each in Civic Centre Company (Private) Limited		**55,522**	70,000
Provision for diminution in the value of investment		**-**	(14,478)
		55,522	55,522
Disposal during the current year	5.1	**(55,522)**	-
		-	55,522

5.1 Pursuant to the decision of the Board of Directors of the Corporation in their meeting, held on September 04, 2004, investment in the above referred entity was disposed of during the current year.

6. LONG-TERM LOANS

	Secured		Unsecured		
	House building loans (Note 6.1 & 6.2)	**Motor Cycles loans (Note 6.1)**	**Festival loans (Note 6.3)**	**2005**	2004
	(Rupees in thousand)				
Considered goods					
Employees	56,778	24	102,964	**159,766**	175,471
Recoverable within one year	(13,193)	(10)	-	**(13,203)**	(15,363)
	43,585	14	102,964	**146,563**	160,108

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

6.2 Included herein is a sum of Rs.4.827 (2004: Rs.4.677) million due from the ex-employees of the Corporation which is more than three years old. Legal proceedings have been initiated against such employees for the recovery of house building loans.

6.3 These, representing festival loans, have been granted to the employees of the Corporation. The Board of Directors in their meeting held on February 01, 2003 approved the deferment of recovery of the aforesaid loans in installments and decided that the said loans would be recovered against the final settlements of the employees at the time of their retirement. Due to the presence of a large number of employees, the amount due within one year cannot be ascertained with reasonable certainty.

6.4 The definition of executives has been changed in the revised Fourth Schedule to the Companies Ordinance, 1984, whereby, the qualifying basic salary limit has been enhanced to Rs.500,000 per annum. As a result, the number of executives and loans due from them were Nil during the current year.

	Note	**2005**	2004
		(Rupees in thousand)	
7. LONG-TERM DEPOSITS			
Rent		**2,122**	2,200
Utilities		**1,837**	3,734
		3,959	5,934
8. DEFERRED COST			
Installation of pipelines		**39,071**	39,071
Amortization:			
At the beginning of the year		**(36,384)**	(36,192)
Amortization during the year	8.1 & 37	**(2,687)**	(192)
		(39,071)	(36,384)
		-	2,687

8.1 In prior years, the Corporation, under an agreement, made a non-refundable contribution towards the cost of the installation of gas and furnace oil pipelines at different stations and accounted for the same as deferred cost. The same up to the end of the previous year was being amortized over a period of 20 years, however, in view of the changes brought about during the current year in the revised Fourth Schedule to the Companies Ordinance, 1984, the Corporation has amortised the remaining balance, brought forward from the previous year.

	Note	2005	2004
		(Rupees in thousand)	
9. STORES, SPARES AND LOOSE TOOLS			
Stores		**2,810,259**	2,450,962
Spares		**654,555**	447,036
Loose tools		**47,422**	4,075
		3,512,236	2,902,073
Provision for slow moving and obsolete stores spares and losse tools		**(83,624)**	(62,800)
		3,428,612	2,839,273

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

	Note	2005	2004
10. TRADE DEBTS			
Considered good			
Secured - against deposits from consumers		**836,159**	815,447
Unsecured		**8,256,967**	8,788,869
		9,093,126	9,604,316
Considered doubtful		**10,011,189**	8,930,297
		19,104,315	18,534,613
Provision for doubtful debts		**(10,207,861)**	(8,930,297)
Provision for bills requiring corrections		**(450,452)**	(747,778)
	10.2	**(10,658,313)**	(9,678,075)
		8,446,002	8,856,538

10.1 The break-up of trade debts is as under:

	Gross amount	Late Payment surcharge retained	2005	2004
	(Rupees in thousand)			
Federal Government	391,828	(185,111)	**206,717**	221,788
Government of Balochistan	5,696	(344)	**5,352**	3,418
Government of Sindh	180,273	(11,896)	**168,377**	108,839
Federal Autonomous Bodies	453,130	-	**453,130**	457,165
Embassies	18,491	-	**18,491**	15,923
Karachi Water & Sewerage Board (KWSB)	935,978	(247,996)	**687,982**	954,337
KMC & KDA (City District Government)	728,865	(25,788)	**703,077**	806,824
State owned enterprises	394,878	(23,734)	**371,144**	408,680
Industrial	3,925,701	-	**3,925,701**	4,130,807
General	15,922,321	-	**15,922,321**	14,414,533
	22,957,161	(494,869)	**22,462,292**	21,522,314
Government duty and taxes, comprising electricity duty, income tax, etc. collected on behalf of various agencies			**(3,357,977)**	(2,987,701)
			19,104,315	18,534,613
Provision for doubtful debts			**(10,207,861)**	(8,930,297)
Provision for bills requiring corrections			**(450,452)**	(747,778)
		Note 10.2	**(10,658,313)**	(9,678,075)
			8,446,002	8,856,538

10.2 Provisions for doubtful debts and for bills requiring correction

		2005	2004
		9,678,075	7,729,752
	35	**2,308,337**	2,997,064
		11,986,412	10,726,816
Amounts written-off against provision			
As a result of correction of bills against which provision had been made during current and prior years		(1,210,579)	(1,032,495)
On account of relief to consumers as a result of the decision of the Board of Directors of the Corporation	10.2.1	(117,520)	(16,246)
		(1,328,099)	(1,048,741)
		10,658,313	9,678,075

10.2.1 The Corporation has introduced a relief package in respect of amount due from the consumers in the private sector. Pursuant to such package, relief, aggregating to Rs.117.520 (2004: Rs.16.246) million, was allowed to such consumers, which has been written-off during the current year, as shown above, against provision made thereagainst in prior years.

10.2.2 Included in trade debts is a sum of Rs.17,631 (2004: Rs.16,333) million, which is outstanding for more than one year [including government duties and taxes, amounting to Rs.2,496 (2004: Rs.1,438) million as worked out by the Corporation]. Against this, the Corporation has made an aggregate provision of Rs.10,145 (2004: Rs.8,510) million up to the end of the current year. Pending the outcome of the efforts being made by the management, including incentive scheme to collect these balances, no additional provision is made in these financial statements.

10.3 Amount due from associated undertakings at the end of the current year in respect of supply of electricity was Rs.9.301 (2004: Rs.10.187) million. The maximum aggregate amount due from them at the end of any month during the year was Rs.11.464 (2004: Rs.10.187) million.

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

	Note	**2005**	2004
		(Rupees in thousand)	
11. LOANS AND ADVANCES			
Loans			
Secured - considered good			
Current portion of long term loans due from employees	6	**13,203**	15,363
Advances - unsecured			
Considered good			
Employees		**29,129**	67,557
Contrctors and suppliers		**150,813**	271,438
		179,942	338,995
Considered doubtful			
Employees		**7,597**	-
Contractors and suppliers		**128,208**	-
		135,805	-
Provision against advances considered doubtful		**(135,805)**	-
		179,942	338,995
		193,145	354,358
12. TRADE DEPOSITS AND PREPAYMENTS			
Deposits	12.1	**421**	424
Prepayments			
Rent		**13,703**	13,283
Insurance		**9,398**	-
		23,101	13,283
		23,522	13,707

12.1 This includes Rs. 0.319 (2004: Rs. 0.319) million representing margin held by commercial banks against which they have issued guarantees on behalf of the Corporation.

		Note	2005	2004
			(Rupees in thousand)	
13.	**ACCRUED INTEREST**			
	Interest accured on TFC redemption reserve account		-	2,716
	Accrued income on bank deposits		**5,072**	3,318
			5,072	6,034
14.	**OTHER RECEIVABLES**			
	Rebate due on electricity duty		**49,575**	37,313
	Sales tax	14.1	**2,634,268**	2,257,268
	Subsidy due from the GoP in respect of sales tax		**622,728**	615,741
	Employees' Povident Fund		**3,293**	121,119
	Octroi		-	1,706
	Insurance claim		**4,628**	3,201
	Others		**2,278**	2,960
			3,316,770	3,039,308
			(8)	(8)
	Provision against other receivables		**3,316,762**	3,039,300

14.1 Included herein is a sum of Rs.2,223.585 million, representing sales tax-net, claimed by the Corporation as sales tax refund.

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

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

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

However, during the current year, the CBR, Sales Tax Wing, Government of Pakistan (GoP), vide its letter no.C.No.3/13 STM/2004, dated January 29, 2005, admitted the claim of the Corporation and approved the refund to the Corporation. Accordingly, LTU, vide its letter no.C.No.2 (32) ST&CE/Audit/KESC/04, dated February 01, 2005, waived its claim towards the Corporation to the extent of Rs.4,704.363 million, and adjusted the balance of Rs.303.637 million on account of inadmissible input tax claimed, late payment charges and service connection charges, against the refund of the Corporation of Rs.1,597.950 million. The final decision regarding the deducted amount of Rs.303.637 million would be taken in the light of further instructions of the CBR. The adjusted refund of Rs.1,294.318 million (representing the difference between claimed refund of Rs.1,597.950 million and pending refund of Rs.303.637 million) was to be refunded to the Corporation in four quarterly instalments of Rs.323.579 million each. In this regard, the amount of the first instalment was received by the Corporation in February 2005.

However, at the time of disbursement of the second instalment, the LTU, Government of Pakistan vide its letter reference C.NO.274(1)ST/CE/Ref-V/2002(Pt)/168090, dated May 24, 2005, invoked the provisions of Section 10(1) of the Sales Tax Act, 1990 in respect of processing of claims on a FIFO basis and asked the Corporation to provide the basis for the same. To determine the admissibility of refund and as advised by LTU, Government of Pakistan, the Corporation has submitted all the relevant supporting documents for audit purposes in support of refund claim up to the tax period ending June 2005, amounting to Rs.2,223.585 million.

The management is confident that the final outcome in this matter will be in favour of the Corporation and, hence, pending a final decision in this regard, no provision for the above has been made in these financial statements.

		Note	**2005**	2004
			(Rupees in thousand)	
15.	**TAXATION - net**			
	Advance income tax		**1,274,208**	1,101,622
	Provision for taxation		**(1,109,133)**	(910,012)
			165,075	191,610
16.	**CASH AND BANK BALANCES**			
	Cash in hand		**2,602**	2,642
	Cash at bank			
	TFC redemption reserve accounts		**-**	851,159
	Current accounts		**18,042**	88,249
	Deposit accounts		**2,033,485**	3,390,166
	Collection accounts		**391,703**	211,780
			2,443,230	4,541,354
			2,445,832	4,543,996

16.1 These carry interest ranging between 0.5% and 6% (2004: 0.65% and 4%) per annum.

17. SHARE CAPITAL

2005 (Number of shares)	2004 (Number of shares)		Note	2005 (Rupees in thousand)	2004 (Rupees in thousand)
		Authorized Share Capital			
		Ordinary shares of			
28,571,428,571	28,571,428,571	Rs. 3.5 each fully paid	17.1	**100,000,000**	100,000,000
		Issued, Subscribed and paid-up Capital			
		Issued for cash			
		Ordinary shares of			
45,371,105	45,371,105	Rs.10/- each fully paid		**453,711**	453,711
		Issued for consideration other than cash			
		Ordinary shares of			
304,512,300	304,512,300	Rs.10/- each fully paid	17.2	**3,045,123**	3,045,123
		Ordinary shares of			
1,783,456,000	1,783,456,000	Rs.10/- each fully paid	17.3	**17,834,560**	17,834,560
		Ordinary shares of			
6,534,077,300	6,534,077,300	Rs. 10/- each	17.4	**65,340,773**	65,340,773
8,667,416,705	8,667,416,705			**86,674,167**	86,674,167
		Issued as bonus shares			
		Ordinary shares of Rs. 10 each fully paid			
132,875,889	132,875,889	as bonus shares		**1,328,759**	1,328,759
8,800,292,594	8,800,292,594			**88,002,926**	88,002,926
		Reduction in capital	17.5 & 17.6	**(57,201,902)**	(57,201,902)
		Issued for consideration other than cash			
		Ordinary shares of			
4,366,782,389	-	Rs. 3.5 each fully paid	17.7	**15,283,738**	-
		Ordinary shares of			
13,167,074,983	8,800,292,594	Rs. 3.5 per share		**46,084,762**	30,801,024

17.1 Pursuant to a special resolution passed in the Annual General Meeting of the shareholders of the Corporation, held on December 28, 2002, the authorized share capital of the Corporation was determined at Rs.100 billion, divided into 28,571,428,571 Ordinary shares of Rs. 3.50 each.

17.2 During the year ended June 30, 1999, the Corporation issued 304,512,300 Ordinary shares of Rs. 10 each, as a result of the conversion of overdue outstanding balance of (a) rescheduled foreign currency loan of Rs.1,968 million and (b) cash development loan of Rs.1,077 million, at that date, into equity.

17.3 During the year ended June 30, 2002, the shareholders of the Corporation, by way of a special resolution passed in the 89th Annual General Meeting of the Corporation, held on 29 December 2001, resolved the conversion of GoP's subordinated loan and the Corporation's debt servicing liabilities, aggregating to Rs.17,834.560 million, into equity. As a result of the said resolution, the Corporation issued 1,783,456,000 Ordinary shares of Rs.10 each at par. The subscription agreement in this regard was entered into on January 24, 2002.

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

17.5 The shareholders of the Corporation during the year ended June 30, 2002, by way of a special resolution, in an Extra Ordinary General Meeting, held on May 27, 2002, resolved the reduction of share capital of the Corporation, subsequent to the completion of the conversion of GoP and GoP guaranteed loans of Rs. 65,341 million into equity (note 17.4). The paid-up capital, which had been lost or was not represented by available assets, to the extent of Rs.6.50 on each of the issued Ordinary shares of the Corporation at such time, was reduced and a new nominal value thereof was fixed at Rs.3.50 per share. The Corporation had also filed a petition in the Honourable High Court of Sindh under Sections 96 and 97 of the Companies Ordinance, 1984. The Honourable High Court of Sindh, vide its order, dated October 12, 2002, ordered the reduction in the nominal value of share capital by Rs.6.50 per share. The Board of Directors, in its 115th meeting held on October 26, 2002, also approved by way of a special resolution the reduction in the nominal value of share capital, amounting to Rs.57,201.902 million. The Honourable High Court of Sindh in its above referred decision has dispensed with the addition of the words "as reduced" as provided in the provision of Section 98 of the Companies Ordinance, 1984.

17.6 The GoP, vide its Finance Division letter F.5(16)-CF:1/97-98/vol 25/191 dated January 31, 2003, conveyed the sanction of the President of Pakistan to write off the GoP equity in the Corporation. Accordingly, the reduction in share capital of Rs. 57,201.902 million has been adjusted against accumulated losses of the Corporation as at June 30, 2004.

17.7 During the current year, the shareholders of the Corporation, by way of a special resolution passed in the 94th Annual General Meeting of the Corporation, held on December 2, 2004, resolved the conversion of (a)"GoP funds, pending conversion into equity," amounting to Rs.6,080.738 million (note 20) and (b) GoP long term loan, amounting to Rs.9,203.000 million (note 21.1), aggregating to Rs.15,283.738 million, into equity (note 20.1) . As a result of the said resolution, the Corporation issued 4,366,782,389 Ordinary shares of Rs.3.50 each at par. The subscription agreement in this regard was entered into on December 20, 2004 between the Corporation and the President of Pakistan on behalf of the GoP (refer note 20.1.1).

		Note	2005	2004
			(Rupees in thousand)	
18.	**CAPITAL RESERVES**			
	Unclaimed fractional bonus shares money	18.1	**46**	46
	Workmen compensation	18.2	**700**	700
	Third party liability	18.3	**300**	300
	Fire and machinery breakdown insurance	18.4	**508,621**	508,892
			509,667	509,938

18.1 Unclaimed fractional bonus shares money

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

18.2 Workmen compensation reserve

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

18.3 Third party liability reserve

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

18.4 Fire and machinery breakdown insurance reserve

The Corporation was operating a self insurance scheme in respect of its certain fixed assets and spares to cover such hazards which were potentially less likely to occur. However, commencing the year ended June 30, 1997, the Corporation discontinued its policy for providing the amount under self-insurance scheme. Fixed assets, which are insured under this scheme and on which claim lodged with respect to damages to such assets is not fully acknowledged by the insurer, the shortfall is charged to the said reserve. Accordingly, during the year, a sum of Rs.0.271 (2004: Rs.0.048) million has been charged to this reserve.

		Note	2005	2004
19.	**REVENUE RESERVES**			
	General		**1,038,999**	1,038,999
	Contingencies		**25,000**	25,000
	Dividend equalisation		**73,700**	73,700
	Replacement of fixed assets	19.1	**4,234,657**	4,234,657
			5,372,356	5,372,356

19.1 This represents additional depreciation provided upto the year ended June 30, 1997 on all new generating plants and machinery for its replacement in future.

	Note	2005	2004
		(Rupees in thousand)	
20. GOVERNMENT O PAKISTAN (GoP) FUNDS PENDING CONVERSION INTO EQUITY			
Fund received from GoP pending conversion into equity	20.1	-	6,080,738
20.1 Movement of GoP funds pending conversion into equity			
Opening balance		**6,080,738**	5,983,410
Received fron the GoP		**-**	97,328
GoP loan transferred for conversion into equity	21.1	**9,203,000**	-
		15,283,738	6,080,738
Conversion into equity during the year	20.1.1	**(15,283,738)**	-
		-	6,080,738

20.1.1 On December 20, 2004, the Corporation entered into a subscription agreement with the President of Pakistan, representing the GoP, for the conversion of GoP Funds into the equity of the Corporation. In this respect, the Board of Directors in their meeting, held on January 29, 2005, approved the allotment of 4,366,782,389 Ordinary shares of Rs.3.5 each, to the President of Pakistan, for and behalf of the GoP, in full and final settlement of the Funds of the GoP pending conversion (refer note 17.7).

21. LONG-TERM FINANCING

	Note	2005	2004
Unsecured			
GoP loan	21.1	**-**	9,203,000
GoP Loan in respect of electrification of Hub Area	21.2	**26,000**	26,000
Payable to oil and gas companies	21.3	**2,062,938**	6,794,313
		2,088,938	16,023,313
Current maturity			
Payable to oil and gas companies	21.3	**317,375**	317,375
		1,771,563	15,705,938

21.1 The Finance Division, Government of Pakistan (GoP), vide their letter No.F.1(1)-CF/2002-03/Part/1254 dated October 22, 2004, approved the conversion of the said loan into equity of the Corporation. Accordingly, the said amount has been transferred from long-term loans to "Government of Pakistan funds pending conversion into equity" (note 20.1).

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

	Note	2005	2004
		(Rupees in thousand)	
21.3 Payable to oil and gas companies			
Pakistan State Oil Company Limited (PSO)	21.3.2	**849,062**	979,688
Pirkoh Gas Company Limited (PGCL)	21.3.2	**1,213,875**	1,400,625
National Refinery Limited (NRL)	21.3.2	**-**	4,414,000
	21.3.1	**2,062,937**	6,794,313
Current maturity		**(317,375)**	(317,375)
		1,745,562	6,476,938

21.3.1 During the year ended June 30, 2002, the Economic Co-ordination Committee of the Federal Cabinet, vide case No. ECC-136/13/2001, dated November 06, 2001, considered the Summary, dated November 01, 2001, submitted by the Finance Division and approved the proposal, contained in paragraph 4 of the Summary, which stated that all payables of the Corporation (Principal only) to oil and gas companies as on June 30, 2001, including those under Letter of Exchange (LoE) arrangements of February 10, 1999, aggregating to Rs.6,953 million will be redeemed over a period of ten years, including a grace period of two years, free of interest. The repayment by the Corporation to oil and gas companies will be made on a quarterly basis, commencing 29 February 2004. In the event of privatisation of the Corporation, the liabilities of the Corporation under these arrangements will be picked-up by the GoP. In case the Corporation is not privatized, these liabilities shall remain the liabilities of the Corporation.

21.3.2 During the year ended June 30, 2004, two formal agreements between the Corporation and PGCL and the other between the Corporation and PSO, containing the terms and conditions in accordance with the ECC decision, were executed on July 30, 2003 and August 25, 2003, respectively.

21.3.3 During the current year, the Finance Division, Government of Pakistan (GoP), vide its letter No.F.5(12)-CF.I/97-98/Vol.VIII/E54, dated June 4, 2005, conveyed the sanction of the President of Pakistan in respect of the subsidy for picking up the Corporation's payable to National Refinery Limited, amounting to Rs.4,414 million. The Corporation has, accordingly, treated the same as subsidy from the GoP and included it as such in the profit and loss account during the current year. (refer note 39).

22. LONG-TERM DEPOSITS		**2,813,117**	2,581,869

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

23. DEFERRED LIABILITIES			
Gratuity	23.1	**2,183,462**	2,019,601
Others (medical and electricity benefits)	23.1	**1,229,313**	1,204,313
		3,412,775	3,223,914

23.1 Actuarial valuation of retirement benefits

In accordance with the requirements of IAS-19 "Employee Benefits", actuarial valuation has been carried out as at June 30, 2005, using the "Projected Unit Credit Actuarial Cost Method".

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

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

Discount rate	11.65% per annum
Salary increase	9.52% per annum
Medical cost trend	6.33% per annum
Electricity price increase	6.33% per annum

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

		Others	
	Gratuity	**Medical benefits**	Electricity benefits
	(Rupees in thousand)		
a) The amount recognised in the profit and loss account is determined as follows:			
Current service cost	105	24	11
Interest cost	179	58	23
Recognized actuarial (gains) / losses	23	(14)	3
Expense recognized during the year	**307**	**68**	**37**
b) Movement in the liability recognised in the balance sheet			
Provision at July 01, 2004	2,020	943	261
Charge for the year	307	68	37
Benefits paid	(143)	(61)	(19)
Provision as at June 30, 2005	**2,184**	**950**	**279**
c) Reconciliation			
Obiligation under defined benefit plan	2,766	1,079	341
Actuarial losses not recognized	(582)	(129)	(62)
Provision as at June 30, 2005	**2,184**	**950**	**279**

		Note	2005	2004
			(Rupees in thousand)	
24.	**DEFERRED CREDITS**			
	Opening balance		**3,454,759**	2,286,507
	Additions during the year			
	Recoveries from consumers	24.1	**747,384**	352,571
	Transfer from specific grant from the Government of Pakistan for Financial Improvement Plan (FIP)	25	**1,149,420**	1,083,332
			1,896,804	1,435,903
			5,351,563	3,722,410
	Amortization during the year	4.1.1	**(348,504)**	(267,651)
			5,003,059	3,454,759

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

		Note	2005	2004
25.	**SPECIFIC GRANT FROM THE GOVERNMENT OF PAKISTAN**			
	Opening balance		**1,507,668**	1,078,000
	Received during the year		**-**	1,513,000
	Interest accrued on grant received from the GoP		**20,067**	-
			1,527,735	2,591,000
	Transfer to deferred credits	24 & 25.1	**(1,149,420)**	(1,083,332)
			378,315	1,507,668

25.1 Out of the total receipts of Rs.2,591.000 million from the GoP under the FIP, the Corporation transferred a sum of Rs.1,149.420 million to deferred credits against work completed during the year (note 24).

		Note	2005	2004
26.	**TRADE AND OTHER PAYABLES**			
	Creditors			
	Power purchases (includes amount payable to WAPDA)		**3,015,244**	2,219,074
	Fuel		**1,533,441**	1,796,897
	Others		**1,977,526**	1,527,724
			6,526,211	5,543,695
	Accrued liabilities			
	Accrued expenses		**390,674**	355,806
	Advances/credit balances of consumers			
	Energy	26.1	**559,640**	544,456
	Others	26.2	**289,896**	295,959
			849,536	840,415
	Unclaimed dividend		**466**	466
	Other liabilities			
	Unpaid dividend		**184**	184
	Workers' Profit Participation Fund	26.3	**34,953**	67,151
	Employee related dues		**85,315**	77,434
	Electricity duty	26.4	**461,287**	319,781
	Tax deducted at source	26.4	**98,808**	148,855
	PTV licence fee	26.4	**33,917**	-
	Retention money		**-**	12,840
	Payable to the then Managing Agent, PEA (Private) Limited		**29,632**	29,746
	Development surcharge on furnace oil	36	**-**	50,880
	Others		**6,753**	8,455
			750,849	715,326
			8,517,736	7,455,708

26.1 This represents amount due to the consumers on account of excess payments and revision of previous bills.

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

		Note	2005	2004
			(Rupees in thousand)	
26.3	**Workers' Profit Participation Fund**			
	Opening balance		**67,151**	118
	Payments during the year		**(67,098)**	(2)
			53	116
	Contribution for the year		**34,900**	67,035
			34,953	67,151

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

		Note	2005	2004
27.	**ACCRUED MARK-UP**			
	Accrued mark up on:			
	secured loans		-	800
	consumer deposits		**524,869**	466,831
			524,869	467,631
28.	**SHORT-TERM DEPOSITS**			
	Service connection deposits	28.1	**921,396**	1,108,712
	Suppliers' security deposits		**8,119**	7,295
	Earnest money		**36,866**	25,183
			966,381	1,141,190

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

			2005	2004
29.	**PROVISION**		**409,168**	398,362

This represents provision made by the Corporation for the principal amount of a bank guarantee as a result of the dispute with Sabah Shipyard, as more fully explained in note 30.1.4. Provision amounting to Rs.10.806 (2004:Rs.52.258) million was made, in respect thereof, during the current year.

30. CONTINGENCIES AND COMMITMENTS

30.1 Contingencies

		2005	2004
30.1.1	**Claims not acknowledged as debts:**		
	Fatal accident cases	**446,137**	332,673
	Guarantees from banks	**2,619**	2,619
	Architect's fee in respect of a head office project	**44,213**	-

30.1.2 The Corporation has recorded a sum of Rs.1,487 (2004: Rs.1,071) million as due to National Transmission and Despatch Company (NTDC), however, NTDC vide its letter No. 550-62

/FD/NTDC/BILLING/KESC, dated July 20, 2005, claimed a sum of Rs.3,199 million from the Corporation. The Corporation has not recorded the difference of Rs.1,712 (2004: Rs.1,215) million in these financial statement, which relates to (a) the payment of Rs.1,093 million made by the Corporation in 2001 but not acknowledged by NTDC and (b) Rs.619 million on account of the inclusion of interest and transmission losses in the rate determined by National Electricity & Power Regulatory Authority (NEPRA).

30.1.3 Karachi Nuclear Power Plant (KANUPP) and Sui Southern Gas Company Limited (SSGCL) have claimed a sum of Rs.161.00 million and Rs.388.202 million, respectively, aggregating to Rs.549.202 million, as financial charges due from the Corporation on account of delayed payments for power and gas purchases. The Corporation, in view of its liquidity problems, requested the Government of Pakistan for the waiver of the said charges. The request in question has been agreed to by the Ministry of Water and Power, Government of Pakistan. The Economic Coordination Committee of the Federal Cabinet has decided that the amount of interest claimed by KANUPP will be waived off whereas the liability in respect of the SSGCL will be picked up by the Finance Division, Government of Pakistan.

30.1.4 Sabah Shipyard, an Independent Power Producer (IPP) had been granted approval for setting up a power project under the implementation and power purchase agreement, signed by the GoP / Corporation on March 07, 1996. The IPP was required to achieve the Required Commercial Operation Date (RCOD) on November 26, 1997, which the IPP failed to achieve, by the due date. Hence, the delay in the commissioning clause was invoked by the Corporation. The Corporation, thereafter, raised invoices for liquidated damages for 10 months, exhausting the letter of credit of US$ 6.84 million, equivalent to Rs.409.168 million, opened by the IPP for setting up the power project. On December 07, 1998, the IPP made a request for arbitration to the International Chamber of Commerce (ICC).

The suit filed by the IPP for the recovery of US$ 6.84 million, paid under the letter of credit, was decided against the Corporation, resulting in the Corporation receiving the award sentence at the interim stage on January 05, 2001. The ICC decided that the Corporation shall pay to the IPP a sum of US$ 6.84 million along with interest thereon (gross amount US$ 11 million approximately). The management of the Corporation filed an appeal in the High Court of Sindh against the Order passed by the ICC, which is currently pending therewith. The IPP also filed a lawsuit in the Courts of England against the GoP which was also decided in favour of the IPP, enabling them to invoke the GoP guarantee.

During the year ended June 30, 2004, the IPP offered an Out of Court settlement in lieu of the payment of US $ 6.84 million, i.e. principal amount of bank guarantee by the Corporation. However, the Corporation did not accept the offer on the grounds that it had to lay 220 KV Transmission line specially for the project at substantial cost. The management maintains that currently the proceedings are pending in the UK court for Out of Court settlement and no progress in this regard has been made during the current year.

The Corporation being prudent has made provision of Rs.409.168 million in respect of the Principal amount of the Guarantee (note 29), however, no provision has been made in the financial statements for interest at the rate of 7.75% per annum, considering the fact that the eventual liability would not exceed the amount already provided for.

Further, as per the minutes of the fourth meeting of the Committee on Corporation's Privatization constituted by the Board of Privatization Commission held on July 06, 2004, it has been recommended by the Ministry of Finance, Government of Pakistan to the Board of Privatisation Commission that in case of an unfavorable outcome, the Ministry of Finance, Government of Pakistan, would pick up the liability of principal amount, interest and other cost, if any.

Pending resolution of the matters stated above, no provision has been made for any liability that may arise as a result of the above matters.

30.1.5 Taxation

30.1.5.1 At the time of finalization of assessment for the assessment year 1993-94, the Income Tax Department, for the first time, invoked the provisions of Section 80C of the Income Tax Ordinance, 1979. The treatment accorded was not accepted by the Income Tax Appellate Tribunal (ITAT) who held that the provisions of Section 80C were not applicable to the Corporation. However, the Department has filed a reference before the High Court of Sindh in this regard. Similarly, in the succeeding assessment years, the Assessing Officer accorded the same treatment, however, the ITAT did not accept the Department's stance and directed not to invoke the provisions of Section 80C.

Based on the above, the management is of the opinion that the Corporation has a strong case that provisions of Section 80C are not applicable to the Corporation.

30.1.5.2 The assessments for the assessment years 1997-98, 1998-99 and 1999-2000 were finalized by the DCIT by disallowing initial depreciation, extra shift allowance, perquisites to employees and Transmission and Distribution (T&D) losses to the extent of 5.53%, 3.9% and 6.64%, respectively, as well as certain other expenses. The Assessing Officer had also invoked Section 80C of the Income Tax Ordinance, 1979 (the Ordinance) and treated the power purchase as supplies and taxed the same at the rate of 3.5%. The Corporation has agitated the application of Section 80C of the Ordinance as it is of the view that it is not applicable to it. Appeals were preferred before the Commissioner of Income Tax (Appeals) [CIT(A)] who has set aside the same for denovo assessments.

Further, the Corporation in respect of the assessment years 1997-98 and 1998-99 filed appeals before the ITAT, who in its order upheld the decision of the CIT(A). The Corporation has also filed a reference application before the Honourable High Court of Sindh for the cancellation of assessment for the year 1997-98, which is considered time barred. Reassessment in respect of the assessment year 1999-2000 is pending before the Assessing officer.

30.1.5.3 The Taxation Officer Larger Tax Payer Unit (LTU) has also finalized assessment for the year 2000-2001 and 2001-2002. While finalizing the assessment, the Officer has disallowed certain expenses relating to depreciation, provision for deferred liabilities, excess perquisites, T&D losses to the extent of 8.23% and 3.42% for the assessment years 2000-2001 and 2001-2002, respectively. The Assessing Officer has also invoked Section 80C of the Income Tax Ordinance, 1979 (the Ordinance) and treated the power purchase as supplies and taxed the same at the rate of 3.5%. The Corporation has agitated the application of Section 80C of the Ordinance, as it is of the view that this is not applicable to the Corporation. The Corporation has preferred an appeal before the CIT(A). CIT(A), while vacating the application of Section 80C and deleting the curtailment of T & D losses, had set-aside / disallowed claim of depreciation and certain provisions. The Corporation preferred appeal against disallowances and set-asides before the ITAT, which is currently pending.

30.1.5.4 Assessment in respect of the assessment year 2002-03 has been finalised during the current year. The Assessing Officer has disallowed expenses relating to depreciation, restricted the T & D losses to 32%, and invoked the provision of Section 80C of the Income Tax Ordinance, 1979. The Corporation, further, received assessment order under Section 122-A, in respect of above assessment year, whereby, the Commissioner of Income Tax, (E&C) Division, Large Tax Payers Unit, Karachi, set-aside the assessment order passed by the Assessing Officer for de-novo examination in respect of the issue of Section 80C. He also conveyed to the Corporation that proposal for withdrawal of references before the Honourable High Court of Sindh has already been sent to CBR. However, the Corporation, being aggrieved, against the disallowances of T & D losses and depreciation, had preferred an appeal before the CIT(A), who vide his Appellate Order has deleted (a) the disallowances in respect of T & D losses and (b) applicability of Section 80C.

The Corporation's maximum exposure on account of the matters covered under taxation (30.1.5.1 to 30.1.5.4) would not exceed Rs.1,112.5 million in case of adverse decisions. The main reason for such excessive demand is the application of section 80C of the Income Tax Ordinance, 1979 on the purchase of electricity from various power producers.

Although the final disposition of these additional tax demands is difficult to predict, considering the fact that the CBR has withdrawn references before the Honourable High Court of Sindh, the management is confident that on the merits of the case, the ultimate decision will be made in favour of the Corporation. Accordingly, no provision has been made in the financial statements in respect of the aforementioned tax exposure.

	Note	2005	2004
		(Rupees in thousand)	
30.2 Capital commitments			
Contracts with respect to Transmission and Distribution Projects		**690,661**	839,000
Outstanding Letters of Credit		**243,479**	1,347,105

31. SALE OF ENERGY

Residential		**12,707,585**	11,779,661
Commercial		**6,427,899**	6,113,402
Industrial		**18,116,727**	18,274,546
Water and Power Development Authority		**51,356**	145,746
Karachi Nuclear Power Plant		**43,497**	41,396
Pakistan Steel Mills Corporation (Private) Limited		**467,474**	333,808
Others		**601,095**	602,722
		38,415,633	37,291,281

31.1 Free electricity benefit to employees, amounting to Rs.121.550 (2004: Rs.150.456) million, has not been included in the sale of energy and in the employee benefit costs, as disclosed in notes 33 and 35.

32. CONSUMPTION OF FUEL AND OIL

Natural gas		**15,392,807**	15,730,327
Furnace and other oils		**7,691,629**	5,056,313
		23,084,436	20,786,640

33. EXPENSES INCURRED IN GENERATION, TRANSMISSION, DISTRIBUTION AND PUBLIC LAMPS

	Note	Generation Expenses	Transmission & distribution Expenses	2005	2004
		(Rupees in thousand)			
Salaries, wages and other benefits	31.1, 33.1 & 33.2	369,533	1,959,709	**2,329,242**	1,723,770
Stores and spares consumed	33.3 & 33.4	185,350	61,906	**247,256**	338,854
Insurance		5,299	7,226	**12,525**	11,255
Repairs and maintenance		3,209	6,950	**10,159**	9,771
Transport cost and transport department expenses	33.3	53,230	423,827	**477,057**	365,726
Rent, rates and taxes		8,342	13,865	**22,207**	16,179
Depreciation	4.1.2	1,192,202	1,735,846	**2,928,048**	2,845,308
Other expenses		45,745	114,635	**160,380**	171,947
		1,862,910	4,323,964	**6,186,874**	5,482,810

33.1 This includes Rs.230.776 million (2004: Rs.283.773 million) in respect of staff retirement benefits.

33.2 Free electricity benefit to employees, amounting to Rs.84.617 million, has not been included in salaries, wages and other benefits and has been offset against the value of units sold, as disclosed in note 31.2.

33.3 These include salaries, wages and benefits of respective departments.

33.4 This includes adjustments of Rs.92.354 (2004: Rs.127.695) million made as a result of reconciliation between the control and subsidiary accounts, valuation of stores, spares and loose tools, physical count, etc.

34. PURCHASE OF ELECTRICITY

	Note	2005	2004
		(Rupees in thousand)	
Water and Power Development Authority		**8,914,687**	6,676,210
Gul Ahmed Energy (Private) Limited		**4,219,905**	4,017,476
TAPAL Energy (Private) Limited		**3,642,169**	3,788,206
Karachi Nuclear Power Plant		**725,146**	119,722
Pakistan Steel Mills Corporation		**204,740**	323,388
		17,706,647	14,925,002

35. CONSUMERS SERVICES AND ADMINISTRATIVE EXPENSES

	Note	Consumer Services and billing Expenses	Adminis-trative and General Expenses	2005	2004
		(Rupees in thousand)			
Salaries, wages and other benefits	31.1, 35.1 & 35.2	696,355	313,905	**1,010,260**	845,357
Bank collection charges		60,977	-	**60,977**	45,358
Transport cost and transport department expenses	35.2	103,340	40,512	**143,852**	112,532
Depreciation	4.1.2	11,024	57,430	**68,454**	46,243
Repairs and maintenance		4,494	3,823	**8,317**	9,209
Rent, rates and taxes		16,009	31,565	**47,574**	37,989
Public relations and publicity		-	4,639	**4,639**	4,577
Legal expenses		-	5,360	**5,360**	28,571
Insurance		43	4,487	**4,530**	726
Auditors' remuneration	35.3	-	1,359	**1,359**	1,348
Professional charges		-	2,174	**2,174**	378
Directors fee		-	188	**188**	33
Provision for doubtful debts and bills requiring correction	10.2	2,308,337	-	**2,308,337**	2,997,064
Office supplies and other expenses		51,094	473,754	**524,848**	212,196
		3,251,673	939,196	**4,190,869**	4,341,581

35.1 Free electricity benefit to employees, amounting to Rs.36.933 million, has not been included in salaries, wages and other benefits and has been offset against the value of units sold, as disclosed in note 31.2.

35.2 These include salaries, wages and benefits of respective departments.

35.3 Auditors' remuneration

	Note	2005	2004
		(Rupees in thousand)	
Statutory audit, half yearly review and report of compliance on Code of Corporate Governance		**1,240**	1,240
Out of pocket expenses		**119**	108
		1,359	1,348

	Note	2005	2004
		(Rupees in thousand)	

36. OTHER OPERATING INCOME

	Note	2005	2004
Late payment surcharge		**689,122**	555,877
Interest on bank deposits		**15,851**	16,734
Profit against service connection and maintenance jobs		**15,427**	2,333
Special discount received from insurance companies		**1,102**	1,101
Rebate on electricity duty		**12,261**	11,593
Scrap sale - stores and spares		**68,519**	55,153
Liabilities no longer considered payable written back		**146,080**	107,434
Development surcharge on furnace oil written back	26	**50,880**	-
Advance/credit balance of consumers no longer payable written back		**72,275**	-
Gain on disposal of fixed assets		**26,953**	24,046
Gain on disposal of stores, spares and loose tools		**-**	18,095
Gain on disposal of long term investment		**478**	-
Collection charges TV licence fee		**25,083**	-
Others		**89,142**	74,997
		1,213,173	867,363

37. OTHER OPERATING EXPENSES

	Note	2005	2004
Interest on consumers deposits		**138,063**	121,818
TFC collection charges and trusteeship fee		**-**	3,195
Amortization of deferred costs	8	**2,687**	192
Letters of credit charges for IPP payments		**1,443**	13,476
Workers' Profit Participation Fund		**34,900**	67,035
Provision against slow moving stores, spares and loose tools		**20,824**	30,962
Long term security deposits written off		**2,047**	-
Cost of capital work in progress written off		**47,924**	-
Provision against advances		**135,805**	-
Donations		**-**	100
Stamp duty on issuance of shares and listing fee		**112,784**	-
Exchange loss on foreign currency liability		**10,806**	52,258
Adjustments relating to prior years in respect of power and fuel purchase		**20,702**	188,769
		527,985	477,805

38. FINANCIAL COST

	Note	2005	2004
Mark-up / interest on loans - net		**-**	-
Interest on TFCs		**-**	620,976
		-	620,976

39. SUBSIDY FROM THE GOVERNMENT OF PAKISTAN

	Note	2005	2004
Subsidy from the GoP to meet cash shortfall	39.1	**6,482,000**	9,572,000
Against tariff relief to the consumers	39.2	**725,000**	-
For settlement of old dues of KANUPP	39.3	**922,558**	-
For settlement of NRL Dues	21.3.3	**4,414,000**	-
		12,543,558	9,572,000

39.1 In order to meet the cash shortfall, the Corporation submitted a budget to the GoP, requesting for a sum of Rs.6,482 million for the financial year ended June 30, 2005. In this connection, the Corporation has received the said amount in seven tranches as follows:

GoP Letter Number	Date	Amount Rs. in million
F.5(20)-CF.I/2002-03/1092	September 01, 2004	1,296.400
F.5(20)-CF.I/2002-03/1289	November 03, 2004	1,296.400
F.5(20)-CF.I/2002-03/1448	December 28, 2004	607.200
F.5(20)-CF.I/2002-03/35	January 15, 2005	500.000
F.5(20)-CF.I/2002-03/378	April 16, 2005	1,161.500
F.5(20)-CF.I/2002-03/611	May 28, 2005	540.167
F.5(20)-CF.I/2002-03/749	June 30, 2005	1,080.333
		6,482.000

39.2 The GoP granted subsidy in respect of tariff relief in three tranches as follows:

GoP Letter Number	Date	Amount Rs. in million
F.5(20)-CF.I/2002-03/339	April 02, 2005	385.730
F.5(20)-CF.I/2002-03/609	May 28, 2005	109.939
F.5(20)-CF.I/2002-03/763	June 30, 2005	229.331
		725.000

39.3 The GoP disbursed an aggregate sum of Rs.922.558 million, vide its letter F-5(12)CF.1/97-98VOL-VII/829, dated June 30, 2004, during the current year to repay the outstanding obligation of Karachi Nuclear Power Plant (KANUPP).

39.4 During the current year, the Ministry of Water & Power, Government of Pakistan (GoP), has requested the Ministry of Finance that subsidy against tariff, determined by NEPRA but not notified by the GoP amounting to Rs.730.00 million, may be provided to the Corporation. However, the said subsidy had not been received by the Corporation up to the balance sheet date and, accordingly, has not been recorded in the books of the Corporation, as per the accounting policy (refer note 3.20.4) of the Corporation in this regard.

40. TAXATION

Current	**199,121**	187,885

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

40.2 Deferred tax asset, amounting to Rs.17,891 (2004: Rs.22,077) million, has not been recognized in these financial statements as the Corporation is of the view that it is not probable that sufficient taxable profit will be available in foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized.

At the year end, the Corporation's assessed tax losses amounted to Rs.69,875 (2004: Rs.63,076) million.

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

	Note	2005	2004
		(Rupees in thousand)	

41. BASIC AND DILUTED EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the company, which is based on:

Profit for the year after tax		**463,981**	1,085,782
		Number of shares	
Weighted average number of Ordinary shares outstanding during the year		**10,255,886,724**	8,800,292,594
		(Rupee)	
Earning per share		**0.04**	0.12

42. CASH GENERATED FROM OPERATIONS

Profit before taxation		**663,102**	1,273,675
Adjustments for non-cash charges and other items:			
Depreciation		**2,996,502**	2,891,551
Provision for deferred liabilities		**412,000**	501,000
Provision for slow moving stores and spares		**20,824**	30,962
Amortization of deferred costs		**2,687**	192
Provision for Workers' Profit Participation Fund		**34,900**	67,035
Provision for doubtful debts & bills requiring correction		**2,308,337**	2,997,064
Gain on sale of investment		**(478)**	-
Gain on disposal of fixed assets		**(26,953)**	(24,046)
Gain on disposal of stores item		**(68,519)**	(73,248)
Exchange loss		**10,806**	52,258
Liabilities no longer considered payable written back		**(146,080)**	(107,434)
Development surcharge on furnace oil written back		**(50,880)**	-
Advance / credit balance of consumers no longer payable written back		**(72,275)**	-
Long term security deposits written off		**2,047**	-
Cost of capital work-in-progress written off		**47,924**	-
Provision against advances		**135,805**	-
Adjustment, in relating to prior year in respect of power and fuel purchase		**20,702**	188,769
Financial charges		**138,063**	742,794
Interest earned on bank deposits		**(15,851)**	(16,734)
Working capital changes	42.1	**(1,602,154)**	(2,723,048)
		4,810,509	5,800,790

		Note	2005	2004
			(Rupees in thousand)	
42.1	**Working capital changes**			
	(Increase) / decrease in current assets			
	Stores, spares, loose tools		**(630,865)**	(1,100,632)
	Trade debts		**(1,897,801)**	(1,683,399)
	Loans and advances		**25,408**	(44,730)
	Trade deposits and short term prepayments		**(9,815)**	(13,181)
	Other receivables		**(277,733)**	195,976
			(2,790,806)	(2,645,966)
	Increase / (decrease) in current liabilities			
	Trade and other payables		**1,363,461**	(264,183)
	Short-term deposits		**(174,809)**	187,101
			(1,602,154)	(2,723,048)

43. CASH AND CASH EQUIVALENTS

	2005	2004
Cash and bank balances	**2,445,832**	4,543,996

44. REMUNERATION OF MANAGING DIRECTOR, DIRECTORS AND EXECUTIVES

	2005			2004		
	Managing Director	**Directors**	**Executives**	**Managing Director**	**Directors**	**Executives**
	(Rupees in thousand)					
Directors' fee	**-**	**188**	**-**	-	33	-
Managerial remuneration	**591**	**-**	**-**	522	-	-
Gratuity and provident fund	**-**	**-**	**-**	-	-	-
House rent	**-**	**-**	**-**	-	-	-
Free electricity	**206**	**-**	**-**	267	-	-
Others	**494**	**-**	**-**	125	-	-
	1,291	**188**	**-**	914	33	-
Number of persons	**1**	**10**	**-**	1	12	-

The Managing Director is on deputation from Pakistan Armed Forces.

The Executives of the Corporation are provided medical and car facilities with free petrol for official use.

45. TRANSACTIONS WITH RELATED PARTIES

The aggregate amount of the Corporation's purchases from and sales to the related parties of goods, materials and services during the year was Rs.Nil (2004: Rs.Nil).

46. SALARIES, WAGES AND OTHER BENEFITS

Salaries, wages and other benefits for the year amounted to Rs.4,003.805 million (2004: Rs.3,266.886 million) out of which a sum of Rs.109.426 million (2004: Rs.242.216 million) has been transferred to capital expenditure.

47. TRANSMISSION AND DISTRIBUTION LOSSES

47.1 The transmission and distribution losses were 34.23% (2004: 37.84%). The trend of transmission and distribution losses over the years is as follows:

1999-2000	40.23%
2000-2001	36.81%
2001-2002	41.11%
2002-2003	40.78%
2003-2004	37.84%
2004-2005	34.23%

47.2 One of the factors attributable to these losses is the theft of electricity, which cannot be billed as it is subject to identification, which has directly affected the profitability of the Corporation. No consideration has been given to units over billed in prior years and corrected during the year in the determination of transmission and distribution losses percentage as disclosed in paragraph 47.1 above.

48. FINANCIAL INSTRUMENTS

48.1 Interest rate risk

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

The effective interest rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

	Effective yield/ mark-up rate	Interest / Markup bearing			Non-Interest / Markup bearing			Total
		Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	June 30, 2005
		(Rupees in thousand)						
June 30, 2005								
FINANCIAL ASSETS								
Long term investments	-	-	-	-	-	-	-	-
Long term loans	6	-	43,585	43,585	-	102,978	102,978	146,563
Long term deposits	-	-	-	-	-	3,959	3,959	3,959
Trade debts	-	-	-	-	8,446,002	-	8,446,002	8,446,002
Short term loans	6	13,193	-	13,193	10	-	10	13,203
Trade deposits	-	-	-	-	421	-	421	421
Accrued interest	1-6	5,072	-	5,072	-	-	-	5,072
Other receivables	-	-	-	-	679,201	-	679,201	679,201
Cash and bank balances	1-6	2,033,485	-	2,033,485	412,347	-	412,347	2,445,832
		2,051,750	43,585	2,095,335	9,537,981	106,937	9,644,918	11,740,253
FINANCIAL LIABILITIES								
Long term financing	-	-	-	-	-	1,771,563	1,771,563	1,771,563
Long term deposits	5	-	2,813,117	2,813,117	-	-	-	2,813,117
Trade and other payables	-	-	-	-	7,922,688	-	7,922,688	7,922,688
Accrued mark-up	5	524,869	-	524,869	-	-	-	524,869
Short term deposits	-	-	-	-	966,381	-	966,381	966,381
Current maturity of long term financing	-	-	-	-	317,375	-	317,375	317,375
		524,869	2,813,117	3,337,986	9,206,444	1,771,563	10,978,007	14,315,993

	Effective yield/ mark-up rate	Interest / Markup bearing Maturity upto one year	Interest / Markup bearing Maturity after one year	Sub-total	Interest / Markup bearing Maturity upto one year	Interest / Markup bearing Maturity after one year	Sub-total	Total June 30, 2004
		(Rupees in thousand)						
June 30, 2004								
FINANCIAL ASSETS								
Long term investments	-	-	-	-	55,522	-	55,522	55,522
Long term loans	6	-	53,285	53,285	-	106,823	106,823	160,108
Long term deposits	-	-	-	-	-	5,934	5,934	5,934
Trade debts	-	-	-	-	8,856,538	-	8,856,538	8,856,538
Short term loans	6	15,353	-	15,353	10	-	10	15,363
Trade deposits	-	-	-	-	424	-	424	424
Accrued interest	1-4	6,034	-	6,034	-	-	-	6,034
Other receivables	-	-	-	-	660,141	-	660,141	660,141
Cash and bank balances	1-4	3,390,166	-	3,390,166	1,153,830	-	1,153,830	4,543,996
		3,411,553	53,285	3,464,838	10,726,465	112,757	10,839,222	14,304,060
FINANCIAL LIABILITIES								
Long term financing	-	-	-	-	-	15,705,938	15,705,938	15,705,938
Long term deposits	5	-	2,581,869	2,581,869	-	-	-	2,581,869
Trade and other payables	-	-	-	-	6,724,566	-	6,724,566	6,724,566
Accrued mark-up	5	467,631	-	467,631	-	-	-	467,631
Short term deposits	-	-	-	-	1,141,190	-	1,141,190	1,141,190
Current maturity of long term financing	-	-	-	-	317,375	-	317,375	317,375
		467,631	2,581,869	3,049,500	8,183,131	15,705,938	23,889,069	26,938,569

48.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counterpart fails completely to perform as contracted. Financial instruments that potentially subject the Corporation to concentration of credit risk are trade debts. The Corporation's electricity is sold to industrial and residential consumers and government organizations. Due to large number and diversity of its consumer base, concentration of credit risk with respect to trade debts is limited. Further, the Corporation manages its credit risk by obtaining security deposit from the consumers.

48.3 Foreign exchange risk management

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

48.4 Liquidity risk

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

48.5 Fair value of financial instruments

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

49. CAPACITY AND PRODUCTION

The total installed capacity is 1,756 (2004: 1,756) MW. The actual production during the year was 9,304.3 (2004: 9,728.3) million KWH. The actual production is lower as the power generating plant and machinery are normally operated at 60% load which is also subject to variations in day and night time peak demand. Further, no production is possible when any unit is under major over hauling and repairs.

	Note	2005	2004
		(Rupees in thousand)	

50. NUMBER OF EMPLOYEES

The number of employees at the balance sheet date was:

	2005	2004
Officers	**1,331**	1,362
Staff	**8,857**	9,106
	10,188	10,468

51. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on October 29, 2005 by the Board of Directors of the company.

52. CORRESPONDING FIGURES

Due to certain changes brought about in the Fourth Schedule to the Companies Ordinance, 1984 through SRO 589(I) / 2004 dated July 5, 2004, previous year's figures have been rearranged or reclassified as follows:

From	To	Rupees in '000'
Other receivables	Interest accrued	6,034
Creditors, accrued and other liabilities	Accrued mark-up	467,631

Further, following corresponding figures have been reclassified for the purposes of better presentation:

From	To	Rupees in '000'
Deferred liability	Trade and other payables	144,000
Advance/ Credit balance of consumers	Trade and other payables	849,536
Trade and other payables	Provisions	398,362
Other receivables	Taxation -net	191,610
Trade debts	Other receivables	772
Trade deposits and prepayments	Long term deposits	2,200
Adjustment on account of bills pending correction - Energy sales	Provisions for doubtful debts and for bills requiring correction - Consumers services and administrative expenses	(747,778)

53. GENERAL

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

Brigadier Tariq Saddozai
Managing Director

M. Khusrow Khawaja
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

Attendance of Directors at Board / Audit Committee Meetings During the year July 1, 2004 to June 30, 2005

Board Meetings

S. No.	Name of the Directors	No of Board Meeting Attended	Remarks
1	Mr. Riaz Ahmed Khan	3	
2	Brig.Tariq Saddozai	7	
3	Mr. M. Khusrow Khawaja	7	
4	Dr. Mirza Ikhtiar Baig.	4	
5	Mr. M. Nisar Shekhani	4	
6	Mr. Khalid Firoz.	4	
7	Mr. Siraj Kassam Teli	1	
8	Syed Ali Raza	5	
9	Mr. Zakir Mahmood	2	
10	Mr. Tariq Iqbal Khan	3	
11	Mr. Shafiqur Rehaman Paracha	5	
	Total Number of Board Meetings held during the year		7

Audit Committee Meetings

S. No.	Name of the Directors	No of Board Meeting Attended	Remarks
1	Brig.Tariq Saddozai	2	
2	Mr. M. Khusrow Khawaja	4	
3	Dr. Mirza Ikhtiar Baig	3	
4	Mr. M.Nisar Shekhani	1	
5	Mr. Khalid Firoz	2	
	Total Number of Board Meetings held during the year		4

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.
PATTERN OF SHARE HOLDING OF THE SHAREHOLDERS
AS ON JUNE 30, 2005

No. of Shareholders	Share Holding			Total No. of Shares
4,124	1	-	100	128,626
2,890	101	-	500	817,535
2,059	501	-	1,000	1,842,246
4,233	1,001	-	5,000	12,519,309
1,383	5,001	-	10,000	11,682,952
442	10,001	-	15,000	5,839,628
320	15,001	-	20,000	5,968,638
206	20,001	-	25,000	4,876,954
120	25,001	-	30,000	3,479,851
62	30,001	-	35,000	2,077,020
63	35,001	-	40,000	2,467,388
37	40,001	-	45,000	1,602,634
134	45,001	-	50,000	6,642,584
23	50,001	-	55,000	1,216,801
25	55,001	-	60,000	1,469,509
15	60,001	-	65,000	958,269
22	65,001	-	70,000	1,506,663
16	70,001	-	75,000	1,182,695
13	75,001	-	80,000	1,020,000
8	80,001	-	85,000	668,840
9	85,001	-	90,000	798,000
3	90,001	-	95,000	281,500
57	95,001	-	100,000	5,677,038
7	100,001	-	105,000	719,000
6	105,001	-	110,000	647,500
7	110,001	-	115,000	794,200
7	115,001	-	120,000	829,847
11	120,001	-	125,000	1,360,144
2	125,001	-	130,000	254,457
3	130,001	-	135,000	401,000
6	135,001	-	140,000	834,228
4	140,001	-	145,000	567,337
8	145,001	-	150,000	1,199,148
4	150,001	-	155,000	609,031
5	155,001	-	160,000	792,000
2	160,001	-	165,000	326,500
2	165,001	-	170,000	337,000
7	170,001	-	175,000	1,224,500
2	175,001	-	180,000	360,000
2	185,001	-	190,000	378,892
1	190,001	-	195,000	195,000
10	195,001	-	200,000	1,988,412
2	200,001	-	205,000	406,500
1	205,001	-	210,000	208,000

No. of Shareholders	Share Holding			Total No. of Shares
2	210,001	-	215,000	425,000
2	215,001	-	220,000	437,000
1	220,001	-	225,000	225,000
3	230,001	-	235,000	701,450
4	245,001	-	250,000	996,294
1	260,001	-	265,000	260,500
1	270,001	-	275,000	272,915
1	280,001	-	285,000	284,500
1	290,001	-	295,000	290,500
5	295,001	-	300,000	1,497,000
3	305,001	-	310,000	929,697
2	335,001	-	340,000	674,909
3	345,001	-	350,000	1,047,390
1	350,001	-	355,000	351,500
2	380,001	-	385,000	770,000
1	415,001	-	420,000	415,500
1	420,001	-	425,000	424,000
1	425,001	-	430,000	428,000
1	435,001	-	440,000	439,500
1	445,001	-	450,000	450,000
1	450,001	-	455,000	452,000
1	465,001	-	470,000	465,500
1	475,001	-	480,000	480,000
5	495,001	-	500,000	2,499,466
1	525,001	-	530,000	530,000
1	570,001	-	575,000	571,024
1	575,001	-	580,000	578,161
1	595,001	-	600,000	597,000
1	610,001	-	615,000	610,210
1	625,001	-	630,000	626,000
1	655,001	-	660,000	656,000
1	680,001	-	685,000	683,400
1	700,001	-	705,000	705,000
1	715,001	-	720,000	717,000
3	745,001	-	750,000	2,246,784
1	770,001	-	775,000	775,000
1	795,001	-	800,000	800,000
2	800,001	-	805,000	1,605,000
1	815,001	-	820,000	820,000
1	950,001	-	955,000	950,509
2	995,001	-	1,000,000	1,999,000
1	1,000,001	-	1,005,000	1,004,000
1	1,055,001	-	1,060,000	1,057,500
1	1,135,001	-	1,140,000	1,135,500
1	1,170,001	-	1,175,000	1,173,090
1	1,250,001	-	1,255,000	1,253,844
1	1,505,001	-	1,510,000	1,510,000
1	1,620,001	-	1,625,000	1,623,450
1	1,890,001	-	1,895,000	1,892,999

No. of Shareholders	Share Holding			Total No. of Shares
1	1,910,001	-	1,915,000	1,914,239
1	2,260,001	-	2,265,000	2,264,875
1	2,970,001	-	2,975,000	2,972,500
1	2,995,001	-	3,000,000	3,000,000
1	3,720,001	-	3,725,000	3,721,000
1	5,200,001	-	5,205,000	5,203,505
1	9,995,001	-	10,000,000	10,000,000
1	18,610,001	-	18,615,000	18,613,262
1	12,988,890,000	-	12,988,895,000	12,988,890,134
16,446				**13,167,074,983**

CATEGORIES OF SHAREHOLDERS OF KESC LTD.
AS ON JUNE 30, 2005

Categories of Shareholders		Number	Shares Held	Percentage
Government of Pakistan		1	12,988,890,134	98.65
(More than 10% shareholding)				
Investment Companies		24	1,183,568	0.01
Financial Institutions / Banks		45	25,900,411	0.20
(including shareholding of:				
- NIT / NBP Trustee Deptt.				
- ICP				
Insurance Companies		15	7,376,988	0.06
Joint Stock Companies		118	10,508,721	0.08
Modaraba Companies		4	46,000	0.00
Modaraba Management Companies		0	-	0.00
Leasisng Companies		1	15,000	0.00
Mutual Fund		1	10,000	0.00
Charitable & Educational Inst.		13	2,386,110	0.02
Others		4	175,930	0.00
Individuals		16220	130,582,121	0.99
(includes shareholding of:				
Director, M. Khusrow Khawaja	3047 shares			
Company Secretary,				
Oswald Pearl (spouse)	364 shares			
Total		**16446**	**13,167,074,983**	**100.00**

There are no shares held by the Directors, CEO, CFO, Company Secretary, Executive and their spouse & minor children other than as specified above. No shares were traded by Director M. Khusrow Khawaja and the Company Secretary Oswald Pearl during the year 2004-2005.

PROXY FORM

I/We..

of..

being a member of the Karachi Electric Supply Corporation Limited hereby appoint

....

of ....

or failing him / her ....

of ....

as my / our proxy to attend and vote for me / us and on my/ our behalf at the 95th Annual General Meeting of the Company to be held at Navy Walfare Centre, Liaquat Barracks, Karachi on Wednesday, 30th November 2005 at 10:00 a.m. or at any adjournment thereof.

As witnessed given under my / our hand(s) this _________ day of _________ 2005.

1. Witness: ____________________
   Signature ____________________
   Name ____________________
   Address ____________________
   ____

Affix Revenue Stamp of Rs. 5/-

2. Witness: ____________________
   Signature ____________________
   Name ____________________
   Address ____________________
   ____

____
Singature of Member

Shares held ____________________

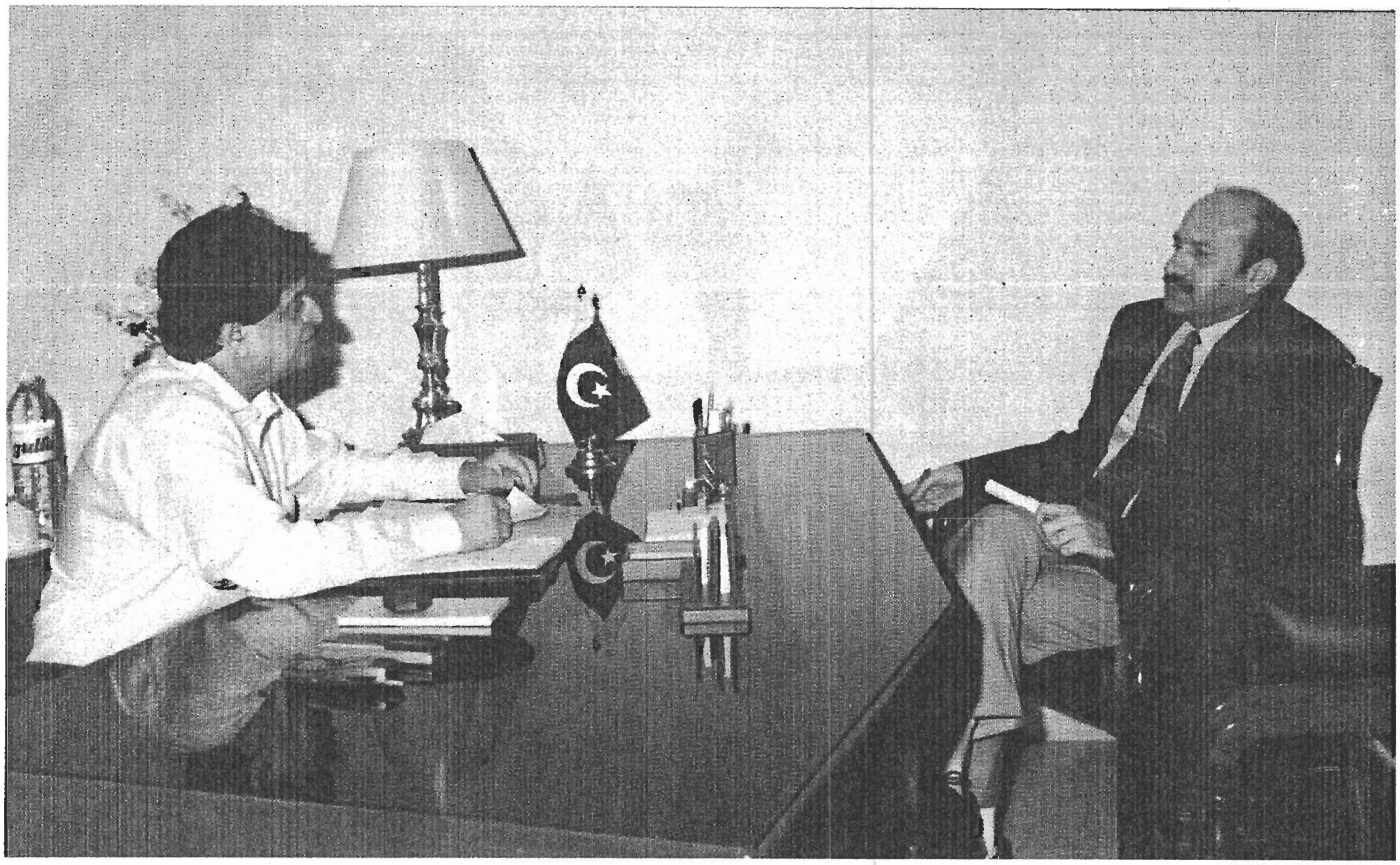
Shareholder's Folio No. ____________________

CDC A/C # ____________________

NIC | | | | | | | | | | | | | | |

N.B.:

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



Federal Minister for Water and Power Mr. Liaquat Jatoi (above) discussing KESC affairs with MD-KESC Brig. Tariq Saddozai.
(Below) Mr. Jatoi addressing the employees.