

## Directors Report for the Half Year Ended December 31, 2008

We are pleased to present the financial statements (un-audited) for the half year ended December 31, 2008.

During the review period, the Power Plant generated 3,745 GWh of electricity, resulting in a load factor of 63.2% with an overall availability of 85%. The fuel mix for the dispatched output to the Company's customer, WAPDA was 17.4% gas, 73.4% low sulphur furnace oil and 9.2% high speed diesel.

Turnover for the review period was Rs. 39,657 Million and Cost of Sales was Rs. 34,219 Million. Profit after tax for the review period was Rs. 2,711 Million (compared to Rs. 2,618 Million in the corresponding period last year), delivering an EPS of Rs. 3.08 (Rs. 2.97 July, 07 to December, 07).

The Power Plant is being operated and maintained according to high international standards with a view to ensuring continued availability to the Company's customer, WAPDA.

Delayed payments from the Company's customer, WAPDA against capacity and energy invoices continue to remain a source of concern for the Company. The Company is actively pursuing a settlement of the receivables issue not only with WAPDA, but also with the concerned Ministries in the Government of Pakistan. On December 31, 2008, the overdue amount from WAPDA stood at Rs. 40,556 Million.

A major overhaul of a steam turbine; a hot gas path inspection of a gas turbine; and combustion inspections of 10 gas turbines were completed.

At the close of the review period, the Company achieved 4,208,838 man hours worked without a Lost Time Accident.

No provision for Worker's Profit Participation Fund was made in the Company's financial statements until June 30, 2006 as the Company's position with respect to Workers Profit Participation Fund 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 Company was not required to establish a fund and consequently not required to make contributions to the fund established pursuant to the Workers' Welfare Fund Ordinance, 1971. Following the amendments in the Finance Act, 2006 in relation to the Companies Profit (Workers' Participation) Act, 1968 the Company established the Workers Profit Participation Fund for the period commencing from July 1, 2006 in accordance with the provisions of the law; and the cost of which is a pass through to WAPDA.

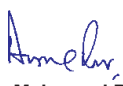
The Company continues to progress matters in respect of its proposed Expansion Project of approximately 450 MW. It may, however, be noted that at this stage there is no assurance/guarantee that the Company will increase its generation capacity.

The final dividend of Rs. 2.20 per share (Rs. 10 each) approved by the shareholders at the Annual General Meeting held in October 2008 was paid in November 2008; resulting in a full year 2007/08 dividend of Rs. 5.45 per share (Rs. 10 each).

The Directors have pleasure in announcing an interim cash dividend of Rs. 2.25 per share (Rs. 10 each). This will be paid to the shareholders whose names appear on the Company's Register of Members on February 26, 2009.

On behalf of the Board

Lahore  
February 4, 2009

  
**Aftab Mahmood Butt**  
Chief Executive

# Auditors' Report to the Member on Review of Interim Financial Information

## Introduction

We have reviewed the accompanying condensed interim balance sheet of Kot Addu Power Company Limited as at December 31, 2008 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. This figure of the condensed interim profit and loss account for the quarters ended December 31, 2007 and 2008 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2008.

## Scope of Review

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

## Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended December 31, 2008 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan. Without qualifying our review report, we draw attention to note 6.1(ii) to the financial statements. The company has not made any provision for Workers' Profit Participation Fund for the years upto June 30, 2006 based on a legal advice and in view of a constitutional petition pending adjudication in Sindh High Court on this matter. As more fully explained in the note, the ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements, including any penalties which may become payable in connection therewith.

Lahore  
February 4, 2009

A. F. Ferguson & Co.  
Chartered Accountants

**Name of engagement partner:** Muhammad Masood

# Condensed Interim Balance Sheet

## as at December 31, 2008 (Un-Audited)

	December 31, 2008	June 30, 2008
Note	(Rupees in thousand)	
<b>EQUITY AND LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Authorised capital		
3,600,000,000 (June 2008: 3,600,000,000) ordinary shares of Rs 10 each	36,000,000	36,000,000
Issued, subscribed and paid up capital 880,253,228 (June 2008: 880,253,228) ordinary shares of Rs 10 each	8,802,532	8,802,532
Capital reserve	444,451	444,451
Unappropriated profit	12,855,823	12,081,025
	22,102,806	21,328,008
<b>NON-CURRENT LIABILITIES</b>		
Long term loan-unsecured	5,597,332	6,047,191
Liabilities against assets subject to finance lease	33,769	30,924
Deferred liabilities	2,808,050	2,729,895
	8,439,151	8,808,010
<b>CURRENT LIABILITIES</b>		
Current portion of long term liabilities	906,210	906,342
Finances under mark-up arrangements - secured	24,422,622	23,637,028
Trade and other payables	17,237,395	2,285,073
	42,566,227	26,828,443
<b>CONTINGENCIES AND COMMITMENTS</b>	6	
	73,108,184	56,964,461

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**Aftab Mahmood Butt**  
Chief Executive

		December 31, 2008	June 30, 2008
	Note	(Rupees in thousand)	

## ASSETS

### NON-CURRENT ASSETS

Property, plant and equipment	7	18,955,428	19,683,665
Intangible assets		3,916	2,398
Assets subject to finance lease		36,244	36,525
Capital work-in-progress		163,994	133,276
Long term loans and deposits		31,207	25,254
		<u>19,190,789</u>	<u>19,881,118</u>

### CURRENT ASSETS

Stores and spares		2,771,303	2,551,182
Stock-in-trade		1,642,089	2,191,568
Trade debts	8	46,435,559	29,303,453
Loans, advances, deposits, prepayments and other receivables		2,764,032	2,857,701
Cash and bank balances		304,412	179,439
		<u>53,917,395</u>	<u>37,083,343</u>

<u>73,108,184</u>	<u>56,964,461</u>
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**Vince R. Harris OBE**  
 Director

## Condensed Interim Profit and Loss Account

for the Quarter and Half Year Ended December 31, 2008 (Un-Audited)

	Note	Quarter ended		Half year ended	
		December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
(Rupees in thousand)					
Sales		17,170,739	12,030,907	39,656,510	22,263,101
Cost of sales	9	(14,541,715)	(9,773,607)	(34,218,618)	(17,691,586)
<b>Gross profit</b>		2,629,024	2,257,300	5,437,892	4,571,515
Administrative expenses		(239,178)	(70,412)	(332,741)	(169,070)
Other operating income		1,360,084	272,478	2,165,928	464,481
<b>Profit from operations</b>		3,749,930	2,459,366	7,271,079	4,866,926
Finance cost		(1,960,760)	(450,080)	(3,101,685)	(842,299)
<b>Profit before tax</b>		1,789,170	2,009,286	4,169,394	4,024,627
Taxation		(613,959)	(703,370)	(1,458,039)	(1,406,960)
<b>Profit for the period</b>		<u>1,175,211</u>	<u>1,305,916</u>	<u>2,711,355</u>	<u>2,617,667</u>
Earnings per share -basic & diluted	Rupees	<u>1.34</u>	<u>1.48</u>	<u>3.08</u>	<u>2.97</u>

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

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**Aftab Mahmood Butt**  
Chief Executive



**Vince R. Harris OBE**  
Director

# Condensed Interim Cash Flow Statement

for the Half Year Ended December 31, 2008 (Un-Audited)

	Note	Half year ended	
		December 31, 2008	December 31, 2007
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from operations	11	5,140,399	839,447
Finance cost paid		(1,917,120)	(759,139)
Taxes paid		(1,451,723)	(1,410,662)
Staff retirement benefits paid		(10,622)	(198)
<b>Net cash from/(used in) operating activities</b>		<b>1,760,934</b>	<b>(1,330,552)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(47,989)	(26,925)
Income on bank deposits received		600	1,057
Net increase in long term loans and deposits		(5,953)	(7,700)
Sale proceeds of property, plant and equipment		329	6,738
<b>Net cash used in investing activities</b>		<b>(53,013)</b>	<b>(26,830)</b>
<b>Cash flows from financing activities</b>			
Repayment of liabilities against assets subject to finance lease		(3,948)	(1,863)
Repayment of long term loan		(449,859)	(449,859)
Dividend paid		(1,914,735)	(2,613,401)
<b>Net cash used in financing activities</b>		<b>(2,368,542)</b>	<b>(3,065,123)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(660,621)</b>	<b>(4,422,505)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>(23,457,589)</b>	<b>(6,222,344)</b>
<b>Cash and cash equivalents at the end of the period</b>	12	<b>(24,118,210)</b>	<b>(10,644,849)</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**Aftab Mahmood Butt**  
Chief Executive



**Vince R. Harris OBE**  
Director

## Condensed Interim Statement of Changes in Equity for the Half Year Ended December 31, 2008 (Un-Audited)

(Rupees in thousand)

	Share capital	Capital reserve	Un-appro- priated profit	Total
<b>Balance as on June 30, 2007</b>	8,802,532	444,451	9,616,465	18,863,448
Final dividend for the year ended June 30, 2007 - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Profit for the period	-	-	2,617,667	2,617,667
<b>Balance as on December 31, 2007</b>	<u>8,802,532</u>	<u>444,451</u>	<u>9,593,372</u>	<u>18,840,355</u>
Profit for the period	-	-	5,348,476	5,348,476
Interim dividend - Rs 3.25 per share	-	-	(2,860,823)	(2,860,823)
<b>Balance as on June 30, 2008</b>	<u>8,802,532</u>	<u>444,451</u>	<u>12,081,025</u>	<u>21,328,008</u>
Final dividend for the year ended June 30, 2008 - Rs 2.20 per share	-	-	(1,936,557)	(1,936,557)
Profit for the period	-	-	2,711,355	2,711,355
<b>Balance as on December 31, 2008</b>	<u><u>8,802,532</u></u>	<u><u>444,451</u></u>	<u><u>12,855,823</u></u>	<u><u>22,102,806</u></u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**Aftab Mahmood Butt**  
Chief Executive



**Vince R. Harris OBE**  
Director

**KAPCO**

## Notes to and Forming Part of the Financial Information for the Quarter and Half Year Ended December 31, 2008 (Un-Audited)

1. This condensed interim financial information is un-audited and is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges.
2. The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of preceding annual published financial statements of the Company for the year ended June 30, 2008.
3. This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' and has been reviewed by the auditors as required by the Code of Corporate Governance.
4. Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

### 5. Trade and other payables

Trade creditors include payable to Pakistan State Oil amounting to Rs 14,364 million (June 2008: Rs 137 million).

### 6. Contingencies and commitments

#### 6.1 Contingencies

- (i) The management, on the strength of a favourable judgment by Sindh High Court, revised the income tax returns of the Company for tax years 2003 through 2007 to the effect that:

(a) depreciation and initial allowance earlier claimed in respect of assets in the original income tax returns for tax periods upto June 27, 2006 were not claimed being the date upto which Company was exempt from levy of income tax; and

(b) the respective taxable incomes of the tax periods subsequent to June 27, 2006 were reduced by significant amounts given to the position that in such tax periods, Company became entitled to an enhanced claim of depreciation and initial allowance attributable to an increased written down value of assets at commencement of such periods.

The overall impact of such revisions in income tax returns was a reversal of current and deferred tax provisions by Rs 1,621.164 million and Rs 1,105.092 million respectively. The relevant income tax authorities disputing Company's contentions mitigated the effect of revisions of returns by amending such revised returns and restoring the earlier position.

The Company has filed appeals before relevant appellate authority contesting such amendments which have been heard, however, an order is still awaited. In view of the fact that management considers the revisions of income tax returns to be in accordance with relevant provisions of law, as interpreted by Sindh High Court, and that litigation would eventually be settled in Company's favour, the income tax liabilities determined by tax authorities have not been accounted for in these financial statements. Had such liabilities been recognized, the profit for the period would have been lower by Rs 2,714.898 million.

- (ii) 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 were 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.

If it is established that the scheme is applicable to the Company and the Company is liable to pay contribution to the Workers' Welfare Fund then these amounts would be recoverable from WAPDA as a pass through item under the provisions of Power Purchase Agreement. 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 case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3,463 billion (June 2008: Rs 3,463 billion). Further, if it is established that interest is also applicable the maximum liability for interest would amount to Rs 13,562 billion (June 2008: Rs 12,397 billion) as on the date of this condensed interim financial information.

Based on the above grounds, the Company did not make any provision for Workers' Profit Participation Fund and interest thereon in the financial statements upto June 30, 2006, as according to the management of the Company, there are meritorious grounds that the ultimate decision would be in its favour.

- (iii) Claims against the Company not acknowledged as debts Rs 88.111 million (June 2008: Rs 58.576 million).
- (iv) 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 833.510 million (June 2008: Rs 1,185.827 million).

## **6.2 Commitments**

- (i) Contracts for capital expenditure Rs 290.666 million (June 2008: Rs 13.149 million).
- (ii) Letters of credit other than for capital expenditure Rs 241.426 million (June 2008: Rs 219.373 million).

	December 31, 2008	June 30, 2008
<b>7. Property, plant and equipment</b>	<b>(Rupees in thousand)</b>	
Opening book value	19,683,665	21,174,460
Add: Additions during the period - note 7.1	17,580	66,636
	<u>19,701,245</u>	<u>21,241,096</u>
Less: Disposals during the period (at book value)	-	6,489
Depreciation charged during the period	745,817	1,550,942
	<u>745,817</u>	<u>1,557,431</u>
Closing book value	<u><u>18,955,428</u></u>	<u><u>19,683,665</u></u>

**7.1 Following is the detail of additions during the period**

Buildings on freehold land	314	7,490
Plant and machinery	13,542	29,203
Gas turbine blading	-	1,966
Auxiliary plant and machinery	1,481	14,210
Office equipment	2,243	13,703
Vehicles	-	64
	<u>17,580</u>	<u>66,636</u>

**8. Trade debts**

Trade debts - note 8.1	46,514,281	29,355,713
Less: Provision for doubtful debts	78,722	52,260
	<u><u>46,435,559</u></u>	<u><u>29,303,453</u></u>

- 8.1** These are considered good and include an overdue amount of Rs 40,556 million (June 2008: Rs 20,341 million) receivable from WAPDA. The trade debts are secured by a guarantee from the Government of Pakistan under the Facilitation Agreement. These are in the normal course of business and are interest free, however, a penal mark-up of SBP discount rate plus 4 percent per annum is charged in case the amounts are not paid within due dates.

Quarter ended		Half year ended	
December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007

**9. Cost of sales**

	<b>(Rupees in thousand)</b>			
Fuel cost	13,880,353	9,105,758	32,954,152	16,412,828
Salaries, wages and benefits	148,198	101,563	331,062	255,300
Plant maintenance	39,706	44,684	69,225	75,807
Gas turbines overhauls	85,441	50,615	88,939	76,286
Repair and renewals	19,273	79,356	31,477	84,824
Depreciation on property, plant and equipment	363,835	381,216	728,398	765,719
Amortisation on intangible assets	291	192	514	366
Provision for store obsolescence	4,618	10,223	14,851	20,456
	<u><u>14,541,715</u></u>	<u><u>9,773,607</u></u>	<u><u>34,218,618</u></u>	<u><u>17,691,586</u></u>

**10. Transactions with related parties**

Relationship with the Company	Nature of transaction		
i. Associated undertakings	Purchase of services	207	656
	Sale of electricity	39,656,510	22,263,101
	Interest expense	485,593	551,372
	Interest income on late payment	2,155,024	453,014
	Donations	-	10,000
ii. Post retirement benefit plans	Expense charged	38,947	22,911
iii. Key management personnel	Sale of property, plant and equipment	-	1,733
	Compensation	58,558	30,308

**December 31, 2008      June 30, 2008**  
(Rupees in thousand)

**Period end balances**

Receivable from related parties	47,455,560	30,383,952
Payable to related parties	300,450	115,215

**Half year ended**

**December 31, 2008      December 31, 2007**

**11. Cash generated from operations**

Profit before tax	4,169,394	4,024,627
Adjustments for:		
- Depreciation on property, plant and equipment	745,817	783,578
- Depreciation on assets subject to finance lease	4,600	2,911
- Amortisation on intangible assets	514	366
- Profit on disposal of property, plant and equipment	(329)	(1,024)
- Income on bank deposits	-	(727)
- Advances written off	436	-
- Provision for stores obsolescence	14,851	20,456
- Provision for doubtful debts	26,462	10,500
- Staff retirement benefits accrued	31,552	22,911
- Finance cost	3,101,685	842,299
Profit before working capital changes	8,094,982	5,705,897

Effect on cash flow due to working capital changes

- Increase in stores and spares	(234,972)	(32,842)
- Decrease in stock-in-trade	549,479	359,217
- Increase in trade debts	(17,158,568)	(3,325,951)
- Decrease/(increase) in loans, advances, deposits, prepayments and other receivables	143,544	(1,022,303)
- Increase/(decrease) in trade and other payables	13,745,934	(844,571)
	<u>(2,954,583)</u>	<u>(4,866,450)</u>
	<u>5,140,399</u>	<u>839,447</u>

**December 31, 2008      December 31, 2007**

**(Rupees in thousand)**

**12. Cash and cash equivalents**

Cash and bank balances	304,412	289,520
Finances under mark up arrangements	(24,422,622)	(10,934,369)
	<u>(24,118,210)</u>	<u>(10,644,849)</u>

**13. Proposed dividend**

The Board of Directors have declared an interim cash dividend of Rs 2.25 per share (December 31, 2007: Rs 3.25 per share), amounting to Rs 1,981 million (December 31, 2007: Rs 2,861 million) at their meeting held on February 4, 2009. This condensed interim financial information does not include the effect of the above interim cash dividend which will be accounted for in the period in which it is declared.

**14. Date of authorization for issue**

This condensed interim financial information was authorised for issue on February 4, 2009 by the Board of Directors of the Company.

**15. Corresponding figures**

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



**Aftab Mahmood Butt**  
Chief Executive



**Vince R. Harris OBE**  
Director