

Directors Report

It pleases us to present the Annual Report and the Financial Statements of the Company for the year ended June 30, 2008.

The principal activity of the Company continues to be the ownership, operation and maintenance of a 1600 MW nameplate capacity gas, furnace oil and diesel fired power station at Kot Addu in the province of Punjab, and to sell the electrical energy produced therefrom to its single customer, the Pakistan Water and Power Development Authority ("WAPDA")

The Company is listed on all the three Stock Exchanges of Pakistan; and is a KSE 100 Index company; and has been placed on the Futures Contract of KSE.

Finance

Turnover for the Current Year was Rs. 55,947 Million (2007; Rs. 37,087 Million) and cost of sales was Rs. 46,600 Million (2007; Rs. 28,343 Million) resulting in a gross profit of Rs. 9,347 Million (2007; Rs. 8,743 Million).

The Company's profit before tax for the Current Year was Rs. 8,059 Million as compared to Rs. 7,584 Million last year. The Company provided Rs. 93 Million for the Current Year's tax liability and earned a Profit After Tax of Rs. 7,966 Million (2007; Rs. 4,991 Million) achieving an Earnings Per Share (EPS) of Rs. 9.05 (2007; Rs. 5.67 per share).

The Company continues to discharge its liabilities as they become due; and this includes the repayment of two tranches of the Loan Note, in total, of Rs. 900 Million in December 2007 and June 2008 (through exchange of debit and credit notes with WAPDA).

The trade debts due to the Company amount to Rs. 29,355 Million, out of which the amount of Rs. 20,341 Million constitutes overdue receivables from the Company's customer, WAPDA. The receivables from WAPDA are secured by a guarantee from the President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan. Reference can be made to Note 22 for details of the trade debts.

Operations

In the Current Year, the Company achieved a new record by selling 8,863 GWh of electricity to WAPDA; the previous highest record being 8,292 GWh during the year 2005-06. The net electrical output of the Company represents 25.5% of the total electricity produced by the Independent Power Producers (IPPs) and approximately 9.5% of the total energy generated in Pakistan. The level of generation represents a cumulative load factor of 75.2% with an overall availability of 88%. The thermal efficiency achieved was 43.2%.

The Company is committed to maintain the Power Plant to the highest international standards. To achieve this the Company follows a programme of various overhauls and inspections of its Turbines. During the Current Year, 1 Major Overhaul, 4 Hot Gas Path Inspections and 11 Combustion Inspections of the various Turbines were successfully completed according to the plan.

The Company's commitment to safety is manifested in its achievement of successfully completing on June 30, 2008, 3,605,366 man hours worked (1068 days) without a Lost Time Accident.

Social Action Programme

As part of its social initiative, the Company made two significant contributions towards healthcare and education by donating the sum of Rs. 10 Million to Burns Unit set-up by WAPDA at its hospital in Lahore, and a donation of Rs. 15 Million for the construction of the LUMS School of Science & Engineering in Lahore. The Company is also mindful of the local communities in the Kot Addu area. Education, healthcare and general welfare projects are undertaken by the Company under the overall umbrella of its Social Action Plan with a view to improving the lives of the local residents. The construction of class rooms and an examination/multipurpose hall for a local school, free medical and eye camps, the construction of a mosque, and the construction of waiting sheds at the civil courts and the railway station in Kot Addu are some of the initiatives taken by the Company.

Change of Chairman

Following the cessation of Directorship of Mr. Tariq Hamid, Mr. Shakil Durrani was appointed Director of the Company on October 6, 2007 for the remaining term of Mr. Hamid by the Board of Directors. Mr. Durrani was elected Chairman of the Board of Directors on October 22, 2007 in accordance with the provisions of Article 53 of the Articles of Association of the Company.

Corporate and Financial Reporting Framework

As required by the Code of Corporate Governance, the Directors are pleased to report the following:

- a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the Company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial

Apparently, long term availability of low sulphur furnace oil (LSFO) seems to be a matter of concern as fuel suppliers have indicated their inability to enter into a long term agreement for supply of LSFO. This may lead to a consideration for changing the fuel specifications and thus revalidation of certain approvals obtained earlier. In this regard, discussions with the fuel supplier are ongoing and term of memorandum of understanding has been extended.

The Company is in the process of obtaining other regulatory approvals before approaching NEPRA for tariff determination. Various approvals granted by the concerned agencies and approaching NEPRA for tariff determination is, however, no assurance/guarantee at this stage that the Company will increase its generation capacity.

Workers' Profit Participation Fund Matter

Following the amendments in the Finance Act, 2006 in relation to the Companies Profit (Workers' Participation) Act, 1968 and based on legal advice received, the Company has established the Workers Profit Participation Fund for the period commencing from July 1, 2006 to which contributions based on profits of the Company for the Current Year have been made. As the contributions to the Fund are a pass through to the Company's customer, WAPDA under the Power Purchase Agreement, there is no financial impact on the Company's profits.

No provision, however, 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.

Auditors

The present auditors, A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment. The Board recommends the appointment of A. F. Ferguson & Co., Chartered Accountants, as auditors of the Company for the next year, as suggested by the Audit Committee.

Appreciation

Last but not least we would like to thank the employees of the Company for their diligent work in making the Company's operations a success.

By Order of the Board



Aftab Mahmood Butt*
(Chief Executive)

Lahore
August 28, 2008

* Mr. Aftab Mahmood Butt was appointed Chief Executive in place of Syed Rizwan Ali Shah on August 1, 2008.