

**REPORT OF THE DIRECTORS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

The Directors have pleasure in presenting the financial statements (un-audited) for the period ended September 30, 2008.

The principle activity of the Company is to own, operate and maintain a 1600 MW name plate capacity multi-fuel combined cycle gas turbine power station at Kot Addu.

Over the review period, the power plant generated a net output of 2,045.3 GWh of electricity, resulting in a load factor of 68.9 % with an overall commercial availability of 95.2%. The fuel mix for the dispatched output to our customer, WAPDA was 21.9% Gas, 66.1% Low Sulphur Furnace Oil and 12% High Speed Diesel.

The non performance of WAPDA with regard to payments, on account of electricity supplied, has remained matter of serious concern. On September 30, 2008 the receivables due from WAPDA were of the amount of Rs. 35,211 million out of which the amount of Rs. 23,815 million is overdue.

Turnover for the period was Rs. 22,486 Million and cost of sales was Rs. 19,677 Million. Profit after tax for the period was Rs. 1,536 Million (compared to Rs. 1,312 Million in the corresponding period in 2007), delivering an earning per share (EPS) of Rs. 1.75 per share (Rs. 1.49 July to September 07).

During the review period, Combustion Inspection of three Gas Turbines were carried out as 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.

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.

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.

On August 1, 2008, Mr. Aftab Mahmood Butt was appointed Chief Executive of the Company. Mr. Butt brings with him an excellent diversified management experience of both the public and private sectors of Pakistan including the power sector and we are pleased to have him as the Company's Chief Executive.

On behalf of the Board



Aftab Mahmood Butt  
Chief Executive

Islamabad: October 23, 2008

**CONDENSED INTERIM BALANCE SHEET AS AT  
SEPTEMBER 30, 2008 (UN-AUDITED)**

	Sept. 30, 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	<u>36,000,000</u>	<u>36,000,000</u>
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	<u>13,617,169</u>	<u>12,081,025</u>
	22,864,152	21,328,008
<b>NON-CURRENT LIABILITIES</b>		
Long term loan-unsecured	6,047,191	6,047,191
Liabilities against assets subject to finance lease	34,485	30,924
Deferred liabilities	<u>2,784,788</u>	<u>2,729,895</u>
	8,866,464	8,808,010
<b>CURRENT LIABILITIES</b>		
Current portion of long term liabilities	906,124	906,342
Finances under mark-up arrangements - secured	25,838,889	23,637,028
Trade and other payables	<u>4,973,738</u>	<u>2,285,073</u>
	31,718,751	26,828,443
<b>CONTINGENCIES AND COMMITMENTS</b>	5	
	<u>63,449,367</u>	<u>56,964,461</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
 Aftab Mahmood Butt  
 Chief Executive

**KAP CO**

Sept. 30,    June 30,  
2008        2008  
Note    (Rupees in thousand)

ASSETS

NON-CURRENT ASSETS

Property, plant and equipment	6	19,326,335	19,683,665
Intangible assets		4,207	2,398
Assets subject to finance lease		36,047	36,525
Capital work-in-progress		146,960	133,276
Long term loans and deposits		32,434	25,254
		<u>19,545,983</u>	<u>19,881,118</u>

CURRENT ASSETS

Stores and spares	2,640,900	2,551,182
Stock-in-trade	3,128,872	2,191,568
Trade debts	35,210,525	29,303,453
Loans, advances, deposits, prepayments and other receivables	2,738,764	2,857,701
Cash and bank balances	184,323	179,439
	<u>43,903,384</u>	<u>37,083,343</u>


	<u>63,449,367</u>	<u>56,964,461</u>
--	-------------------	-------------------

  
Vince R. Harris OBE  
Director

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT  
FOR THE QUARTER ENDED SEPTEMBER 30, 2008  
(UN-AUDITED)**

	Note	For the Quarter	
		Jul - Sep 2008	Jul - Sep 2007
(Rupees in thousand)			
Sales		22,485,771	10,232,194
Cost of sales	7	<u>(19,676,903)</u>	<u>(7,917,979)</u>
Gross profit		2,808,868	2,314,215
Administrative expenses		(93,563)	(98,659)
Other operating income		<u>805,844</u>	<u>192,003</u>
Profit from operations		3,521,149	2,407,560
Finance cost		<u>(1,140,925)</u>	<u>(392,219)</u>
Profit before tax		2,380,224	2,015,341
Taxation		(844,080)	(703,590)
Profit for the period		<u><u>1,536,144</u></u>	<u><u>1,311,751</u></u>
Earnings per share -basic and diluted	Rupees	<u><u>1.75</u></u>	<u><u>1.49</u></u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
Aftab Mahmood Butt  
Chief Executive

  
Vince R. Harris OBE  
Director

**KAP CO**

**CONDENSED INTERIM CASH FLOW STATEMENT  
FOR THE QUARTER ENDED SEPTEMBER 30, 2008  
(UN-AUDITED)**

Note	For the Quarter		
	Jul - Sep 2008	Jul - Sep 2007	
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from operations	9	(539,578)	2,550,128
Finance cost paid		(807,567)	(362,983)
Taxes paid		(799,849)	(707,949)
Staff retirement benefits paid		(5,113)	(108)
		(2,152,107)	1,479,088
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(28,719)	(19,736)
Income on bank deposits received		115	941
Net increase in long term loans and deposits		(7,180)	(6,664)
Proceeds from sale of property, plant and equipment		-	2,648
		(35,784)	(22,811)
<b>Cash flows from financing activities</b>			
Repayment of liabilities against assets subject to finance lease		(1,412)	(578)
Dividend paid		(7,674)	(12,239)
		(9,086)	(12,817)
		(2,196,977)	1,443,460
Cash and cash equivalents at beginning of the period		(23,457,589)	(6,222,344)
Cash and cash equivalents at the end of the period	10	(25,654,566)	(4,778,884)

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
Aftab Mahmood Butt  
Chief Executive

  
Vince R. Harris OBE  
Director

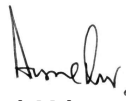
**KAP CO**

**CONDENSED INTERIM STATEMENT OF CHANGES  
IN EQUITY FOR THE QUARTER ENDED  
SEPTEMBER 30, 2008 (UN-AUDITED)**

(Rupees in thousand)

	Share capital	Capital reserve	Un-appro- priated profit	Total
Balance as on June 30, 2007	8,802,532	444,451	9,616,465	18,863,448
Profit for the period	-	-	1,311,751	1,311,751
Balance as on September 30, 2007	<u>8,802,532</u>	<u>444,451</u>	<u>10,928,216</u>	<u>20,175,199</u>
Final dividend for the year ended June 30, 2007 - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Profit for the period	-	-	6,654,392	6,654,392
Interim dividend - Rs 3.25 per share	-	-	(2,860,823)	(2,860,823)
Balance as on June 30, 2008	<u>8,802,532</u>	<u>444,451</u>	<u>12,081,025</u>	<u>21,328,008</u>
Profit for the period	-	-	1,536,144	1,536,144
Balance as on September 30, 2008	<u><u>8,802,532</u></u>	<u><u>444,451</u></u>	<u><u>13,617,169</u></u>	<u><u>22,864,152</u></u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
Aftab Mahmood Butt  
Chief Executive

  
Vince R. Harris OBE  
Director

**KAP CO**

**NOTES TO AND FORMING PART OF THE FINANCIAL  
INFORMATION FOR THE QUARTER  
ENDED SEPTEMBER 30, 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'.
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. Contingencies and commitments

5.1 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 not yet been taken up for hearing. 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 2,710.085 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 12.980 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 58.576 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 1,185.827 million (June 2008: Rs 1,185.827 million).

## 5.2 Commitments

(i) Contracts for capital expenditure Rs 437.790 million (June 2008: Rs 13.149 million).

(ii) Letters of credit other than for capital expenditure Rs 296.722 million (June 2008: Rs 219.373 million).

	Note	Sept. 30, 2008	June 30, 2008
(Rupees in thousand)			
<b>6. Property, plant and equipment</b>			
Opening book value		19,683,665	21,174,460
Add: Additions during the period	6.1	15,992	66,636
		<u>19,699,657</u>	<u>21,241,096</u>
Less: Disposals during the period (at book value)		-	6,489
Depreciation charged during the period		373,322	1,550,942
		<u>373,322</u>	<u>1,557,431</u>
		<u>19,326,335</u>	<u>19,683,665</u>

### 6.1 Following is the detail of additions during the period

Buildings on freehold land	-	7,490
Plant and machinery	-	29,203
Gas turbine blading	-	1,966
Auxiliary plant and machinery	13,929	14,210
Office equipment	2,063	13,703
Vehicles	-	64
	<u>15,992</u>	<u>66,636</u>

For the Quarter  
Jul - Sep 2008      Jul - Sep 2007  
(Rupees in thousand)

## 7. Cost of sales

Fuel cost	19,073,799	7,307,070
Salaries, wages and benefits	182,864	153,737
Plant maintenance	29,519	31,123
Gas turbines overhauls	3,498	25,671
Repair and renewals	12,204	5,468
Depreciation on property, plant and equipment	364,563	384,503
Amortisation on intangible assets	223	174
Provision for store obsolescence	10,233	10,233
	<u>19,676,903</u>	<u>7,917,979</u>

**KAP CO**

		For the Quarter	
		Jul - Sep 2008	Jul - Sep 2007
		(Rupees in thousand)	
8.	Transactions with related parties		
	Relationship with the Company		
	Nature of transaction		
i.	Associated undertakings		
	Purchase of services	107	-
	Sale of electricity	22,485,771	10,232,194
	Interest expense	243,142	274,632
	Interest income on late payments	801,883	188,107
	Donations	-	10,000
ii.	Post retirement benefit plans		
	Expense charged	15,776	14,362
iii.	Key management personnel		
	Sale of property, plant and equipment	-	543
	Compensation	32,344	18,525
		Sept. 30, 2008	June 30, 2008
		(Rupees in thousand)	
	Period end balances		
	Receivable from related parties	5,813	1,980
	Payable to related parties	668	605

		For the Quarter	
		Jul - Sep 2008	Jul - Sep 2007
		(Rupees in thousand)	
9.	Cash generated from operations		
	Profit before tax	2,380,224	2,015,341
	Adjustments for :		
	- Depreciation on property, plant and equipment	373,322	393,507
	- Amortisation on intangible assets	223	174
	- Depreciation on assets subject to finance lease	2,246	1,015
	- Profit on disposal of property, plant and equipment	-	(141)
	- Income on bank deposits	483	(312)
	- Provision for store obsolescence	10,233	10,233
	- Staff retirement benefits accrued	15,776	11,457
	- Finance cost	1,140,925	392,219
	Profit before working capital changes	3,923,432	2,823,493
	Effect on cash flow due to working capital changes		
	- (Increase) in stores and spares	(99,951)	(67,432)
	- (Increase) in stock-in-trade	(937,304)	(585,858)
	- (Increase) in trade debts	(5,907,072)	(1,263,639)
	- Decrease in loans, advances, deposits, prepayments and other receivables	118,337	108,928
	- Increase in trade and other payables	2,362,980	1,534,636
		<u>(4,463,010)</u>	<u>(273,365)</u>
		<u>(539,578)</u>	<u>2,550,128</u>

Sept. 30, 2008      Sept. 30, 2007  
(Rupees in thousand)

10. Cash and cash equivalents

Cash and bank balances	184,323	134,699
Finances under mark up arrangements	<u>(25,838,889)</u>	<u>(4,913,583)</u>
	<u>(25,654,566)</u>	<u>(4,778,884)</u>

11. Proposed dividend

The Board of Directors of the Company have proposed a final dividend for the year ended June 30, 2008 of Rs 2.20 per share amounting to Rs 1,936.557 million at their meeting held on August 28, 2008 for approval of the members at the Annual General Meeting to be held on October 23, 2008. This condensed interim financial information does 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

This condensed financial information was authorised for issue on October 23, 2008 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.



Aftab Mahmood Butt  
Chief Executive



Vince R. Harris OBE  
Director