94th
Annual Report

Accounts For The Year Ended June 30, 2006

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED

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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 & 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. Abdulaziz Hamad Aljomaih

VICE CHAIRMAN
Mr. Naser Al-Marri

CHIEF EXECUTIVE OFFICER
Mr. Frank Scherschmidt

DIRECTORS
Mr. Shan A. Ashary
Mr. Peter Hertog
Mr. M. Khusrow Khowaja
Mr. Ashfaq Mahmood
Mr. Asif Bajwa
Mr. M. Anwar Khalid
Mr. S. Mohammad Akhtar Zaidi
Mr. Mubasher H. Sheikh
Mr. Riyadh S.A. Ahmad
Mr. Tasneem Noorani

CHIEF FINANCIAL OFFICER
Mr. Muhammad Asghar

CHIEF LEGAL COUNSEL & CHIEF CORPORATE OFFICER
Ms. Shahana Ahmed Ali

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

Mr. Naser Al-Marri	…	Chairman
Mr. Mubasher H. Sheikh	…	Member
Mr. Asif Bajwa	…	Member
Mr. Shan A. Ashary	…	Member
Mr. M. Khusrow Khowaja	…	Member

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

AUDITORS
M/s. 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 96TH Annual General Meeting of the Karachi Electric Supply Corporation Ltd. will be held at Navy Welfare Centre, Liaquat Barracks, Karachi on Saturday, 9th December 2006 at 10:30 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To confirm Minutes of the Extra-Ordinary General Meeting (EGM) held on 02 March 2006.
2. To receive and adopt the Directors' Report and the Audited Financial Statements (with Auditors' Report) for the year ended 30th June 2006.
3. To elect Directors in place of retiring directors.

   The Board of Directors has fixed the number of Directors to be elected u/s 178(1) of the Companies Ordinance 1984 at thirteen (13).

The retiring Directors are:

1.	Mr. Abdulaziz Hamad Aljomaih	…	Chairman
2.	Mr. Naser Al-Marri	…	Vice Chairman
3.	Mr. Frank Scherschmidt	…	Chief Executive Officer
4.	Mr. Shan A. Ashary		
5.	Mr. Peter Hertog		
6.	Mr. S.M. Akhtar Zaidi		
7.	Mr. Mubasher H. Sheikh		
8.	Mr. Riyadh S.A. Ahmad		
9.	Mr. Tasneem Noorani		
10.	Mr. Ashfaq Mahmood		
11.	Mr. Asif Bajwa		
12.	Mr. M. Anwar Khalid		
13.	Mr. M. Khusrow Khowaja		

4. To appoint Auditors in place of those retiring and fix their remuneration for the FY 2006-07.
5. Any other business with the permission of Chair.

By order of the Board

Shahana Ahmed Ali
Chief Legal Counsel & Chief Corporate Officer
THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

Karachi: November 01, 2006

N.B.

i. Transfer Books of the Corporation will remain closed from 01 December 2006 to 09 December 2006 (both days inclusive).

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

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

iv. Form of Proxy is enclosed.

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

v. Notice of intention for election for the office of director must be deposited at the registered office of the Company at least 14 days before the date of the meeting.

vi. Members are requested to notify any change in their addresses.

Directors Report to the Members

The Directors of The Karachi Electric Supply Corporation Limited are pleased to present the 94th Annual Report and Audited Accounts of the Company and the Auditor's Report thereon for the financial year ended 30 June 2006.

OVERVIEW

In November 2005 on the transfer of 71.5% shares and management control of the Company to KES Power Limited, a company incorporated in the Cayman Islands, the Board of Directors of the Company was reconstituted accordingly. It is pertinent to underscore that during the decade preceding privatization the Company faced grave financial, technical, operational and other difficulties. While the demand for electrical power was increasing at a rate of up to approximately 7-10% annually no material enhancement of generation and network was carried out. Upon privatization the difficulties besetting the Company were substantially attributable to the absence of a phased and structured program for rehabilitation, improvement and augmentation of the facilities during the preceding decade. The demand and supply gap of electricity had continued to widen with increasing demand growing at approximately 7-8% per annum and deteriorating supply suffering from de-rating of capacity, was exacerbated by the absence of a computerized system for monitoring operations known as Supervisory Control and Data Acquisition (SCADA), which is critical for the management of modem power generation, transmission and distribution network; generation capacity being reduced to 70% of installed capacity; high technical energy losses in the transmission and distribution network and overloading of the network.

STRATEGY AND IMPLEMENTATION

The Company serves a total customer base of almost 2.0 million, of which 1.5 million are residential customers, 411,000 commercial and 22,000 industrial customers. Post privatization, in the face of escalating costs of gas and furnace oil and an increasing gap between demand and supply, the Board of Directors adopted a comprehensive strategy, emphasizing an essential and positive change in both qualitative and quantitative areas of operations and management, to turn the Company into an efficient and profitable entity, based on three initiatives:

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

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

Responsibility of managing the Company has been distributed between operations management and corporate management. Siemens Pakistan is engaged under an Operation & Management Agreement, with singular focus to develop the processes and skills necessary to optimally utilize the Company's resources to achieve objectives such as technical enhancement, billing automation and staff development.

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

BUSINESS REVIEW

GENERATION EXPANSION AND REHABILITATION

An amount of PKR 27 billion has been allocated for setting up a new combined cycle power generation plant in the Korangi Industrial Area on a fast track basis to increase power generation capacity to redress the electricity supply shortage in Karachi.

As part of the rehabilitation programme a sum of PKR 300 million was spent until June 2006 which has increased total power generation by approximately 30 MW and generation capacity is expected to increase by 213 MW by 2007.

TRANSMISSION & DISTRIBUTION REHABILITATION

By June 2006 approximately PKR 1 billion on transmission and approximately PKR 1.2 billion on distribution were spent which has improved network reliability and reduced technical losses by 2 percent and increased transmission capacity by 300 MVA and distribution capacity by 115 MW.

CAPITAL EXPENDITURE

A total capital expenditure of PKR 44,803 million is planned to be incurred, on setting up of a new combined cycle power generation plant, and rehabilitation and enhancement of the existing network system.

ACTIVITIES IN REVIEW

Operational activities in the year under review included ordering of SCADA system, installation of new grid stations, repairs to or replacement of transformers, feeders, LT and HT Capacitors, and laying of approximately 78 Kilometers of additional cable, which are in progress and scheduled to be completed by 2007. Additionally, the restoration target of 143 MW pursuant to the Financial Improvement Plan funded by the GoP was achieved during the year under review.

Corporate activities included the creation of divisions and business units within the organization for converting vertical management to consultative parallel management.

Implementation of ERP Solutions and HR policies and procedures has commenced and is in progress. A 20% increase in initial salaries was given to contract employees, a special relief allowance equivalent to 15% of basic salary was given to permanent employees, and all employees were given 50% of basic salary as a goodwill gesture upon privatization.

Simultaneously initiatives were taken for the improvement of service delivery and customer relations including increasing efficiency of monitoring of customer service centres and additional training and issuance of a standardized customer service process manual.

FINANCIAL RESULTS

As expected losses continued in the first year of privatization and it would be observed from the statements of accounts that after meeting all operational and administration costs, including depreciation and subsidy from the GoP and before tax the accounts show a (loss) of.

	(Rupees in thousand)
Loss before Taxation	(7,054,184)
Less Turnover Tax for the current year	(137,478)
	(7,191,662)
Brought forward losses	(15,494,339)
Making a total (loss) carried over to next year	(22,686,001)

It should be noted that:

(i) All contingent liabilities have been disclosed in Note No. 30.1 and it is expected that after the resolution of disputes there will be no financial impact thereof.

(ii) The main factors responsible for transmission and distribution losses are the outdated and dilapidated transmission and distribution network system and theft of electricity. The network system is being improved with the assistance of the Financial Improvement Plan funded by the GoR Upon completion of improvements of the system losses are expected to be reduced.

FUTURE PROSPECTS

The measures taken to date have brought about an increase of 50 MW in generation capacity, which against past performance, is a record in itself. The structured and systematic approach adopted by the Company to address each issue with the objective of improving output and service and the relationship with customers shall be continued and reinforced in the future. Concentration shall also continue on improving the core activity of the Company and bridging the prevailing gap between electricity demand and supply.

COMPLIANCE OF THE CODE OF CORPORATE GOVERNANCE

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

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

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

c) Appropriate accounting policies as stated in the notes annexed to the accounts have been consistently applied in the preparation of financial statements, except for a change in accounting policy as mentioned in Note No. 3.5.

d) International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.

e) The internal controls system is sound and effective. Record keeping procedures in respect of stores and spares are being strengthened and the Company is planning suitable action to streamline and strengthen internal controls in this area.

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

g) There has been no material departure from the best practices of corporate governance as specified in the listing regulations.

h) Key operating and financial data of the Company for the last ten years is given on page 12.

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

j) Details of the Company's on going projects and future prospects have been sufficiently covered hereinabove.

k) As on 30 June 2006 the value of the investments of the Company's Employees Provident Fund was PKR 1766.57 million. Gratuity scheme is unfunded and a pension scheme does not exist.

l) Statements of the Board and Audit Committee meetings held during the year are given on page 61.

m) Pattern of shareholding is given at Page 62 to 64.

AUDITORS

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

ACKNOWLEDGEMENTS

The Board wishes to express its appreciation for the services rendered by the former Managing Director, Brigadier Tariq Sadozai.

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

For and on behalf of the Board

Frank Scherschmidt
Chief Executive Officer

Abdulaziz Hamad Aljomaih
Chairman

Karachi: November 01, 2006

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 Corporation will hold election for the Board of Directors during the current Annual General Meeting.

3. The company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present there is a private independent non-executive director on the Board of Directors representing the minority shareholders.

4. 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.

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

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

7. The Company has prepared a "Statement of Ethics & Business Practices, duly approved by the Board of Directors and circulated among the employees / directors of the Company.

8. 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.

9. 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.

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

11. 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 -08- times during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated in majority of the cases at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

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

13. 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.

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

15. 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.

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

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

18. The meetings of the Audit Committee were held prior to approval of interim and final results of the Company as required by the Code. Thirty (30) days extension in time for holding of AGM and circulation of annual financial statements for the year ended 30 June 2005 was allowed by SECP. Consequently the Audit Committee did not meet in the first quarter and met twice in the second quarter viz. October-December 2005 to consider annual and quarterly accounts for the period ended 30 June 2005 and 30 September 2005 respectively. The terms of reference of the Committee have been framed and the Committee was duly informed for compliance.

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

20. 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.

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

22. 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 andf spares are being strengthened.

ON BEHALF OF THE BOARD OF DIRECTORS

FRANK SCHERSCHMIDT
Chief Executive Officer

Karachi, November 01, 2006

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of The Karachi Electric Supply Corporation Limited to comply with the Listing Regulations No. 37 (Chapter XI) of the Karachi Stock Exchange, Clause 45 (Chapter XIII) of the Listing Regulations of the Lahore Stock Exchange and Section 36 (Chapter XI) of the Listing Regulation of the Islamabad Stock Exchange 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, 2006.

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

Karachi, November 01, 2006

Income and where it went

	July-June 2005-2006		July-June 2004-2005	
	(Rupees in thousand)			
	Amount	**%**	**Amount**	**%**
Our Income was:				
From sale of energy	41,422,533	94.44	38,415,633	95.64
From other sources	2,438,615	5.56	1,749,226	4.36
	43,861,148	100.00	40,164,859	100.00
We paid out and provided:				
Fuel:				
Gas	18,813,159	42.89	15,392,807	38.32
Oil	10,403,704	23.72	7,691,629	19.15
Power purchased	23,991,251	54.70	17,706,647	44.08
Total Fuel and power Purchased	53,208,114	121.31	40,791,083	101.56
Tariff adjustment on account of increase in fuel prices and cost of power purchased	(9,482,007)	(21.62)	(1,491,000)	(3.71)
	43,726,107	99.69	39,300,083	97.85
Expenses for other generation expenses	1,078,669	2.46	670,708	1.67
Transmission and Distribution expenses	3,909,804	8.91	2,588,118	6.44
Consumer services and Billing expenses	1,143,587	2.61	932,312	2.32
Admin. and General expenses	1,373,044	3.13	537,978	1.34
Prov. for doubtful debts	3,328,840	7.59	2,308,337	5.75
Other charges	293,285	0.67	509,806	1.27
Depreciation	3,412,759	7.78	3,345,006	8.33
Financial charges	225,381	0.51	-	-
Subsidies From GoP	(7,576,144)	(17.28)	(10,896,000)	(27.13)
Surplus / (Deficit)	(7,054,184)	(16.08)	868,511	2.16
	43,861,148	100.00	40,164,859	100.00

Historical Highlights

Description		1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Units Generated	MILL KWH	7,458	7,318	6,613	7,745	7,989	8,709	8,908	9,274	**9,304**	**9,130**
Units purchased	MIL KWH	1,869	3,030	4,007	3,701	3,688	3,406	3,809	3,664	4,289	5,370
Units sold	MIL KWH	5,640	6,385	6,131	6,430	6,924	6,717	7,041	7,912	8,505	9,060
Revenue from sale of energy	RS.MILL	15,797	20,726	23,285	23,035	28,118	29,841	32,279	36,543	38,415	41,422
Other Revenue	RS.MILL	609	540	630	1,155	886	1,206	1,299	1,313	1,401	2,439
Total revenue	RS.MILL	16,406	21,266	23,915	24,190	29,004	31,047	33,578	37,856	39,816	43,861
Expenses:											
Cost of Fuel	RS.MILL	10,981	10,777	9,312	12,202	17,717	19,272	21,051	20,787	23,085	29,217
Cost of Power Purchased	RS.MILL	3,444	7,740	11,401	13,916	13,780	13,191	15,582	14,925	17,707	23,991
Total fuel + Purchased	RS.MILL	14,425	18,517	20,713	26,118	31,497	32,463	36,633	35,712	40,792	53,208
Less: tariff adjustment due to increase in fuel prices and cost of power purchased		-	-	-	-	-	-	-	-	(1,491)	(9,482)
Net fuel and Power Purchased	RS.MILL	14,425	18,517	20,713	26,118	31,497	32,463	36,633	35,712	39,301	43,726
O&M Cost	RS.MILL	3,375	2,402	3,220	3,227	3,220	3,629	3,536	3,835	4,710	7,351
Depreciation	RS.MILL	1,834	2,267	2,860	2,969	2,919	2,829	3,157	3,160	3,345	3,413
Financial charges	RS.MILL	2,112	3,162	3,042	5,481	5,725	7,750	1,985	910	138	379
Provision for doubtful debts	RS.MILL	458	1,698	1,213	1,094	1,729	1,071	2,008	2,249	2,308	3,329
Other charges	RS.MILL	982	77	231	88	115	867	153	289	390	293
Total expenses	RS.MILL	23,186	28,123	31,279	38,977	45,205	48,609	47,472	46,155	50,192	58,491
Net loss	RS.MILL	(6,780)	(6,857)	(7,364)	(14,787)	(16,201)	(17,562)	(13,894)	(8,299)	(10,376)	(14,630)
Recoveries/recieveable from Govt. of Pak. under the terms of implimentation agreement	RS.MILL										7,576
other Subsidies from GoP	RS.MILL	-	-	-	-	-	-	5,751	9,572	10,896	-
Loss before taxation	RS.MILL	(6,780)	(6,857)	(7,364)	(14,787)	(16,201)	(17,562)	(8,143)	1,273	520	(7,054)
Taxation: Current	RS.MILL	(1,173)	(1,177)	(119)	(130)	(152)	(154)	(168)	(187)	(199)	(212)
Prior		-	-	-	-	-	-	-	-	-	75
Net Tax	RS.MILL	(1,173)	(1,177)	(119)	(130)	(152)	(154)	(168)	(187)	(199)	(137)
(Loss)/ Profit after Taxation	RS.MILL	**(7,953)**	**(8,034)**	**(7,483)**	**(14,917)**	**(16,353)**	**(17,716)**	**(8,311)**	**1,086**	**321**	**(7,191)**

Operating Results of Generating Stations

		July-June 2005-2006	July-June 2004-2005
Installed Capacity	MW	**1,756**	1,756
Actual Capability	MW	**1,324**	1,387
Firm Capacity	MW	**1,324**	1,387
Maximum Demand	MW	**2,223**	2,197
Units Generated	MWH	**9,129,737**	9,304,292
Auxiliary Consumption	MWH	**684,884**	661,802
	%	**7.5**	7.1
Units Sent out	MWH	**8,444,853**	8,642,490
Total Power Purchased	MWH	**5,370,421**	4,289,052
Total Units available	MWH	**13,815,274**	12,931,542
Interdepartmental consumption and free electricity to Officers & Staff	MWH	*****	88,801
Units Billed	MWH	**9,060,168**	8,416,367
T & D Losses		**4,755,106**	4,426,374
Units Billed	**%**	**34.4**	34.2

* already included in sale of 2005-06.

Transmission and Distribution System

Description			As on June 30, 2005	Additions during 2005-06	As on June 30, 2006
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	334.683	—	**334.683**
	—	Circuit Kilometers	530.554	—	**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 Station		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	3,264.0	62	**3,326.0**
66/11 KV		MVA	215.5	7	**222.5**
		Total	3,479.5	69	**3,548.5**
Distribution System					
11 KV Overhead	—	Kilometers	2,169.717	53.41	**2,223.127**
11 KV Underground	—	Kilometers	4,064.078	0	**4,064.078**
400 V Overhead	—	Kilometers	9,583.701	42.128	**9,625.829**
400 V Underground	—	Kilometers	921.321	149.1	**1,070.421**
11 KV Distribution S/S/PMTs		Nos.	9,293	969	**10,262**
11 KV Distribution capacity		MVA	3,881.740	227.400	**4,109.140**
Street Lights			233,627	9,702	**243.329**

Load Frequency

Description		2004-2005	**2005-2006**
System evening peak demand	MW	2,197	**2,223**
Day peak demand	MW	2,104	**2,177**
Base demand (Night)	MW	860	**945**
System Load Factor	%	70.25%	**73.57%**

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED as at June 30, 2006 and the related profit and loss account, the cash flow statement and the statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

    (i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change in accounting policy as stated in note 3.5 with which we concur;

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

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

(c) in our opinion, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, the cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2006 and of the loss, its cash flows and changes in equity for the year then ended; and

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

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

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

(ii) as referred to in note 48.1 to the financial statements, transmission and distribution losses are approximately 34.43% (2005: 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.

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Karachi, November 17, 2006

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
BALANCE SHEET AS AT JUNE 30, 2006

	Note	**June 30, 2006**	June 30, 2005 (Restated)
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	4	**42,072,040**	41,864,330
Long-term loans	5	**120,484**	146,563
Long-term deposits	6	**8,294**	3,959
Due from the Government	7	**1,428,188**	-
		43,629,006	42,014,852
CURRENT ASSETS			
Current portion of amount due from the Government	7	**317,375**	-
Stores, spares and loose tools	8	**3,435,089**	3,811,515
Trade debts	9	**7,682,994**	8,446,002
Loans and advances	10	**359,573**	193,145
Trade deposits and prepayments	11	**24,095**	23,522
Accrued interest on bank deposits		**8,263**	5,072
Other receivables	12	**7,152,546**	4,082,762
Taxation- net	13	**197,270**	165,075
Short-term investment	14	**890,476**	-
Cash and bank balances	15	**1,834,657**	2,445,832
		21,902,338	19,172,925
TOTAL ASSETS		**65,531,344**	61,187,777
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	16	**46,084,762**	46,084,762
Reserves			
Capital reserves	17	**509,172**	509,667
Revenue reserves	18	**5,372,356**	5,372,356
Accumulated losses		**(22,686,001)**	(15,494,339)
		29,280,289	36,472,446
ADVANCE AGAINST REDEEMABLE PREFERENCE SHARE CAPTIAL	19	**1,476,811**	-
NON-CURRENT LIABILITIES			
Long term financing	20	**1,454,188**	1,771,563
Long-term deposits	21	**3,121,353**	2,813,117
Deferred liabilities	22	**3,830,609**	3,412,775
Deferred revenue	23	**5,914,772**	5,003,059
Specific grant from the Government of Pakistan	24	**1,985,878**	378,315
		16,306,800	13,378,829
CURRENT LIABILITIES			
Trade and other payables	25	**11,957,368**	9,002,064
Accrued mark-up	26	**610,437**	524,869
Short-term borrowings	27	**3,600,000**	-
Short-term deposits	28	**1,423,096**	966,381
Provisions	29	**559,168**	525,813
Current maturity of long-term financing		**317,375**	317,375
		18,467,444	11,336,502
CONTINGENCIES AND COMMITMENTS	30	**-**	-
TOTAL EQUITY AND LIABILITIES		**65,531,344**	61,187,777

The annexed notes 1 to 55 form an integral part of these financial statements.

Frank Scherschmidt
Chief Executive Officer

S. Mohammad Akhtar Zaidi
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2006

	Note	**June 30, 2006**	June 30, 2005 (Restated)
		(Rupees in thousand)	
REVENUE			
Sale of energy - net	31	**41,422,533**	38,415,633
Rental of meters and equipment		**195,190**	187,549
		41,617,723	38,603,182
EXPENDITURE			
Purchase of electricity	32	**(23,991,251)**	(17,706,647)
Consumption of fuel and oil	33	**(29,216,863)**	(23,084,436)
		(53,208,114)	(40,791,083)
Tariff adjustment on account of increase in fuel prices and cost of power purchase	34	**9,482,007**	1,491,000
		(43,726,107)	(39,300,083)
Expenses incurred in generation, transmission & distribution	35	**(8,308,612)**	(6,168,428)
		(10,416,996)	(6,865,329)
Consumers services and administrative expenses	36	**(5,938,091)**	(4,214,031)
Other operating income	37	**2,243,425**	1,561,677
Other operating expenses	38	**(293,285)**	(509,806)
		(3,987,951)	(3,162,160)
OPERATING LOSS		**(14,404,947)**	(10,027,489)
Finance cost	39	**(225,381)**	-
LOSS BEFORE GOVERNMENT GRANT		**(14,630,328)**	(10,027,489)
Subsidies from the Government of Pakistan (GoP)		-	10,896,000
Recoveries / recoverable from the GoP under the terms of Implementation Agreement	40	**7,576,144**	-
(LOSS) / PROFIT BEFORE TAXATION		**(7,054,184)**	868,511
Taxation	41	**(137,478)**	(199,121)
(LOSS) / PROFIT AFTER TAXATION		**(7,191,662)**	669,390
(LOSS) / BASIC AND DILUTED EARNINGS PER SHARE (Rupee)	42	**(0.54)**	0.07

The annexed notes 1 to 55 form an integral part of these financial statements.

Frank Scherschmidt
Chief Executive Officer

S. Mohammad Akhtar Zaidi
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilized / generated from operations	43	**(4,111,283)**	4,810,509
Payment to worker's profit participation fund		**(34,853)**	(67,098)
Gratuity paid		**(191,000)**	(143,000)
Other post retirement benefits paid		**(93,166)**	(80,000)
Income tax paid		**(169,672)**	(172,586)
Interest on consumer deposits paid		**(294,215)**	(80,825)
Interest received on bank deposits		**35,070**	36,880
Net cash (used in) / generated from operating activities		**(4,859,119)**	4,303,880
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(3,722,577)**	(2,823,089)
Proceeds from disposal of fixed assets		**233,400**	35,934
Proceeds from disposal of stores and spares		**-**	68,519
Proceeds from disposal of investments		**-**	56,000
Deferred revenue		**1,618,616**	747,384
Long-term loans		**21,746**	13,545
Long-term deposits		**(5,355)**	1,976
Net cash used in investing activities		**(1,854,170)**	(1,899,731)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term financing		**-**	(4,731,375)
Specific grant from the Government of Pakistan		**1,607,543**	-
Receipt against redeemable preference share capital		**1,476,811**	-
Security deposits from consumers		**308,236**	229,201
Deferred liabilities		**-**	(139)
Net cash generated from / (used in) financing activities		**3,392,590**	(4,502,313)
NET INCREASE IN CASH AND CASH EQUIVALENT		**(3,320,699)**	(2,098,164)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,445,832**	4,543,996
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	44	**(874,867)**	2,445,832

The annexed notes 1 to 55 form an integral part of these financial statements.

Frank Scherschmidt	**S. Mohammad Akhtar Zaidi**
Chief Executive Officer	Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and paid-up capital	Capital Reserves	Revenue Reserves	Accumulated Losses	Total
	(Rupees in thousand)				
Balance at June 30, 2004, as previously reported	30,801,024	509,938	5,372,356	(16,506,250)	20,177,068
Effect of change in accounting policy (note 3.5)	-	-	-	922,558	922,558
Effect of errors in prior period (note 45)	-	-	-	(580,037)	(580,037)
Balance at June 30, 2004, as restated	30,801,024	509,938	5,372,356	(16,163,729)	20,519,589
Increase in share capital	15,283,738	-	-	-	15,283,738
Fire and machinery breakdown insurance	-	(271)	-	-	(271)
Net profit for the year as previously reported	-	-	-	463,981	463,981
Effect of change in accounting policy (note 3.5)	-	-	-	(156,558)	(156,558)
Effect of errors in prior period (note 45)	-	-	-	361,967	361,967
Net profit for the year (restated)	-	-	-	669,390	669,390
Balance at June 30, 2005, as restated	46,084,762	509,667	5,372,356	(15,494,339)	36,472,446
Fire and machinery breakdown insurance	-	(495)	-	-	(495)
Loss for the year	-	-	-	(7,191,662)	(7,191,662)
Balance at June 30, 2006	**46,084,762**	**509,172**	**5,372,356**	**(22,686,001)**	**29,280,289**

The annexed notes 1 to 55 form an integral part of these financial statements.

Frank Scherschmidt
Chief Executive Officer

S. Mohammad Akhtar Zaidi
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

1. THE CORPORATION AND ITS OPERATIONS

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

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

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

2. OPERATIONS AND SIGNIFICANT EVENTS

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

The new ownership structure of the Corporation after privatization is as follows:

	Number of Shares	% age of shareholding
	-----Rs. in million-----	
New Investors	9,611,964,737	73%
GoP	3,403,763,472	26%
Others	151,346,774	1%
	13,167,074,983	**100%**

New investors include KES Power Limited, Hassan Associates (Private) Limited and Premier Mercantile Services (Private) Limited who hold 71.5%, 1.0% and 0.5% shares in the Corporation, respectively.

Al Jomaih Power Limited, Saudi Arabia, is the ultimate parent company of the Corporation as it holds 60% equity in KES Power Limited.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of Compliance

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

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

Following amendments to existing standards have been published that are mandatory for the company's accounting periods beginning on or after January 01, 2006 or later periods:

i.	IAS 1	Presentation of Financial Statements	effective from January 01, 2007
ii.	IAS 19	(Amendments) - Employees Benefits	effective from January 01, 2006
iii.	IAS 39	Financial Instruments: Recognition and Measurement - Fair Value Option	effective from January 01, 2006

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

In addition to the above, a new series of standards called "International Financial Reporting Standards" (IFRS) have been introduced and seven IFRSs have been issued by IASB. Out of these, the following four IFRS have been adopted by the Institute of Chartered Accountants of Pakistan (ICAP), however, since these have not been adopted by the SECP, the same do not form part of the approved local financial reporting framework:

IFRS - 2	(Share based Payments),
IFRS - 3	(Business Combinations);
IFRS - 5	(Non-current Assets held for Sale and Discontinued Operations); and
IFRS - 6	(Exploration for and Evaluation of Mineral Resources).

The company expects that the adoption of these pronouncements will have no significant impact on the company's financial statements in the period of initial application.

3.3 Basis of measurement

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

3.4 Critical accounting estimates and judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with the above requirements, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's policies. The matters involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in respective notes to the financial statements.

3.5 Change in accounting policy

During the current year, the Corporation changed its accounting policy in respect of the recognition of General grant received from the Government of Pakistan, whereby, with effect from current year, the same is recognised on an accrual basis i.e. when the Corporation qualifies to receive it. Previously, such grant was recognised in the year in which it was received.

The above change in accounting policy has been applied retrospectively, as specified in IAS - 8, "Accounting Policies, Changes in Accounting Estimates and Errors", which requires that the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The effects of the above change in accounting policy are summarised as follows:

* reduction in loss before taxation by Rs.630.449 (2005: reduction in profit before taxation by Rs.156.558) million.
* recognition of amount due from the Government of Pakistan amounting to Rs.1,396.449 (2005:766.000) million.
* reduction in accumulated losses by Rs.1,396.449 (2005: Rs.766.000) million.
* reduction in loss per share by Re.0.05 (2005: reduction in earnings per share by Re.0.02).

3.6 Property, plant and equipment

(i) Operating fixed assets

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

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

Depreciation is charged to income 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.

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

An item of fixed asset is 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.

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.

3.7 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.

3.8 Investments

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

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

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

Gain or loss arising on disposal during the year is taken to profit and loss account.

3.9 Loans, advances and deposits

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

3.10 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 weighted average basis.

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

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

Provision is made for any slow moving and obsolete items.

3.11 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 based on a review of all outstanding amounts at the year end on a time based criteria, excluding dues of Federal / Provincial Government and Local Bodies.

Bad debts are written off when identified.

3.12 Other receivables

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

3.13 Cash and cash equivalents

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

3.14 Deferred revenue

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

3.15 Employee benefits

3.15.1 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.

3.15.2 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.

3.15.3 Post retirement medical benefits

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

3.15.4 Electricity rebate

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

3.15.5 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".

3.16 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.

3.17 Taxation

3.17.1 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.

3.17.2 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. (note 41.2)

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.

3.18 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.

3.19 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 National Transmission and Despatch Company, Karachi Nuclear Power Plant and Pakistan Steel Mills Corporation (Private) Limited where tariff is applied as per agreements with these entities.

3.20.2 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 receipt basis.

3.20.3 Rebate on electricity duty

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

3.20.4 Grant from Government

General Grant

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

Specific Grant for FIP

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

3.21 Impairment

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

3.22 Foreign currencies

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

3.23 Financial instruments

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

3.24 Offsetting of financial assets and financial liabilities

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

3.25 Appropriations to reserves

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

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	

4. PROPERTY, PLANT AND EQUIPMENT

	Note	June 30, 2006	June 30, 2005
Operating fixed assets	4.1	**40,774,761**	41,633,421
Capital work-in-progress	4.2	**1,297,279**	230,909
		42,072,040	41,864,330

4.1 OPERATING FIXED ASSETS

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at July 01, 2005	Additions	(Disposals)	As at June 30, 2006	Rate	As at July 01, 2005	Charge for the year	(On disposals)	As at June 30, 2006	As at June 30, 2006
	(Rupees in thousand)				%	(Rupees in thousand)				
June 30, 2006										
Leasehold land	290,942	296,005	-	586,947	-	-	-	-	-	586,947
Buildings on leasehold land	2,713,173	-	-	2,713,173	2	866,449	63,808	-	930,257	1,782,916
Plant and machinery	29,071,092	135,988	(364,055)	28,843,025	5 to 20	18,142,975	1,078,538	(316,419)	18,905,094	9,937,931
Transmission and distribution network	47,244,960	1,877,239	-	49,122,199	3 to 10	19,177,528	2,032,106	-	21,209,634	27,912,565
Renewals of mains and services	1,064,872	200,368	-	1,265,240	20	959,639	130,940	-	1,090,579	174,661
Furniture, air-conditioners and office equipment	426,446	7,774	(5)	434,215	10 to 15	356,913	6,896	(5)	363,804	70,411
Tools and general equipment	365,741	19,778	-	385,519	10 to 15	304,415	13,353	-	317,768	67,751
Computers and related equipment	127,301	40,575	-	167,876	14.30-33.33	82,657	18,268	-	100,925	66,951
Simulator equipment	67,713	-	-	67,713	14.30	67,713	-	-	67,713	-
Vehicles	594,778	30,480	(44,840)	580,418	15 to 25	375,308	68,850	(38,368)	405,790	174,628
	81,967,018	**2,608,207**	**(408,900)**	**84,166,325**		**40,333,597**	**3,412,759**	**(354,792)**	**43,391,564**	**40,774,761**

	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)				
June 30, 2005										
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
	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**

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
4.1.1 Depreciation charge for the year has been allocated as follows:			
Expenses incurred in generation, transmission & distribution	35	**3,320,139**	3,276,552
Consumer services and administrative expenses	36	**92,620**	68,454
		3,412,759	3,345,006

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

		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		114,921	93,035	21,886	20,000	(1,886)	Auction	Pride Ship Breaker, Karachi
Boilers		11,714	10,553	1,161	22,600	21,439	Auction	Choice & Co., Karachi
Misc plant and C.W.System		50,462	45,416	5,046	6,438	1,392	Auction	Al-Noor Trading Corporation, Lahore
Turbo Generator and Auxilary plant		92,637	82,213	10,424	12,500	2,076	Auction	Pride Ship Breaker, Karachi
C.W. System. Auxilary plant		94,322	85,202	9,120	115,000	105,880	Auction	Mohammed Umer Memon/ Abdul Ghani, Karachi
Furniture								
Others (written down values not exceeding Rs.50,000 each)		5	5	-	-	-	Scrapped	
Vehicles								
Suzuki Mehran	AHS-268	274	49	225	300	75	Theft	National Insurance Company, Karachi
Suzuki Mehran	AHV-619	274	49	225	300	75	---do---	-----------do-----------
Suzuki Mehran	AHR-254	274	49	225	300	75	---do---	-----------do-----------
Toyota Corolla	GA-6424	843	152	691	950	259	---do---	-----------do-----------
Suzuki Cultus	GA-9196	483	174	309	480	171	---do---	-----------do-----------
Suzuki Bolan	CN-7523	319	57	262	350	88	---do---	-----------do-----------
Suzuki Ravi	CN-8396	280	51	229	300	71	---do---	-----------do-----------
Suzuki Ravi	CN-7871	271	49	222	300	78	---do---	-----------do-----------
Others (written down values not exceeding Rs.50,000 each)		41,821	37,738	4,083	53,582	49,499	Theft / Auction	Various
		408,900	**354,792**	**54,108**	**233,400**	**179,292**		

4.2 CAPITAL WORK-IN-PROGRESS

	Note	Plant and machinery	Transmission system	Distribution system	Others	Total
		(Rupees in thousand)				
Opening balance		15,033	57,353	110,523	48,000	230,909
Additions during the year:						
System improvement	4.2.1	53,947	1,068,391	940,417	-	2,062,755
Others		1,200	-	1,603,033	-	1,604,233
		55,147	1,068,391	2,543,450	-	3,666,988
		70,180	1,125,744	2,653,973	48,000	3,897,897
Transferred to operating fixed assets		18,583	362,005	2,172,030	-	2,552,618
Expenditure in respect of proposed Head Office building written off and charged to other operating expenses	4.2.2	-	-	-	48,000	48,000
		18,583	362,005	2,172,030	48,000	2,600,618
		51,597	763,739	481,943	-	1,297,279
	2005	15,033	57,353	110,523	48,000	230,909

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, and a further sum of Rs.2,959 million was arranged through a bank, which were released to the Corporation up to the end of the current year for necessary system improvement against which the Corporation incurred an aggregate sum of Rs.4,549 (2005: Rs.2,486) million thereon up to the end of the current period.

4.2.2 This represents expenses incurred by the Corporation in prior years in respect of the proposed Head Office building at Elander Road which has been abandoned. Accordingly, the said amount has been written off during the current year (note 38).

5. LONG-TERM LOANS

	Note	Secured		Unsecured		
		House building loans (Note 5.1)	**Motor Cycles loans (Note 5.1)**	**Festival loans (Note 5.2)**	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)				
Considered good						
Employees		40,066	18	97,257	137,341	159,766
Recoverable within one year shown under current assets	10	(13,190)	(6)	(3,661)	(16,857)	(13,203)
		26,876	12	93,596	120,484	146,563
Considered doubtful						
Employees	5.3	4,333	-	-	4,333	-
		31,209	12	93,596	124,817	146,563
Provision against loans considered doubtful	38	(4,333)	-	-	(4,333)	-
		26,876	12	93,596	120,484	146,563

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

5.2 These have been granted to the employees of the Corporation. The Board of Directors in their meeting held on February 01, 2003 approved the deferment of recovery of the aforesaid loans in installments and decided that the said loans would be recovered against the final settlement of the employees at the time of their retirement.

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

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

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
6. LONG-TERM DEPOSITS			
Considered good			
Rental premises		**8,086**	2,122
Utilities		**208**	1,837
		8,294	3,959
Considered doubtful			
Rental premises		**1,020**	-
		9,314	3,959
Provision against deposits considered doubtful	38	**(1,020)**	-
		8,294	3,959
7. DUE FROM THE GOVERNMENT			
Amount due from the GoP	7.1	**1,745,563**	-
Recoverable within one year showm under current assets		**(317,375)**	-
		1,428,188	-

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

	Note	**June 30, 2006**	June 30, 2005
8. STORES, SPARES AND LOOSE TOOLS			
In hand			
Stores		**3,365,422**	3,135,882
Spares		**543,601**	654,555
Loose tools		**12,163**	47,422
		3,921,186	3,837,859
In transit			
Stores		**160,444**	57,280
		4,081,630	3,895,139
Provision for slow moving and obsolete stores, spares and loose tools	8.2	**(646,541)**	(83,624)
		3,435,089	3,811,515

8.1 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.

8.2 Included herein are the following provisions made (net of provision of Rs.37.520 million written off) during the current year for:

(i) a sum of Rs.271.943 million against left over material of the Sixth Power Sector Project of the Corporation; and

(ii) a sum of Rs.276.716 million on account of slow moving and obsolete items.

(iii) a sum of Rs. 51.778 million on account of discrepancies in the underlying records of stores, spares and loose tools, as identified by the Internal Audit Department in its report.

8.3 With effect from the current year, the Corporation has changed the basis for determining general provision in respect of slow moving and obsolete stores, spares and loose tools, whereby, the Corporation has made provision against the inventory related to its power stations on the same basis as other items of stores, spares and loose tools.

Previously, the basis for determining provision in respect of slow moving and obsolete stores, spares and loose tools was as follows:

Basis	**Power Station**	**Others**
- Items having an age of 15 years and more	25%	100%
- Items having an age of 11 to 15 years	-	100%
- Items having an age of 6 to 10 years	-	80%
- Items having an age of 3 to 5 years	-	60%

As a result of the above change, the Corporation has charged a further sum of Rs.222.685 million to the profit and loss account of the current year as provision against slow moving and obsolete stores, spares and loose tools.

8.4 Included in stores in hand are items aggregating to Rs. 436.073 million, which have been written down by a sum of Rs.5.318 million and carried at their net realizable values.

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
9. TRADE DEBTS			
Considered good			
Secured - against deposits from consumers		584,274	836,159
Unsecured		7,098,720	8,256,967
		7,682,994	9,093,126
Considered doubtful		12,530,667	10,011,189
		20,213,661	19,104,315
Provision for debts considered doubtful	9.1	(12,530,667)	(10,658,313)
		7,682,994	8,446,002

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
9.1 Provision for debts considered doubtful			
Opening balance		**10,658,313**	9,678,075
Provision made during the year	36	**3,328,840**	2,308,337
		13,987,153	11,986,412
Provision written off during the year	9.1.1	**(1,456,486)**	(1,328,099)
		12,530,667	10,658,313

9.1.1 Included herein is a sum of Rs.323.614 (2005: Rs.117.520) million relating to the relief package introduced by the Corporation in respect of amount due from the consumers in the private sector. Pursuant to the said package, relief was allowed to such consumers, which has been written-off during the current year against provision made thereagainst in prior years.

9.2 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.

10. LOANS AND ADVANCES

	Note	June 30, 2006	June 30, 2005
Loans - secured			
Considered good			
Current portion of long term loans due from employees	5	**16,857**	13,203
Advances - unsecured			
Considered good			
Employees		**28,461**	29,129
Contractors and Suppliers	10.1	**314,255**	150,813
		342,716	179,942
Considered doubtful			
Employees		**-**	7,597
Contractors and Suppliers		**130,340**	128,208
		130,340	135,805
Provision against advances considered doubtful			
Opening balance		**(135,805)**	-
Charge for the year	38	**(46,938)**	(135,805)
Amount written off against provision		**52,403**	-
		(130,340)	(135,805)
		342,716	179,942
		359,573	193,145

10.1 This includes a sum of Rs.40.897 million (2005: Rs.Nil) representing advance made to Siemens Pakistan Engineering Limited, a related party.

		Note	June 30, 2006	June 30, 2005
			(Rupees in thousand)	
11.	**TRADE DEPOSITS AND PREPAYMENTS**			
	Trade deposits	11.1	485	421
	Prepayments			
	Rent		**20,110**	13,703
	Insurance		**3,500**	9,398
			23,610	23,101
			24,095	23,522

11.1 This includes a sum of Rs.0.319 million (2005: Rs.0.319 million) representing margin held by commercial banks against which they have issued guarantees on behalf of the Corporation.

12. OTHER RECEIVABLE

	Note	June 30, 2006	June 30, 2005
Rebate due on electricity duty		63,472	49,575
Sales tax	12.1	4,812,416	2,634,268
Employees' Provident Fund		-	3,293
Due from the Government in respect of:			
- sales tax on selected classes of consumers		456,547	622,728
- tariff adjustment	12.2	1,396,449	766,000
- provision against Sabah Shipyard	12.3	409,168	-
		2,262,164	1,388,728
Accrued income for TV license fees collection charges		3,987	-
Insurance claim		5,727	4,628
Others		4,780	2,278
		7,152,546	4,082,770
Provision against other receivables		-	(8)
		7,152,546	4,082,762

12.1 Included herein is a sum of Rs.4,240.735 (2005: 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, had amounted to Rs.1,668.476 million. The Corporation requested the Central Board of Revenue (CBR) for the refund of the net difference between the input and output sales tax, however, the CBR maintained that the Corporation should take input tax adjustment only to the extent of the taxable supplies, as per the apportionment of input Sales tax Rules, 1996, taking out the theft component of electricity in the distribution line of the Corporation, which had resulted in the excess input tax. Under the advice of the CBR, the Corporation, vide its letter Accts/GST/Refund/03/6089, dated May 03, 2003, referred the case to the Law and Justice & Human Rights, Ministry of Law, Justice and Human Rights, Government of Pakistan, through the CBR. During the year ended June 30, 2004, the Law and Justice Division termed the matter as factual controversy and did not issue a ruling.

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

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

However, CBR, Sales Tax Wing, Government of Pakistan (GoP), vide its letter No. C.No.3/13 STM/2004, dated January 29, 2005, admitted the claim of the Corporation and approved the refund to the Corporation. Accordingly, LTU, vide its letter No.C.No.2 (32) ST&CE/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 original refund of the Corporation of Rs.1,597.950 million, as stated above. The final decision regarding the deducted amount of Rs.303.637 million would be taken in the light of further instructions of the CBR. The adjusted refund of Rs.1,294.318 million (representing the difference between claimed refund of Rs.1,597.950 million and pending refund of Rs.303.637 million) was to be refunded to the Corporation in four quarterly installments of Rs.323.579 million each. In this regard, the amount of the first installment was received by the Corporation in February 2005.

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

During the current year, the CBR (LTU-Karachi) conducted the audit of the sales tax refund claimed by the Corporation up to the period ended June 30, 2006 and allowed the refund to the Corporation, subsequent to the year end vide its letter No.1(33)STR/2000, dated September 15, 2006, in four monthly installments in due course. Accordingly, a sum of Rs.1.00 billion has been disbursed to the Corporation as provisional payment by the LTU vide its letter No.274(1)st&ce/ref-IV/2002(Pt)/1610943 dated October 10, 2006, subject to the condition that all issues / questions relating to deductions / in-admissibilities will be finalized before payment of next installment.

The management is confident that it would get the entire refund within the shortest possible time (note 30.1.4).

12.2 This represents tariff adjustment on account of increase in fuel prices and cost of power purchase, recorded as due by the Corporation from the GoP due to the change in accounting policy, as stated in note 3.5.

12.3 This represents amount due from the GoP regarding provision made in respect of the dispute with Sabah Shipyard, as more fully explained in note 29.2.

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
13. TAXATION - net			
Advance income tax		**1,872,497**	1,627,403
Provision for taxation		**(1,675,227)**	(1,462,328)
		197,270	165,075
14. SHORT TERM INVESTMENT			
Held to maturity			
Term Deposit Receipts (TDRs)	14.1	**890,476**	-

14.1 These represents TDRs (having a face value of Rs.876.811 million, including interest accrued thereon of Rs.13.665 million) placed with commercial banks on a short term basis. The rate of return thereon ranges between 7.3% and 10.6% per annum (2005: nil), due on maturity. These will mature latest by August 11, 2006.

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
15. CASH AND BANK BALANCES			
Cash in hand		**2,477**	2,602
Cash at bank			
Current accounts		**125,292**	18,042
Deposit accounts	15.1	**1,520,189**	2,033,485
Collection accounts		**186,699**	391,703
		1,832,180	2,443,230
		1,834,657	2,445,832

15.1 These carry interest, ranging between 0.5% and 6% (2005: 0.65% and 4%) per annum.

16. SHARE CAPITAL

June 30, 2006	June 30, 2005		Note	June 30, 2006	June 30, 2005
(Number of shares)				(Rupees in thousand)	
		Authorized Share Capital			
25,714,285,714	28,571,428,571	Ordinary shares of Rs. 3.5 each fully paid		**90,000,000**	100,000,000
2,857,142,857	-	Redeemable Preference shares of Rs. 3.5 each fully paid	16.1	**10,000,000**	-
28,571,428,571	28,571,428,571			**100,000,000**	100,000,000
		Issued, Subscribed and paid-up Capital			
		Issued for cash			
45,371,105	45,371,105	Ordinary shares of Rs.10/- each fully paid		**453,711**	453,711
		Issued for consideration other than cash			
8,622,045,600	8,622,045,600	Ordinary shares of Rs.10/- each fully paid		**86,220,456**	86,220,456
8,667,416,705	8,667,416,705			**86,674,167**	86,674,167
		Issued as bonus shares			
132,875,889	132,875,889	Ordinary shares of Rs. 10 each fully paid as bonus shares		**1,328,759**	1,328,759
8,800,292,594	8,800,292,594			**88,002,926**	88,002,926
		Reduction in capital	16.2 & 16.3	**(57,201,902)**	(57,201,902)
		Issued for consideration other than cash			
4,366,782,389	4,366,782,389	Ordinary shares of Rs. 3.5 each fully paid		**15,283,738**	15,283,738
13,167,074,983	13,167,074,983	Ordinary shares of Rs. 3.5 per share		**46,084,762**	46,084,762

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

- Ordinary share capital of Rs.90 billion, divided into 25,714,285,714 Ordinary shares of Rs. 3.50 each; and
- Redeemable preference share capital of Rs.10 billion, divided into 2,857,142,857 Redeemable preference shares of Rs. 3.50 each.

16.2 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. 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 1,115th 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.

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

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
17. CAPITAL RESERVES			
Unclaimed fractional bonus shares money	17.1	**46**	46
Workmen compensation	17.2	**700**	700
Third party liability	17.3	**300**	300
Fire and machinery breakdown insurance	17.4	**508,126**	508,621
		509,172	509,667

17.1 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.

17.2 Workmen compensation reserve

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

17.3 Third party liability reserve

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

17.4 Fire and machinery breakdown insurance reserve

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

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
18. REVENUE RESERVES			
General		**1,038,999**	1,038,999
Add: transfer from Contigencies, Dividend equalization and Replacement Reserve		**4,337,757**	-
		5,372,356	1,038,999
Contingencies		**25,000**	25,000
Dividend equalization		**73,700**	73,700
Replacement of fixed assets		**4,234,657**	4,234,657
		4,337,757	4,337,757
Less: transfer to General Reserves		**4,337,757**	-
		-	4,337,757
		5,372,356	5,372,356
19. ADVANCE AGAINST REDEEMABLE PREFERENCE SHARE CAPITAL		**1,476,811**	-

19.1 As part of the process of the Corporation's privatization, the GOP and the new owners have agreed to inject additional equity by issuing Redeemable Preference Shares (RPS) in the aggregate value of Rs.6 billion.

In this respect, a Subscription Agreement was executed between the President of Pakistan, on behalf of the GoP, the Corporation and KES Power Limited on November 14, 2005 to issue the RPS, amounting to Rs.6 billion, divided into 1,714,285,714 preference shares of Rs.3.50 each as right shares to the existing Ordinary shareholders of Corporation, as detailed below:

	No. of Shares	**Rs. in '000**
KES Power Limited	**1,251,428,572**	4,380,000
Government of Pakistan	**439,658,389**	1,538,804
Minority shareholders	**23,198,753**	81,196
	1,714,285,714	6,000,000

As per the agreement, KES Power Limited, will subscribe for the RPS of Hassan Associates (Private) Limited and Premier Mercantile Services (Private) Limited, holding 1% and 0.5% of Ordinary shares of the Corporation, respectively. Moreover, KES Power would also subscribe to Redeemable Preference Shares that are not subscribed by the minority shareholders as specified in the Subscription Agreement.

As per agreement, the subscription amount shall be payable by KES Power and the Government of Pakistan in four equal installments on January 1, 2006, July 1, 2006, January 1, 2007, and June 30, 2007.

The approval of SECP was received, vide their letter No.EMD/CI/16/2004/9415 dated March 27, 2006. The Letters of Rights, with the approval of the Board on April 25, 2006, were issued to the shareholders on June 26, 2006. Last date for payment was August 05, 2006 which was received subsequent to the year end.

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
20. LONG-TERM FINANCING			
Unsecured			
GoP Loan for the electrification of Hub Area	20.1	**26,000**	26,000
Payable to the Oil and gas companies	20.2	**1,745,563**	2,062,938
		1,771,563	2,088,938
Current maturity thereof shown under current liabilities			
Payable to oil and gas companies as per the original repayment schedule	20.2	**(317,375)**	(317,375)
		1,454,188	1,771,563

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

20.2 Payable to oil and gas companies

Pakistan State Oil Company Limited (PSO)	20.2.2	**718,438**	849,063
Pirkoh Gas Company Limited (PGCL)	20.2.2	**1,027,125**	1,213,875
		1,745,563	2,062,938
Current maturity thereof		**(317,375)**	(317,375)
		1,428,188	1,745,563

20.2.1 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.6,672 million, will be redeemed over a period of ten years, including a grace period of two years, free of interest.

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

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

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

Accordingly, the Corporation has recognized the outstanding amount of Rs.1,745.563 million as due from the GoP (note 7) with the corresponding credit taken to the profit and loss account along with the payments received from the GoP during the current year (note 40).

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
21. LONG-TERM DEPOSITS		**3,121,353**	2,813,117

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.

22. DEFERRED LIABILITIES

	Note	**June 30, 2006**	June 30, 2005
Gratuity	22.1	**2,480,296**	2,183,462
Post retirement medical benefits	22.1	**1,037,528**	950,313
Post retirement electricity benefits	22.1	**312,785**	279,000
		3,830,609	3,412,775

22.1 Actuarial valuation of retirement benefits

In accordance with the requirements of IAS-19 "Employee Benefits", actuarial valuation has been carried out as at June 30, 2006, using the "Projected Unit Credit Actuarial Cost Method".

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

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

	June 30, 2006	June 30, 2005
	Per annum	
Discount rate	10.78%	11.65%
Salary increase	8.66%	9.52%
Medical cost trend	5.50%	6.33%
Electricity price increase	5.50%	6.33%

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

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

	2005		
	Gratuity	Medical benefits	Electricity benefits
	(Rupees in million)		
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			
Obligation 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	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
23. DEFERRED REVENUE			
Opening balance		**5,003,059**	3,454,759
Additions during the year			
Recoveries from consumers	23.1	**400,731**	747,384
Transfer from specific grant from the Government of Pakistan for Financial Improvement Plan (FIP)	24	**1,217,885**	1,149,420
		1,618,616	1,896,804
		6,621,675	5,351,563
Amortization for the year	37	**(706,903)**	(348,504)
		5,914,772	5,003,059

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

	Note	June 30, 2006	June 30, 2005
24. SPECIFIC GRANT FROM THE GOVERNMENT OF PAKISTAN			
Opening balance		378,315	1,507,668
Received during the year	24.1	2,956,895	-
Interest accrued on grant received from the GoP		3,264	20,067
		3,338,474	1,527,735
Transfer to deferred revenue	23 & 24.2	(1,217,885)	(1,149,420)
Expenses on bank borrowings	24.3	(6,845)	-
Interest on bank borrowings	24.3	(127,866)	-
		1,985,878	378,315

24.1 This represents a demand finance facility arranged by the Corporation during the year under the Syndicated Finance Agreement, executed between the Corporation and a Consortium of local commercial banks, on September 24, 2005. Under the terms of the said agreement, the Corporation has acquired a demand finance facility of Rs.3,000 million for the improvement of network and reduction in transmission and distribution losses under the FIP. The rate of markup on the said facility is KIBOR + 0.5% and shall be payable on semiannual basis from the first disbursement date. The Government of Pakistan has irrevocably and unconditionally guaranteed the repayment of principal and mark-up accruing in respect thereof, through guarantee No. F.5 (12) BR III / 2005, dated September 29, 2006. Moreover, The Ministry of Finance has also provided an undertaking, dated October 01, 2005, to repay the amount borrowed. In this respect, a letter has been issued by the Government whereby the said loan shall not be treated as the liability of the Corporation. As a result thereof, the same has been recorded as a specific grant from the Government.

24.2 Out of the total receipts of Rs.2,956.895 million from the GoP under the FIP, the Corporation transferred a sum of Rs.1,217.885 million to deferred revenue against work completed during the year (note 23).

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

24.4 Included in specific grants is a sum of Rs.868.674 million pertaining to expenditure incurred on FIP classified as capital work-in-progress.

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
25. TRADE AND OTHER PAYABLES			
Creditors			
Power purchases		**3,714,508**	3,015,244
Fuel	25.1	**4,006,595**	1,533,441
Others		**1,273,131**	1,977,526
		8,994,234	6,526,211
Accrued liabilities			
Accrued expenses	25.2 & 25.3	**1,248,081**	875,002
Advances/credit balances of consumers			
Energy	25.4	**307,583**	559,640
Others	25.5	**336,439**	289,896
		644,022	849,536
Other liabilities			
Unclaimed and unpaid dividend		**650**	650
Workers' Profit Participation Fund	25.6	**100**	34,953
Employee related dues		**73,138**	85,315
Payable to Provident Fund		**365**	-
Electricity duty	25.7	**839,445**	461,287
Tax deducted at source	25.7	**95,386**	98,808
PTV license fee	25.7	**20,273**	33,917
Payable to the then Managing Agent, PEA (Private) Limited		**29,408**	29,632
Others		**12,266**	6,753
		1,071,031	751,315
		11,957,368	9,002,064

25.1 Included herein is a sum of Rs.111.981 million representing financial charges due to a Creditor for making late payment in respect of gas purchases.

25.2 Included herein is a sum of Rs.81.360 million representing outstanding claims / dues of Octroi payable to Collector of Octroi which pertained to a number of prior years (see note 45.2).

25.3 Included herein is an aggregate sum of Rs. 402.938 million, representing (a) outstanding claims / dues of property taxes, water charges, ground rent and occupancy value payable to various government authorities and (b) accrual in respect of these charges recorded by the Corporation during the current year pertaining to a number of prior years (see note 45.1).In addition to the above, claims in respect of property tax, ground rent and occupancy value payable to various government authorities, aggregating to Rs.3,829.701 million, have not been acknowledged by the Corporation as debts and, hence, these have been disclosed under 'contingencies' (note 30.1).

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

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

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
25.6 Workers' Profit Participation Fund			
Opening balance		**34,953**	67,151
Payments during the year		**(34,853)**	(67,098)
		100	53
Contribution for the year		**-**	34,900
		100	34,953

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

26 ACCRUED MARK-UP

On long term deposits received from consumers	**610,437**	524,869

27. SHORT-TERM BORROWINGS

From commercial banks - secured

Shot term running finances under mark-up arrangement	**3,600,000**	-

27.1 During the current year, the Corporation arranged various short term running finance facilities from various commercial banks, aggregating to Rs.3,600 million (2005: Nil).

The facilities are secured against joint pari passu charge over current assets together with pari passu charge on book debts and receivables of the Corporation. In addition, demand promissory notes in respect of above mentioned facilities have also been furnished by the Corporation.

The rates of markup in respect of running finances range between 1-3 month KIBOR +1.25% and KIBOR + 2.00% per annum (2005: Nil), payable quarterly.

Further, the Corporation has executed Collection Branch Agreements with Allied Bank Limited and National Bank of Pakistan Limited through which the Corporation is required to route collection proceeds amounting to Rs. 350 million and Rs.50 million, respectively, through these collection accounts, during the collection period specified in the respective agreements.

The purchase prices are repayable on various dates, latest by March 31, 2007.

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
28 SHORT-TERM DEPOSITS			
Service connection deposits	28.1	**1,386,635**	921,396
Suppliers' security deposits		**8,430**	8,119
Earnest money		**28,031**	36,866
		1,423,096	966,381

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

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
29. PROVISIONS			
For bank guarantee in respect of the dispute with Sabah Shipyard	29.2	**409,168**	409,168
For contingency relating to fatal accident cases	29.3	**150,000**	116,645
		559,168	525,813
29.1 Movement in provisions during the year:			
Opening balance		**525,813**	523,168
Provision made during the year in respect of fatal accident cases	38	**33,355**	2,645
		559,168	525,813

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

Accordingly, the Corporation has recognized the receivable from the GoP (note 12.3) in respect of the above sum, with the corresponding credit taken to the profit and loss account during the current year (note 40).

29.3 This represents provision made by the Corporation for contingency relating to fatal accident cases, as disclosed in note 30.1.1, pursuant to the recommendation of the Committee on the Corporation's Privatisation, constituted by the Board of Privatisation Commission, to the PC Board which was made on July 06, 2004.

30. CONTINGENCIES AND COMMITMENTS

30.1 Contingencies

30.1.1 Claims not acknowledged as debts:

	Note	June 30, 2006	June 30, 2005
Fatal accident cases		**455,136**	446,137
Guarantees from banks		**500**	2,619
Architect's fee in respect of the head office project	4.2.2	**50,868**	44,213
Outstanding dues of property tax, water charges, ground rent and occupancy value	25.3	**3,829,701**	-

30.1.2 As at June 30, 2005, a dispute between the Corporation and the National Transmission and Despatch Company (NTDC) existed for an aggregate sum of Rs.1,712 million claimed by the NTDC in respect of power purchases in prior years. The above referred sum included (a) the payment of Rs.1,093 million made by the Corporation in 2001 but not acknowledged by the NTDC and (b) Rs.619.00 million on account of the inclusion of interest and transmission losses in the rate determined by National Electricity and Power Regulatory Authority (NEPRA).

During the current year, the Corporation received a letter, number 3555-57/FD/NTDC/KESC, dated November 12, 2005, from the NTDC wherein it was stated that (a) pursuant to the ECC decision with regard to the outstanding balance of Rs.1,093 million claimed by the NTDC, the NTDC would adjust the said amount from the amount owed by the Corporation, (b) the issue relating to differences on account of interest and transmission losses will be settled by the NTDC and the Corporation and (c) the charging of marginal cost to the Corporation against energy sales effective July 01, 2004 has been decided by the NEPRA and, accordingly, the NTDC is billing to the Corporation on the same basis.

As a result, the Corporation approached the NEPRA, in respect of calculation of rate for exchange of power, requesting them vide their letter number CFO/ministry W 7 P 1/530, dated April 27, 2006, to resolve the issue. In reply, the NEPRA decided the matter in favor of the Corporation and amount as calculated by the Corporation at Rs.3.69 per kwh has been agreed by NEPRA vide their letter number NEPRA/Director (accord)/2261, dated May 09, 2006. Further, it has been decided by NEPRA that the rate of Rs.3.69 per kwh should be maintained till hourly marginal cost basis is put into place.

However, the NTDC has raised the bill of Rs. 2,951 on account of power purchases, for the month of June 2006 on daily marginal cost basis. Out of the above claim, the Corporation has recorded a sum of Rs 1,566 million and has not acknowledged the remaining balance of Rs 1,385 million as claim, maintaining that as per the decision of NEPRA, a rate of Rs.3.69 per kwh is payable till the hourly marginal cost is put into place. The management is confident that the ultimate outcome of the matter will be decided in favor of the Corporation and, accordingly, no provision has been made by the Corporation for the same in these financial statements.

30.1.3 Taxation

The assessments for the years 1993-94 and 1997-98 to 2001-2002 have not been finalised pending resolution of various issues, particularly the application of Section 80C of the Income Tax Ordinance, 1979 to the Corporation, at different levels (appeals / revisions) of the Income Tax Department.

The Corporation's maximum exposure on account of the aforesaid matters would not exceed Rs.1,112.5 (2005: Rs.1,112.5) million in case of adverse decisions. The reason for such excessive demand is the application of Section 80C of the Income Tax Ordinance, 1979 mainly on the purchase of electricity from various power producers.

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

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

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
30.2 Commitments			
30.2.1 Contracts with respect to Transmission and Distribution Projects		**5,155,100**	690,661
30.2.2 Outstanding Letters of Credit		**2,103,457**	243,479

30.2.3 As per the terms of the Operation and Management agreement, as stated in note 2.2, Siemens (Pakistan) Engineering Company Limited will charge a fixed fee of US$ 9 million for the first year, US$ 8 million for the second year and US$ 8 million plus the rate of inflation from the third year onwards. Further, a variable fee based on a percentage of sales and improvement factor will also be charged for the services provided by Siemens Pakistan Engineering Company Limited.

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

	Note	**June 30, 2006** (Rupees in thousand)	June 30, 2005 (Rupees in thousand)
31. SALE OF ENERGY			
Residential		**13,784,442**	12,707,585
Commercial		**7,043,523**	6,427,899
Industrial		**19,011,075**	18,116,727
National Transmission and Despatch Company		**22,520**	51,356
Karachi Nuclear Power Plant		**38,033**	43,497
Pakistan Steel Mills Corporation (Private) Limited		**922,001**	467,474
Others		**600,939**	601,095
		41,422,533	38,415,633

31.1 Free electricity benefit to employees, amounting to Rs.140.849 (2005: Rs.121.550) million, has not been included in the sale of energy and in the employee benefit costs, as disclosed in notes 35.2 and 36.1.

	Note	**June 30, 2006**	June 30, 2005
32. PURCHASE OF ELECTRICITY			
National Transmission and Despatch Company		**14,155,219**	8,914,687
Independent Power Producers (IPPs)		**9,371,154**	7,862,074
Karachi Nuclear Power Plant		**394,046**	725,146
Pakistan Steel Mills Corporation (Private) Limited		**70,832**	204,740
		23,991,251	17,706,647
33. CONSUMPTION OF FUEL AND OIL			
Natural gas		**18,813,159**	15,392,807
Furnace and other oils		**10,403,704**	7,691,629
		29,216,863	23,084,436
34. TARIFF ADJUSTMENT ON ACCOUNT OF INCREASE IN FUEL PRICES AND COST OF POWER PURCHASE	34.1	**9,482,007**	1,491,000

34.1 Included herein is a sum of Rs.1,396.466 million, accrued by the Corporation as due from the GoP in respect of tariff adjustment pertaining to the current year, due to the change in accounting policy in respect of the recognition of general grant, as stated in note 3.5.

35. EXPENSES INCURRED IN GENERATION, TRANSMISSION & DISTRIBUTION

	Note	Generation Expenses	Transmission & distribution Expenses	2006	2005
		(Rupees in thousand)			
Salaries, wages and other benefits	31.1, 35.1 & 35.2	421,922	2,240,585	**2,662,507**	2,329,242
Stores and spares consumed	35.3	108,099	340,552	**448,651**	154,492
Stores adjustment	35.4	102,966	7,185	**110,151**	(274,523)
Provision against left over material of the Sixth Power Sector Project	8.2 (i)	-	271,943	271,943	-
Provision against slow moving and obsolete stores, spares and loose tools	8.2 (ii)	229,129	47,587	276,716	20,824
Provision in respect of discrepancies between subsidiary record and the general ledger	8.2 (iii)	-	51,778	51,778	-
NEPRA license fee		13,661	12,999	26,660	-
Insurance		5,295	7,606	12,901	12,525
Repairs and maintenance		7,301	8,613	15,914	10,159
Transport cost and transport department expenses	35.3	69,073	606,779	675,852	461,839
Rent, rates and taxes		15,770	66,465	82,235	40,498
Depreciation	4.1.1	1,116,554	2,203,585	3,320,139	3,276,552
Other expenses		105,453	247,712	353,165	136,820
		2,195,223	**6,113,389**	**8,308,612**	**6,168,428**

35.1 This includes a sum of Rs.647 million (2005: Rs.231 million) in respect of staff retirement benefits.

35.2 Free electricity benefit to employees, amounting to Rs.93.079 (2005:Rs.84.617) million, has not been included in salaries, wages and other benefits. The same has been offset against the value of units sold, as disclosed in note 31.1.

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

35.4 This represents adjustments made as a result of a reconciliation between the control and subsidiary accounts, valuation of stores, spares and loose tools, physical count, etc.

36. CONSUMERS SERVICES AND ADMINISTRATIVE EXPENSES.

	Note	Consumer services and Billing Expenses	Administrative and General Expenses	June 30, 2006	June 30, 2005
		(Rupees in thousand)			
Salaries, wages and other benefits	31.1, 35.1, 36.1 & 36.2	861,674	364,105	**1,225,779**	1,010,260
Bank collection charges		126,404	-	**126,404**	60,977
Transport cost and transport department expenses	36.2	87,104	70,915	**158,019**	143,852
Depreciation	4.1.1	18,770	73,850	**92,620**	68,454
Repairs and maintenance		3,367	10,307	**13,674**	8,317
Rent, rates and taxes		15,600	35,863	**51,463**	47,574
Public relations and publicity		-	21,727	**21,727**	4,639
Legal expenses		-	17,774	**17,774**	5,360
Insurance		46	1,775	**1,821**	4,530
Auditors' remuneration	36.3	-	1,481	**1,481**	1,359
Professional charges		-	2,992	**2,992**	2,174
Directors fee		-	434	**434**	188
Provision for debts considered doubtful	9.1	3,328,840	-	**3,328,840**	2,308,337
Office supplies and other expenses		49,392	206,159	**255,551**	548,010
Operations and Management fee	36.4	-	639,512	**639,512**	-
		4,491,197	**1,446,894**	**5,938,091**	**4,214,031**

36.1 Free electricity benefit to employees, amounting to Rs.47.770 (2005:Rs.36.933) million, has not been included in salaries, wages and other benefits. The same has been offset against the value of units sold, as disclosed in note 31.1.

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

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
36.3 Auditors' remuneration			
Statutory audit, half yearly review and report of compliance on Code of Corporate Governance		**1,364**	1,240
Out of pocket expenses		**117**	119
		1,481	1,359

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

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	

37. OTHER OPERATING INCOME

	Note	June 30, 2006	June 30, 2005
Late payment surcharge		**631,426**	689,122
Amortisation of deferred revenue	23	**706,903**	348,504
Return on short term investments		**42,732**	-
Return on bank deposits		**38,261**	15,851
Profit against service connection and maintenance jobs		**118**	15,427
Special discount received from insurance companies		**-**	1,102
Rebate on electricity duty		**13,897**	12,261
Scrap sale - stores and spares		**-**	68,519
Liabilities no longer considered payable written back		**94,522**	146,080
Development surcharge on furnace oil written back		**-**	50,880
Advance/credit balance of consumers no longer payable written back		**103,215**	72,275
Gain on disposal of fixed assets		**179,292**	26,953
Gain on disposal of long term investment		**-**	478
Collection charges TV licence fee		**55,058**	25,083
Liquidated damages recovered from suppliers and contractors		**103,511**	-
Reversal of excess accruals	37.1	**200,966**	-
Others		**73,524**	89,142
		2,243,425	1,561,677

37.1 During the current year, the management of the Corporation entered into arrangements with the IPPs under which disputes therewith have been settled and the arrears accounted for in the past have been written back.

38. OTHER OPERATING EXPENSES

	Note	June 30, 2006	June 30, 2005
Interest on consumers deposits		**154,402**	138,063
Amortization of deferred costs		**-**	2,687
Letters of credit charges for IPP payments		**1,994**	1,443
Workers' Profit Participation Fund		**-**	34,900
Long-term security deposits written off		**-**	2,047
Capital work-in-progress written off	4.2.2	**48,000**	47,924
Provision against long-term loans	5	**4,333**	-
Provision against long-term deposits	6	**1,020**	-
Provision against advances	10	**46,938**	135,805
Donations	38.1	**310**	-
Stamp duty on issuance of shares and listing fee		**2,933**	112,784
Exchange loss on foreign currency liability		**-**	10,806
Provision against fatal accident cases	29.1 & 45	**33,355**	2,645
Adjustments relating to prior years in respect of power and fuel purchase		**-**	20,702
		293,285	509,806

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

	Note	**June 30, 2006**	June 30, 2005
		(Rupees in thousand)	
39. FINANCE COST			
Mark-up / interest on short term borrowings		**113,400**	-
Late payment surcharge (LPS) on gas bills	39.1	**466,711**	-
LPS on delayed payment to a creditor	25.1	**111,981**	-
		692,092	-
Amount received from the Government of Pakistan (GoP) for settlement of LPS on gas bills as per the terms of the Implementation Agreement	39.1	**(466,711)**	-
		225,381	-

39.1 The claim from a Creditor of Rs. 388.202 million plus financial charges accrued till the closing date, that is, up to the end of October 2006, are covered under the Implementation Agreement between the GoP and the Corporation as one of the Indemnified Claims whereby the GoP has agreed to make payment to the Claimant/Creditor in respect thereof. Accordingly, a sum of Rs.466.711 million has been paid to the said creditor during the current year out of the funds received from the GoP.

40. RECOVERIES / RECOVERABLE FROM GoP UNDER THE TERMS OF IMPLEMENTATION AGREEMENT

	Note	June 30, 2006	June 30, 2005
Operational shortfall for the period July-2005 to November -2005	40.1	**5,104,038**	-
Receivable from the GoP for settlement of long term loans payable to oil and gas companies	20.2	**2,062,938**	-
Recoverable from the GoP in respect of dispute with Sabah Shipyard	29.2	**409,168**	-
		7,576,144	-

40.1 In order to meet the cash shortfall for the period commencing July 2005 to November 2005, the Corporation submitted the audited financial statements for that period on the basis of which the subject subsidy was disbursed.

41. TAXATION

	June 30, 2006	June 30, 2005
Current	**212,900**	199,121
Prior	**(75,422)**	-
	137,478	199,121

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

41.2 Deferred tax asset, amounting to Rs.18,545 (2005: Rs.17,891) million, has not been recognized in these financial statements as the Corporation is of the view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized.

At the year end, the Corporation's assessed tax losses amounted to Rs.70,987 (2005: Rs.69,875) million.

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

	June 30, 2006	June 30, 2005
	(Rupees in thousand)	

42. (LOSS) / BASIC AND DILUTED EARNINGS PER SHARE

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

Loss for the year after tax	**(7,191,662)**	669,390
	Number of shares	
Weighted average number of Ordinary shares outstanding during the year	**13,167,074,983**	10,255,886,724
	(Rupee)	
(Loss) / basic earnings per share	(**0.54)**	0.07

43. CASH (UTILIZED) / GENERATED FROM OPERATIONS

(Loss) / Profit before taxation	**(7,054,184)**	868,511
Adjustments for non-cash charges and other items:		
Depreciation	**3,412,759**	3,345,006
Provision for deferred liabilities	**702,000**	412,000
Provision for slow moving stores, spares and loose tools	**600,437**	20,824
Recoveries / recoverable from the GoP under the terms of Implementation Agreement	**(2,472,106)**	-
Amortization of deferred costs	**-**	2,687
Amortization of deferred revenue	**(706,903)**	(348,504)
Provision for Workers' Profit Participation Fund	**-**	34,900
Provision for debts considered doubtful	**3,328,840**	2,308,337
Gain on sale of investment	**-**	(478)
Gain on disposal of fixed assets	**(179,292)**	(26,953)
Gain on disposal of stores item	**-**	(68,519)
Exchange loss	**-**	10,806
Liabilities no longer considered payable written back	**(94,552)**	(146,080)
Balance carried forward	**(2,463,001)**	6,412,537

	Note	June 30, 2006	June 30, 2005
		(Rupees in thousand)	
Balance brought forward		**(2,463,001)**	6,412,537
Development surcharge on furnace oil written back		**-**	(50,880)
Advance / credit balance of consumers no longer payable written back		**(103,215)**	(72,275)
Long term security deposits written off		**-**	2,047
Provision against long term loans		**4,333**	-
Cost of capital work-in-progress written off		**48,000**	47,924
Provision against long term deposits		**1,020**	-
Provision against advances		**46,938**	135,805
Adjustment, in relation to prior year in respect of power and fuel purchase		**-**	20,702
Interest on consumer deposits		**154,402**	138,063
Finance costs		**225,381**	-
Provision against fatal accident cases		**33,355**	2,645
Return on bank deposits		**(38,261)**	(15,851)
Working capital changes	43.1	**(2,020,235)**	(1,810,208)
		(4,111,283)	4,810,509

43.1 Working capital changes

	June 30, 2006	June 30, 2005
(Increase) / decrease in current assets		
Stores, spares and loose tools	**(224,011)**	(1,013,768)
Trade debts	**(2,565,832)**	(1,897,801)
Loans and advances	**(213,366)**	25,408
Trade deposits and prepayments	**(573)**	(9,815)
Other receivables	**(2,661,111)**	(121,175)
	(5,664,893)	(3,017,151)
Increase / (decrease) in current liabilities		
Trade and other payables	**3,187,943**	1,381,752
Short-term deposits	**456,715**	(174,809)
	(2,020,235)	(1,810,208)

44. CASH AND CASH EQUIVALENTS

	June 30, 2006	June 30, 2005
Cash and bank balances	**1,834,657**	2,445,832
Short-term investments	**890,476**	-
Short-term borrowings	**(3,600,000)**	-
	(874,867)	2,445,832

45. PRIOR PERIOD ERRORS

During the current year, the Corporation has recognized the following amounts which have been accounted for as 'prior period errors' in accordance with the requirements of IAS - 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The said IAS requires restatement of the comparative amounts for the prior period presented in which the error occurred and opening balances of assets, liabilities and equity for the earliest prior period presented.

	Note	July 1, 2004 to June 30, 2005	Period prior to June 30, 2004
		(Rupees in thousand)	
Accrual in respect of property taxes, water charges, ground rent and occupancy value	45.1	**18,291**	384,677
Accrual in respect of Octroi charges	45.2	**-**	81,360
Provision in respect of fatal accident cases	45.3	**2,645**	114,000
Adjustment in respect of stores, spares and loose tools	45.4	**(382,903)**	-
		(361,967)	580,037

45.1 An aggregate sum of Rs 402.938 million has been accrued for property taxes, water charges, ground rent and occupancy value, payable to various government authorities in respect of prior years, as more fully explained in note 25.3.

45.2 A sum of Rs.81.360 million has been accrued on account of Octroi charges payable to a contractor in prior years, which has been settled subsequent to the year end.

45.3 An aggregate sum of Rs.116.645 million has been provided by the Corporation for contingencies relating to fatal accident cases, as more fully explained in note 29.3.

45.4 This represents an adjustment, amounting to Rs.382.903 million, made as a result of reconciliation between the control and subsidiary accounts, physical count, etc.

The effects of the above referred errors are summarised as follows:

- Reduction in accumulated loss as at June 30, 2005 by Rs.361.967 (2004: Increase in accumulated loss by Rs.580.037) million.
- Increase in profit before taxation for the year ended June 30, 2005 by Rs.361.967 million.
- Increase in stores spares and loose tools, creditors, accrued and other liabilities, and provisions as at June 30, 2005 by Rs.382.903 million, Rs.484.328 million and Rs.116.645 million, respectively.
- Increase in earnings per share by Re.0.04 as at June 30, 2005.

46. REMUNERATION OF MANAGING DIRECTOR, DIRECTORS AND EXECUTIVES

	2006			**2005**		
	Managing Director	**Directors**	**Executives**	**Managing Director**	**Directors**	**Executives**
	(Rupees in thousand)					
Directors' fee	**-**	**434**	**-**	-	188	-
Managerial remuneration	**3,915**	**-**	**2,307**	591	-	-
House rent	**-**	**-**	**943**	-	-	-
Free electricity	**167**	**-**	**-**	206	-	-
Others	**87**	**-**	**-**	494	-	-
	4,169	**434**	**3,250**	1,291	188	-
Number of persons	**2**	**12**	**1**	1	10	-

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

47. SALARIES, WAGES AND OTHER BENEFITS

Salaries, wages and other benefits for the year amounted to Rs.4,543.464 million (2005: Rs.4,003.805 million) out of which a sum of Rs.267.220 million (2005: Rs.109.426 million) has been transferred to capital expenditure.

48. TRANSMISSION AND DISTRIBUTION LOSSES

48.1 The transmission and distribution losses were 34.43% (2005: 34.23%). 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%
2005-2006	34.43%

48.2 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 48.1 above.

49. FINANCIAL INSTRUMENTS

49.1 Interest rate risk

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

	Effective yield/ mark-up rate	Interest / Markup bearing			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, 2006
		(Rupees in thousand)						
June 30, 2006								
FINANCIAL ASSETS								
Receivable from GoP	-	-	-	-	317,375	1,428,188	1,745,563	1,745,563
Loans	6	13,190	26,876	40,066	3,667	93,608	97,275	137,341
Deposits	-	-	-	-	485	8,294	8,779	8,779
Trade debts	-	-	-	-	7,682,994	-	7,682,994	7,682,994
Accrued interest	0.5 - 6	8,263	-	8,263	-	-	-	8,263
Other receivables	-	-	-	-	2,340,130	-	2,340,130	2,340,130
Short term investment	7.5 - 10.75	890,476	-	890,476	-	-	-	890,476
Cash and bank balances	0.5 - 6	1,520,189	-	1,520,189	314,468	-	314,468	1,834,657
		2,432,118	26,876	2,458,994	10,659,119	1,530,090	12,189,209	14,648,203
FINANCIAL LIABILITIES								
Long term financing	-	-	-	-	317,375	1,454,188	1,771,563	1,771,563
Long term deposits	5	-	3,121,353	3,121,353	-	-	-	3,121,353
Trade and other payables	-	-	-	-	11,957,368	-	11,957,368	11,957,368
Accrued mark-up	5	610,437	-	610,437	-	-	-	610,437
Short term borrowings	KIBOR + 1.25 - 2	3,600,000	-	3,600,000	-	-	-	3,600,000
Short term deposits	-	-	-	-	1,423,096	-	1,423,096	1,423,096
		4,210,437	3,121,353	7,331,790	13,697,839	1,454,188	15,152,027	22,483,817

	Effective yield/ mark-up rate	Interest / Markup bearing Maturity upto one year	Maturity after one year	Sub-total	Non-Interest / Markup bearing Maturity upto one year	Maturity after one year	Sub-total	Total June 30, 2004
		(Rupees in thousand)						
June 30, 2005								
FINANCIAL ASSETS								
Trade debts	-	-	-	-	8,446,002	-	8,446,002	8,446,002
Loans	6	13,193	43,586	56,779	10	102,978	102,988	159,767
Deposits	-	-	-	-	421	3,959	4,380	4,380
Accrued interest	1 - 6	5,072	-	5,072	-	-	-	5,072
Other receivables	-	-	-	-	1,445,201	-	1,445,201	1,445,201
Cash and bank balances	1 - 6	2,033,485	-	2,033,485	412,347	-	412,347	2,445,832
		2,051,750	43,586	2,095,336	10,303,981	106,937	10,410,918	12,506,254
FINANCIAL LIABILITIES								
Long term financing	-	-	-	-	317,375	1,771,563	2,088,938	2,088,938
Long term deposits	5	-	2,813,117	2,813,117	-	-	-	2,813,117
Trade and other payables	-	-	-	-	9,002,064	-	9,002,064	9,002,064
Accrued mark-up	5	524,869	-	524,869	-	-	-	524,869
Short term deposits	-	-	-	-	966,381	-	966,381	966,381
		524,869	2,813,117	3,337,986	10,285,820	1,771,563	12,057,383	15,395,369

49.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counterpart fails completely to perform as contracted. Financial instruments that potentially subject the Corporation to concentration of credit risk are trade debts. Out of the total financial assets of Rs.14,648 (2005: Rs.12,506) million, the financial assets which are subject to credit risk amounted to Rs.12,813 (2005: Rs.10,060) million. The Corporation's electricity is sold to industrial and residential consumers and government organizations. Due to large number and diversity of its consumer base, concentration of credit risk with respect to trade debts is limited. Further, the Corporation manages its credit risk by obtaining security deposit from the consumers.

49.3 Foreign exchange risk management

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

49.4 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.

49.5 Fair value of financial instruments

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

50. TRANSACTIONS / BALANCES WITH RELATED PARTIES

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

Further, the term "associated undertakings" has been deemed not to include those companies in which the Federal Government holds directly or indirectly over 20 percent of shares or common directorship of the directors appointed by the Federal Government.Details of transactions / balances with related parties except those under the terms of employment were as follows:

		Note	**June 30, 2006**	June 30, 2005
			(Rupees in thousand)	
50.1	**Siemens (Pakistan) Engineering Company Limited, an operation and management contractor**			
	Purchases		108,002	160,568
	Operation and Management fee		639,512	-
	Operation and Management fee accrued included in accrued expenses		324,062	-
50.2	**National Transmission and Despatch Company, a major supplier**			
	Sales		22,520	51,355
	Purchases		14,155,218	8,914,687
	Amount payable included in creditors		1,795,193	1,528,201
50.3	**Pakistan State Oil Company Limited, a major supplier**			
	Purchases		10,432,361	8,921,355
	Amount paid as advance included in advances to suppliers		24,057	50,271
50.4	**Sui Southern Gas Company Limited, a major supplier**			
	Purchases		18,813,159	15,392,807
	Amount payable included in creditors		4,006,595	1,533,441
50.5	**Karachi Nuclear Power Plant, a major supplier**			
	Sales		38,033	43,498
	Purchases		394,047	720,146
	Amount payable included in creditors		28,507	101,040
50.6	**Pakistan Steel Mills Corporation (Private) Limited, a major supplier**			
	Sales		922,001	467,474
	Purchases		70,832	204,740
	Amount receivable included in debtors		272,012	399,781

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

51. CAPACITY AND PRODUCTION

The total installed capacity is 1,756 MW (2004: 1,756 MW). The actual production during the year was 9,129.7 million KWH (2005: 9,304.3 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.

52. EVENTS AFTER THE BALANCE SHEET DATE

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

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

52.3 The management has embarked upon a turnaround strategy to address the prevailing state of affairs of the Corporation in the foreseeable future, which focuses of both qualitative and quantitative aspects of the business. The qualitative aspects include building a better image of the Corporation, introducing cultural changes, investing in human capital, hiring professionals, and corporate structural changes. The quantitative approach includes creating profit and cost centres, incurring capital expenditure for existing infrastructure development and rehabilitation and setting up of a new power generation plant.

As part of the envisioned infrastructure rehabilitation program, the Corporation has budgeted a capital expenditure program of approximately Rs.20 billion over a period of two years which includes an amount of approximately Rs.8 billion which will be received from the GoP under the Financial Improvement Program (FIP). Furthermore, the Corporation plans to spend an amount of approximately Rs.24 billion on setting up a new power generation plant.

In order to achieve the above, the Corporation is in the process of arranging long and medium term financing from financial institutions to the tune of Rs.25 billion. This is in addition to the equity funding of Rs.6 billion through issue of redeemable preference shares (refer note 19).

52.4 Subsequent to the year end vide an order of National Electric Power Regulatory Authority (NEPRA), the condition applicable in the 'Mechanism for Adjustment in Tariff due to variation in Fuel price and Power Purchase Cost' at item 5 each of schedules II and III respectively issued vide SRO 716(1)/2002 dated October 12, 2002 has been removed whereby increases or decreases in fuel cost and power purchase cost were restricted to 2.5% and 1.5%, respectively, of the prevailing average sale rate. However, the Ministry of Water and Power has filed a motion for reconsideration of the above referred decision of NEPRA, the outcome of which is still pending. Resultantly, the increases in fuel and power purchase cost, if allowed, will increase the revenue from sale of energy or tariff subsidy, as the case may be. This will result in increased subsidy in future (see note 24).

53. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on November 01, 2006 by the Board of Directors of the company.

54. CORRESPONDING FIGURES

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

From	To	Rupees in '000'
Subsidies from the Government of Pakistan	Tariff adjustment due to increase in fuel prices and cost of power purchase	1,491,000
Depreciation expense	Amortization of deferred revenue	348,504
Consumers services and administrative expenses	Expenses incurred in generation, transmission & distribution	23,560
Other operating expenses	Expenses incurred in generation, transmission & distribution	20,824

55. GENERAL

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

Frank Scherschmidt
Chief Executive Officer

S. Mohammad Akhtar Zaidi
Director

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.

Attendance of Directors at Board / Audit Committee Meetings During the year July 1, 2005 to June 30, 2006

Board Meetings

S. No.	Name of the Directors	No of Board Meeting Attended	Remarks
1.	Mr. Abdulaziz Hamad Aljomaih	02	
2.	Mr. Naser Al-Marri	02	
3.	Mr. Frank Scherschmidt	05	
4.	Mr. Shan A. Ashary	03	
5.	Mr. Ashfaq Mahmood	04	
6.	Mr. Asif Bajwa	04	
7.	Mr. Anwar Khalid	03	
8.	Mr. Peter Hertog	03	
9.	Mr. Mubasher H. Sheikh	05	
10.	Mr. S. Muhammad Akhtar Zaidi	05	
11.	Mr. Riyadh S. A. Ahmad	03	
12.	Mr. Tasneem Noorani	04	
13.	Mr. M. Khusrow Khowaja	07	
14.	Brig. Tariq Saddozai	04	
15.	Mr. Tariq Iqbal Khan	02	
16.	Dr. Mirza Ikhtiar Baig	04	
17.	Mr. Shafiqur Rehman Paracha	03	
18.	Mr. Khalid Firoz	03	
	Total Number of Board Meetings held during the year		**8**

Audit Committee Meetings

S. No.	Name of the Directors	No. of Audit Committee Meetings	Remarks
1.	Mr. M. Khusrow Khowaja	03	
2.	Mr. Asif Bajwa	01	
3.	Mr. S. Muhammad Akhtar Zaidi	02	
4.	Mr. Peter Hertog	01	
5.	Mr. Mubasher H. Sheikh	02	
6.	Brig. Tariq Saddozai	02	
7.	Dr. Mirza Ikhtiar Baig	02	
	Total Number of Audit Committee Meetings held during the year		**4**

THE KARACHI ELECTRIC SUPPLY CORPORATION LTD.
PATTERN OF SHARE HOLDING OF THE SHAREHOLDERS
AS ON JUNE 30, 2006

No. of Shareholders	Share Holding			Total No. of Shares
4142	1	-	100	129102
3095	101	-	500	922556
2430	501	-	1000	2219974
4717	1001	-	5000	13785074
1403	5001	-	10000	11741501
428	10001	-	15000	5613278
327	15001	-	20000	6196222
175	20001	-	25000	4234148
113	25001	-	30000	3292656
64	30001	-	35000	2174858
64	35001	-	40000	2537534
32	40001	-	45000	1426823
103	45001	-	50000	5154500
27	50001	-	55000	1494300
23	55001	-	60000	1395806
9	60001	-	65000	636406
13	65001	-	70000	965163
22	70001	-	75000	1695694
8	75001	-	80000	712500
8	80001	-	85000	756520
6	85001	-	90000	625500
7	90001	-	95000	749502
59	95001	-	100000	6000000
13	100001	-	105000	1454000
7	105001	-	110000	869500
4	110001	-	115000	566683
7	115001	-	120000	944837
12	120001	-	125000	1614019
4	125001	-	130000	639340
2	130001	-	135000	400000
5	135001	-	140000	828828
1	140001	-	145000	290000
7	145001	-	150000	1193969
3	150001	-	155000	617748
4	155001	-	160000	790097
2	160001	-	165000	488500
1	165001	-	170000	336000
4	170001	-	175000	873500
7	175001	-	180000	1431600
1	180001	-	185000	367050
2	185001	-	190000	566000
17	195001	-	200000	3593000
3	200001	-	205000	810599
4	205001	-	210000	1042860

No. of Shareholders	Share Holding			Total No. of Shares
3	210001	-	215000	849980
3	215001	-	220000	878650
5	220001	-	225000	1330000
1	225001	-	230000	460000
2	230001	-	235000	701450
1	235001	-	240000	475500
2	240001	-	245000	729294
4	245001	-	250000	1250000
1	250001	-	255000	508000
2	255001	-	260000	778000
1	270001	-	275000	550000
1	280001	-	285000	569466
1	285001	-	290000	576500
7	295001	-	300000	2397000
1	300001	-	305000	606500
4	305001	-	310000	1543500
1	310001	-	315000	629885
2	325001	-	330000	984000
1	330001	-	335000	667000
1	350001	-	355000	705342
2	355001	-	360000	1075000
2	385001	-	390000	1162851
1	400001	-	405000	810000
2	405001	-	410000	1225022
1	445001	-	450000	896000
2	475001	-	480000	1437000
3	495001	-	500000	2000000
1	520001	-	525000	1050000
1	560001	-	565000	1128000
1	565001	-	570000	1137500
1	595001	-	600000	1200000
1	695001	-	700000	1400000
1	700001	-	705000	1410000
1	705001	-	710000	1418370
2	745001	-	750000	2250000
1	795001	-	800000	1595500
1	800001	-	805000	1610000
1	805001	-	810000	1620000
1	865001	-	870000	1737500
1	890001	-	895000	1787500
1	950501	-	955500	1906009
4	995001	-	1000000	4997500
1	1055001	-	1060000	2119784
2	1170001	-	1175000	3523090
1	1530001	-	1535000	3067000
1	1,620,001	-	1,625,000	3248450
1	1895001	-	1900000	3800000
1	2,260,001	-	2,265,000	4529875
1	2995001	-	3000000	6000000

No. of Shareholders	Share Holding			Total No. of Shares
1	4125001	-	4130000	8255500
1	8295001	-	8300000	16600000
1	11245001	-	11250000	22495500
1	18615001	-	18620000	37236184
1	65835001	-	65840000	131675375
1	131670001	-	131675000	263345750
1	3376925001	-	3376925500	6753850897
1	9414455001	-	9414460000	18828918612
17,477				**13,167,074,983**

CATEGORIES OF SHAREHOLDERS OF KESC LTD.
AS ON JUNE 30, 2006

Categories of Shareholders	Number	Shares Held	Percentage
Shareholders holding ten percent or more voting interst in the Company			
KES Power Limited	1	9,414,458,612	71.500
President of the Islamic Republic of Pakistan	1	3,376,925,397	25.647
Associated Companies, Under-takings and Related Parties	-	-	-
NIT and ICP			
National Bank of Pakistan Trustee Dept	1	18,617,561	0.141
Investment Corporation of Pakistan	1	11,584	0.000
National Investment Trust	1	177,459	0.001
Directors, CEO & Their Spouse and Minor Children			
Director (M. Khusrow Khowaja)	1	3,047	0.000
Corporate Secretary (Oswald Pearl) (Spouse)	1	364	0.000
Executives	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds			
Banks, Financial Institutions	40	17,089,041	0.130
Investment Companies	24	1,021,348	0.008
Insurance Companies	15	2,169,136	0.016
Joint Stock Companies	147	206,847,473	1.571
Modarabah Management Companies	2	15,000	0.000
Modarabah Companies	12	180,189	0.001
Charitable Trusts	14	2,398,691	0.018
Mutual Funds	7	568,900	0.004
Leasing Companies	3	1,302,000	0.010
Individual	17,195	124,309,751	0.944
Others	11	979,430	0.007
	17,477	**13,167,074,983**	**100.000**

PROXY FORM

I/We...of................................being a member of the Karachi Electric Supply Corporation Limited hereby appoint .... of ....or failing him / her .... of .... as my / our proxy to attend and vote for me / us and on my/ our behalf at the 96th Annual General Meeting of the Company to be held at Navy Walfare Centre, Liaquat Barracks, Karachi on Saturday, 9th December 2006 at 10:30 a.m. or at any adjournment thereof.

As witnessed given under my / our hand(s) this _________ day of _________ 2006.

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.