

**REPORT OF THE DIRECTORS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2007**

The Directors have pleasure in presenting the financial statements (un-audited) for the period ended September 30, 2007 (the "Period").

The principle activity of the Company is to own, operate and maintain a multi-fuel combined cycle gas turbine power station at Kot Addu.

Over the Period, the power plant generated a net output of 2514 GWh of electricity, resulting in a load factor of 84.7% with an overall commercial availability of 96.7%. The fuel mix for the dispatched output to our customer, WAPDA was 75.5% Gas, 24.4% Low Sulphur Furnace Oil and 0.1% High Speed Diesel.


Turnover for the period was Rs. 10,232 million and cost of sales was Rs. 7,918 million. Profit after tax for the period was Rs. 1,312 million (compared to Rs. 1,119 million in the corresponding period in 2006), delivering an earning per share (EPS) of Rs. 1.49 per share (Rs. 1.27 July to September 06).

During the Period, three Combustion Inspections and one Hot Gas Path Inspection was carried out to the Company's gas turbines as per schedule. These Inspections form part of the Company's commitment to operate and maintain the Power Plant at the highest international standards in order to ensure maximum availability for the Company's customer.

The Company's position with respect to Workers Profit Participation Fund (WPPF) has been that since it did not employ any person who fell under the definition of Worker as defined in the Companies Profit (Workers' Participation) Act, 1968 (the "Act") the Company was not required to establish a Fund under the Act and consequently not required to make contributions to the Fund established pursuant to the Workers' Welfare Fund Ordinance, 1971. The Company, therefore, did not make any provision for Worker's Profit Participation Fund in its financial statements until June 30, 2006. However, after the amendments introduced in the Finance Act, 2006 relating to the Act, the Company sought legal advice on its applicability to the Company. The legal counsel has advised that with the change introduced by the Finance Act, 2006, the establishment of the Fund has become mandatory to be set-up within nine (9) months of the close of the financial year of the Company ended June 30, 2007, to which contributions based on future profits of the Company are to be made. Based on the legal advice received, the Company has accounted for the effect of the contribution payable in its accounts for the Period and has initiated the process for setting-up the Fund. Since the contributions to the Fund are a pass through to the off-taker under the Power Purchase Agreement, there will be no financial impact on the profits of the Company.

Following approval of the Feasibility Study submitted by the Company for expanding its generation capacity by approximately 450 MWs, the Company is progressing towards filing a tariff petition with the National Electric Power Regulatory Authority (NEPRA). To facilitate this, the Company has entered into an agreement with Fichtner GmbH & Co. KG of Stuttgart, Germany ("Fichtner") for the provision of Owner's Engineer services to the Company. Approval of the Feasibility Study and appointment of Fichtner as Owner's Engineer is no assurance/guarantee at this stage that the Company will increase its generation capacity.

On behalf of the Board

  
Syed Rizwan Ali Shah  
Chief Executive

Islamabad: October 22, 2007

**KAP CO**

**BALANCE SHEET AS AT  
SEPTEMBER 30, 2007 (UN-AUDITED)**

	Sept. 30, 2007	June 30, 2007
Note	(Rupees in thousand)	
<b>EQUITY AND LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Authorised capital 3,600,000,000 ( June 2007: 3,600,000,000 ) ordinary shares of Rs 10 each	<u>36,000,000</u>	<u>36,000,000</u>
Issued, subscribed and paid up capital 880,253,228 ( June 2007: 880,253,228 ) ordinary shares of Rs 10 each	8,802,532	8,802,532
Capital reserve	444,451	444,451
Unappropriated profit	<u>10,928,216</u>	<u>9,616,465</u>
	20,175,199	18,863,448
<b>NON-CURRENT LIABILITIES</b>		
Long term loan-unsecured	6,946,905	6,946,906
Long term advances	-	14,414
Liabilities against assets subject to finance lease	32,793	-
Deferred liabilities	3,598,871	3,575,932
	10,578,569	10,537,252
<b>CURRENT LIABILITIES</b>		
Current portion of long term liabilities	905,075	902,121
Finances under mark-up arrangements - secured	4,913,583	6,431,343
Creditors, accrued and other liabilities	3,703,861	2,152,227
Provision for taxation	28,685	44,635
	9,551,204	9,530,326
<b>CONTINGENCIES AND COMMITMENTS</b>	5	
	<u>40,304,972</u>	<u>38,931,026</u>

The annexed notes 1 to 13 form an integral part of these financial statements.

*Syed Rizwan Ali Shah*  
Syed Rizwan Ali Shah  
Chief Executive

**KAP CO**

Sept. 30,    June 30,  
2007         2007  
Note    (Rupees in thousand)

ASSETS

NON-CURRENT ASSETS

Property, plant and equipment	6	20,779,045	21,174,460
Assets subject to finance lease		29,430	-
Intangible assets		2,968	2,674
Capital work-in-progress		100,859	90,724
Long term loans and deposits		<u>26,881</u>	<u>20,217</u>
		20,939,183	21,288,075

CURRENT ASSETS

Stores and spares	2,610,900	2,553,701
Stock-in-trade	2,345,317	1,759,459
Trade debts	12,838,023	11,574,384
Loans, advances, deposits, prepayments and other receivables	1,436,850	1,546,408
Cash and bank balances	<u>134,699</u>	<u>208,999</u>
	19,365,789	17,642,951

<u>40,304,972</u>	<u>38,931,026</u>
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Vince R. Harris OBE  
Director

PROFIT AND LOSS ACCOUNT FOR THE  
QUARTER ENDED SEPTEMBER 30, 2007 (UN-AUDITED)

	Note	For the Quarter	
		Jul 07-Sep 07	Jul 06-Sep 06
(Rupees in thousand)			
Sales		10,232,194	8,785,256
Cost of sales	7	<u>(7,917,979)</u>	<u>(6,828,943)</u>
Gross profit		2,314,215	1,956,313
Administration and general expenses		(98,658)	(58,194)
Other operating income		<u>192,003</u>	<u>86,710</u>
Profit from operations		2,407,560	1,984,829
Finance cost		<u>(392,219)</u>	<u>(310,237)</u>
Profit before tax		2,015,341	1,674,592
Taxation		(703,590)	(555,600)
Profit for the period		<u><u>1,311,751</u></u>	<u><u>1,118,992</u></u>
Earnings per share	Rupees	<u><u>1.49</u></u>	<u><u>1.27</u></u>

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 13 form an integral part of these financial statements.

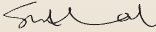
  
Syed Rizwan Ali Shah  
Chief Executive

  
Vince R. Harris OBE  
Director

**CASH FLOW STATEMENT FOR THE QUARTER  
ENDED SEPTEMBER 30, 2007 (UN-AUDITED)**

		For the Quarter	
	Note	Jul 07-Sep 07	Jul 06-Sep 06
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from operations	9	2,550,128	(1,635,241)
Finance cost paid		(362,983)	(310,237)
Taxes paid		(707,949)	(287,683)
Staff retirement benefits paid		(108)	-
		1,479,088	(2,233,161)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(19,736)	(52,174)
Income on bank deposits received		941	77,900
Net increase in long term loans and deposits		(6,664)	(391)
Sale proceeds of property, plant and equipment		2,648	1,187
		(22,811)	26,522
<b>Cash flows from financing activities</b>			
Repayment of finance lease liabilities		(578)	-
Dividend paid		(12,239)	(12,922)
		(12,817)	(12,922)
Net increase/(decrease) in cash and cash equivalents		1,443,460	(2,219,561)
Cash and cash equivalents at beginning of the period		(6,222,344)	4,366,054
Cash and cash equivalents at the end of the period		(4,778,884)	2,146,493

The annexed notes 1 to 13 form an integral part of these financial statements.

  
Syed Rizwan Ali Shah  
Chief Executive

  
Vince R. Harris OBE  
Director

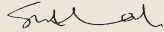
**KAP CO**

STATEMENT OF CHANGES IN EQUITY FOR THE  
QUARTER ENDED SEPTEMBER 30, 2007 (UN-AUDITED)

(Rupees in thousand)

	Share capital	Capital reserve	Un-appro- priated profit	Total
Balance as on June 30, 2006	8,802,532	444,451	10,874,854	20,121,837
Profit for the period	-	-	1,118,992	1,118,992
Balance as on September 30, 2006	<u>8,802,532</u>	<u>444,451</u>	<u>11,993,846</u>	<u>21,240,829</u>
Final dividend for the year ended June 30, 2006 - Rs 4.10 per share	-	-	(3,609,038)	(3,609,038)
Profit for the period	-	-	3,872,417	3,872,417
Interim dividend - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Balance as on June 30, 2007	<u>8,802,532</u>	<u>444,451</u>	<u>9,616,465</u>	<u>18,863,448</u>
Profit for the period	-	-	1,311,751	1,311,751
	<u><u>8,802,532</u></u>	<u><u>444,451</u></u>	<u><u>10,928,216</u></u>	<u><u>20,175,199</u></u>

The annexed notes 1 to 13 form an integral part of these financial statements.

  
Syed Rizwan Ali Shah  
Chief Executive

  
Vince R. Harris OBE  
Director

SELECTED NOTES TO THE FINANCIAL STATEMENT FOR  
THE QUARTER ENDED SEPTEMBER 30, 2007 (UN-AUDITED)

1. These financial statements are un-audited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.
2. The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of preceding annual published financial statements of the Company for the year ended June 30, 2007.
3. These financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34, "Interim Financial Reporting".
4. The provision for taxation for the quarter ended September 30, 2007 has been made on an estimate basis.
5. Contingencies and commitments

5.1 Contingencies

- (i) The Company had obtained legal advice in connection with the establishment of Workers' Profit Participation Fund under the Companies Profit (Workers' Participation) Act, 1968 (the Act). The legal advisor advised the Company that since it did not employ any person who fell under the definition of Worker as defined in the Act of 1968, the Company was not required to establish the Fund under the Act. As a consequence the Company was not required to make contributions to the Fund established pursuant to Workers' Welfare Fund Ordinance, 1971.

Furthermore, the question whether a company to which the Act of 1968 and its scheme applies but which does not employ any Worker is nevertheless obliged to establish and pay contributions into the Fund under the Act and thereafter transfer the same to the Fund established under the WWF Ordinance, 1971 is pending adjudication in Sindh High Court at Karachi on a constitutional petition filed by another company in December 2003.

The issue of WPPF was also taken up by the Government and a meeting took place involving Ministry of Water & Power, Private Power Infrastructure Board (PPIB), WAPDA Power Privatization Organization (WPPO), Ministry of Labour, HUBCO and the Company to formally discuss the issue. A strong case was put up by PPIB, supported by WPPO, HUBCO and the Company. The Ministry of Water & Power supported the case and stated that they would request the Ministry of Finance to exempt Independent Power Producers (IPPs), who had no workers under the Act, from the payment of WPPF.

The matter was then referred to Economic Coordination Committee (ECC). ECC formed a sub committee to look into the matter and to give recommendations.

Certain amendments have been introduced in Finance Act 2006, to relax the conditions of payment of interest and penalty for companies defaulting in creating Fund under the Act. If it is established that Workers' Profit Participation Fund is applicable to the Company and Company makes the principal payment on or before the date which is to be decided by the Federal Government, no such penalty may be imposed and the Company may not be liable to pay interest. Moreover the payments made by the Company will be recoverable from WAPDA as a pass through item under the provisions of the Power Purchase Agreement.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3.463 billion (June 2007: Rs 3.463 billion). Further, if it is established that interest is also applicable, in case of non compliance with the above said amendments in the Act, the liability for interest would amount to Rs 10.650 billion (June 2007: Rs 10.067 billion) as on the date of these financial statements. However it is not certain presently whether or not any penalties payable in connection with this contribution would also be recoverable from WAPDA under the Power Purchase Agreement.

In view of the foregoing, the Company has not made any provision for Workers' Profit Participation Fund and interest thereon in the financial statements upto June 30, 2006.

(ii) Claims against the Company not acknowledged as debts Rs 58.576 million (June 2007: Rs 58.576 million).

(iii) The Company has provided following guarantees in favour of:

Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 1,248.618 million (June 2007: Rs 1,248.618 million).

Custom Authorities for import of professional equipment, tools etc., amounting to Rs Nil (June 2007: Rs 0.638 million).

## 5.2 Commitments

(i) Contracts for capital expenditure Rs 43.372 million (June 2007: Rs 7.801 million).

(ii) Letters of credit other than for capital expenditure Rs 262.920 million (June 2007: Rs 213.930 million).

	Note	Sept. 30, 2007	June 30, 2007
(Rupees in thousand)			
<b>6. Property, plant and equipment</b>			
Opening book value		21,174,460	22,695,516
Add: Additions during the period	6.1	600	68,830
		21,175,060	22,764,346
Less: Disposals during the period (at book value)		2,508	1,289
Depreciation charged during the period		393,507	1,588,597
		396,015	1,589,886
		20,779,045	21,174,460

Sept. 30,      June 30,  
2007              2007  
(Rupees in thousand)

6.1 Following is the detail of additions during the period

Buildings on freehold land	-	5,864
Plant and machinery	-	1,037
Gas turbine blading	-	40,899
Auxiliary plant and machinery	-	11,252
Office equipment	600	3,250
Fixtures and fittings	-	2,987
Vehicles	-	3,541
	<u>600</u>	<u>68,830</u>

For the Quarter  
Jul 07-Sep 07    Jul 06-Sep 06  
(Rupees in thousand)

7. Cost of sales

Fuel cost	7,307,070	5,957,862
Salaries, wages and benefits	153,737	127,322
Plant maintenance	31,123	29,797
Gas turbines overhauls	25,671	218,632
Repair and renewals	5,468	98,865
Depreciation on property, plant and equipment	384,503	396,444
Amortisation on intangible assets	174	21
Provision for store obsolescence	10,233	-
	<u>7,917,979</u>	<u>6,828,943</u>

8. Transactions with related parties

Sale of goods and services	10,232,194	8,785,261
Interest expense	274,632	309,884
Key management personnel compensation	18,525	17,611
Interest income on late payment	188,107	-
Expense charged in respect of staff retirement benefit plans	14,362	9,943
Sale of property, plant and equipment	543	767
Donations	10,000	-

Sept. 30,      June 30,  
2007              2007  
(Rupees in thousand)

Period end balances		
Receivable from related parties	13,511,321	12,111,912
Payable to related parties	605	605

For the Quarter  
Jul 07-Sep 07 Jul 06-Sep 06  
(Rupees in thousand)

9. Cash generated from operations

Profit before tax	2,015,341	1,674,592
Adjustments for :		
- Depreciation on property, plant and equipment	393,507	406,041
- Amortisation on intangible assets	174	21
- Depreciation on assets subject to finance lease	1,015	-
- Profit on disposal of property, plant and equipment	(141)	(265)
- Income on bank deposits	(312)	(82,080)
- Provision for store obsolescence	10,233	-
- Staff retirement benefits accrued	11,457	7,315
- Finance cost	<u>392,219</u>	<u>310,237</u>

Profit before working capital changes 2,823,493 2,315,861

Effect on cash flow due to working capital changes

- (Increase) in stores and spares	(67,432)	(72,577)
- (Increase) in stock-in-trade	(585,858)	(505,815)
- (Increase) in trade debts	(1,263,639)	(2,736,922)
- Decrease/(increase) in loans, advances, deposits, prepayments and other receivables	108,928	(183,064)
- Increase/(decrease) in creditors, accrued and other liabilities	<u>1,534,636</u>	<u>(452,724)</u>
	<u>(273,365)</u>	<u>(3,951,102)</u>
	<u>2,550,128</u>	<u>(1,635,241)</u>

Sept. 30, Sept. 30,  
2007 2006  
(Rupees in thousand)

10. Cash and cash equivalents

Cash and bank balances	134,699	2,146,493
Finances under mark up arrangements	(4,913,583)	-
	<u>(4,778,884)</u>	<u>2,146,493</u>

11. Proposed dividend


The Board of Directors of the Company have proposed a final dividend for the year ended June 30, 2007 of Rs 3.00 per share amounting to Rs 2,640.760 million at their meeting held on August 30, 2007 for approval of the members at the Annual General Meeting to be held on October 22, 2007. These financial statements do not reflect this dividend payable, which will be accounted for in the period in which it is approved by the members.

12. Date of authorization for issue

These financial statements were authorised for issue on October 22, 2007 by the Board of Directors of the Company.

13. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.

  
Syed Rizwan Ali Shah  
Chief Executive

  
Vince R. Harris OBE  
Director