

Directors' Report

We are pleased to present the financial statements (un-audited) for the half year ended December 31, 2012.

In the Second Quarter, the Power Plant generated 1,021 GWh of electricity (year to date generation level 2,873 GWh) at a load factor of 34.5% (year to date load factor 48.4%) with an overall availability of 92.7% (year to date overall availability 92.2%). The fuel mix during the Second Quarter was 97.8% on Low Sulphur Furnace Oil (year to date LSFO fuel mix 93.1%); 2.2% on High Speed Diesel (year to date HSD fuel mix 0.9%); and no generation on Gas (year to date Gas fuel mix 6.0%).

For the Half Year, the turnover was Rs. 48,665 Million; cost of sales were Rs. 42,409 Million; profit after tax was Rs. 3,683 Million (compared to Rs. 2,703 Million in the corresponding period last year); and EPS stood at Rs. 4.18 (Rs. 3.07 in the corresponding period last year).

The Company's sole customer (WAPDA) remains in default of its payment obligations to the Company. On December 31, 2012, the overdue receivables from WAPDA were Rs. 47,926 Million (Rs. 64,171 Million in the corresponding period last year). The Company continues to pursue WAPDA and concerned Ministries in the Government of Pakistan for resolution of the matter.

As with other IPPs, WAPDA has raised invoices for liquidated damages to the Company of the amount of Rs. 12.645 Billion for the years ended June 2009, June 2010, June 2011 and June 30, 2012. The Company has disputed these invoices in accordance with the provisions of the Power Purchase Agreement. The Company contends, *inter alia*, that its failure to dispatch electricity was due to its sole customer's (WAPDA) non-payment of dues on timely basis to it. For details you may refer to Note 6.1(a) of the Financial Statements.

The Company's Oil Supplier (Pakistan State Oil Company Limited) has claimed additional late payment charges from the Company of the sum of Rs. 1.021 Billion. The Company disputes this claim. You may refer to Note 6.1(b) of the Financial Statements for details.

During the Second Quarter, Combustion Inspection of Six Gas Turbines was carried out as per plan.

Following shareholders approval at the Annual General Meeting in October 2012, the final cash dividend of Rs. 3.15 per share (Rs. 10 each) was paid in November 2012; resulting in a full year 2011/12 cash dividend of Rs. 6.90 per share (Rs. 10 each).

We are pleased to announce an interim cash dividend of Rs. 3.00 per share (Rs.10 each), which will be paid to the shareholders whose names appear on the Company's Register of Members on March 14, 2013.

On behalf of the Board



Aftab Mahmood Butt
Chief Executive

Lahore: February 20, 2013

Auditors' Report to the Members on Review of Condensed Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of Kot Addu Power Company Limited as at December 31, 2012, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, 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 for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2011 and 2012 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2012.

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, 2012 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter

We draw attention to note 6.1 to the condensed interim financial information which describes the uncertainty regarding the outcome of certain claims lodged by WAPDA and an oil supplier respectively, which have been disputed by the Company. Our opinion is not qualified in respect of this matter.

A. F. Ferguson & Co.
Chartered Accountants

Lahore: February 20, 2013

Name of engagement partner: Imran Farooq Mian

Condensed Interim Balance Sheet

as at December 31, 2012 (un-audited)

	Note	December 31, 2012 (Rupees in thousand)	June 30, 2012
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital 3,600,000,000 (June 30, 2012: 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 30, 2012: 880,253,228) ordinary shares of Rs 10 each		8,802,532	8,802,532
Capital reserve		444,451	444,451
Unappropriated profit		15,312,932	14,402,413
		24,559,915	23,649,396
NON-CURRENT LIABILITIES			
Long term finances	4	3,308,376	4,270,905
Liabilities against assets subject to finance lease		87,686	61,454
Deferred liabilities		3,841,336	3,918,411
		7,237,398	8,250,770
CURRENT LIABILITIES			
Current portion of long term liabilities		1,967,646	1,677,142
Finances under mark-up arrangements - secured		25,409,365	20,049,549
Trade and other payables	5	25,747,672	45,718,500
		53,124,683	67,445,191
CONTINGENCIES AND COMMITMENTS			
	6		
		84,921,996	99,345,357

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



Aftab Mahmood Butt
Chief Executive

		December 31, 2012	June 30, 2012
	Note	(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	17,581,389	18,264,486
Intangible assets		9,657	7,388
Assets subject to finance lease		111,471	40,914
Capital work-in-progress		91,261	130,768
Long term loans and deposits		57,898	53,198
		17,851,676	18,496,754
CURRENT ASSETS			
Stores and spares		4,009,827	3,726,404
Stock-in-trade		4,030,594	4,239,457
Trade debts	8	57,456,005	69,332,911
Loans, advances, deposits, prepayments and other receivables		1,186,889	3,243,061
Cash and bank balances		387,005	306,770
		67,070,320	80,848,603
		84,921,996	99,345,357



Syed Nizam Ahmad Shah
Director

Condensed Interim Profit and Loss Account

for the quarter and half year ended December 31, 2012 (Un-audited)

		Quarter ended		Half year ended	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	Note	(Rupees in thousand)		(Rupees in thousand)	
Sales		19,235,705	24,323,756	48,665,915	46,420,069
Cost of sales	9	(16,154,867)	(21,574,844)	(42,409,999)	(41,208,209)
Gross profit		3,080,838	2,748,912	6,255,916	5,211,860
Administrative expenses		(150,248)	(112,325)	(260,269)	(202,198)
Other operating expenses		(24,762)	-	(24,762)	-
Other operating income		1,261,013	2,166,034	3,053,175	4,395,392
Profit from operations		4,166,841	4,802,621	9,024,060	9,405,054
Finance cost		(1,288,805)	(2,830,479)	(3,555,011)	(5,608,602)
Profit before tax		2,878,036	1,972,142	5,469,049	3,796,452
Taxation		(948,833)	(466,394)	(1,785,732)	(1,093,146)
Profit for the period		1,929,203	1,505,748	3,683,317	2,703,306
Earnings per share					
- basic and diluted	Rupees	2.19	1.71	4.18	3.07

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



Syed Nizam Ahmad Shah
Director

Condensed Interim Statement of Comprehensive Income

for the quarter and half year ended December 31, 2012 (Un-audited)

	Quarter ended		Half year ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(Rupees in thousand)		(Rupees in thousand)	
Profit for the period	1,929,203	1,505,748	3,683,317	2,703,306
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>1,929,203</u>	<u>1,505,748</u>	<u>3,683,317</u>	<u>2,703,306</u>

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



Aftab Mahmood Butt
Chief Executive



Syed Nizam Ahmad Shah
Director

Condensed Interim Cash Flow Statement

for the half year ended December 31, 2012 (Un-audited)

		Half year ended	
		December 31, 2012	December 31, 2011
Note		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	11	676,272	4,723,124
Finance cost paid		(2,032,096)	(2,777,621)
Taxes paid		(67,495)	(1,281,805)
Staff retirement benefits paid		(92,599)	(17,587)
Net cash (used) in/from operating activities		(1,515,918)	646,111
Cash flows from investing activities			
Fixed capital expenditure		(348,447)	(2,275,717)
Income on bank deposits		3,045	527
Net (increase)/decrease in long term loans and deposits		(4,700)	5,270
Proceeds from sale of property, plant and equipment		7,047	808
Net cash used in investing activities		(343,055)	(2,269,112)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(14,687)	(8,629)
Repayment of long term loans-secured		(675,249)	(419,067)
Proceeds from long term loans-secured		-	1,647,305
Dividend paid		(2,730,672)	(3,033,560)
Net cash used in financing activities		(3,420,608)	(1,813,951)
Net decrease in cash and cash equivalents		(5,279,581)	(3,436,952)
Cash and cash equivalents at beginning of the period		(19,742,779)	(23,236,055)
Cash and cash equivalents at the end of the period	12	(25,022,360)	(26,673,007)

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



Aftab Mahmood Butt
Chief Executive



Syed Nizam Ahmad Shah
Director

Condensed Interim Statement of Changes in Equity

for the half year ended December 31, 2012 (Un-audited)

	Share Capital	Capital reserve	Un-appro- priated profit	Total
	(Rupees in thousand)			
Balance as on June 30, 2011	8,802,532	444,451	14,712,962	23,959,945
Total comprehensive income for the period	-	-	2,703,306	2,703,306
Final dividend for the year ended June 30, 2011 - Rs 3.50 per share	-	-	(3,080,886)	(3,080,886)
Balance as on December 31, 2011	8,802,532	444,451	14,335,382	23,582,365
Total comprehensive income for the period	-	-	3,367,981	3,367,981
Interim dividend - Rs 3.75 per share	-	-	(3,300,950)	(3,300,950)
Balance as on June 30, 2012	8,802,532	444,451	14,402,413	23,649,396
Total comprehensive income for the period	-	-	3,683,317	3,683,317
Final dividend for the year ended June 30, 2012 - Rs 3.15 per share	-	-	(2,772,798)	(2,772,798)
Balance as on December 31, 2012	<u>8,802,532</u>	<u>444,451</u>	<u>15,312,932</u>	<u>24,559,915</u>

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



Aftab Mahmood Butt
Chief Executive



Syed Nizam Ahmad Shah
Director

Notes to and forming part of the Condensed Interim Financial Information

for the quarter and half year ended December 31, 2012 (Un-audited)

1. Legal Status and nature of business

Kot Addu Power Company Limited ('The Company'), was incorporated in Pakistan on April 25, 1996 as a public limited company under the Companies Ordinance, 1984. The Company was listed on April 18, 2005 on the Karachi, Islamabad and Lahore Stock Exchanges. The principal activities of the Company are to own, operate and maintain a multi-fuel fired power station with fifteen generating units with a nameplate capacity of 1,600 MW in Kot Addu, District Muzaffargarh, Punjab, Pakistan and to sell the electricity produced therefrom to a single customer, the Pakistan Water and Power Development Authority (WAPDA) under a Power Purchase Agreement (PPA). This agreement is for a term of 25 years which commenced from June 1996.

2. Basis of preparation

This condensed interim financial information is un-audited and has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 - 'Interim Financial Reporting' and provisions of and directives issued under The Companies Ordinance, 1984. In case where the requirements differ, the provisions of or directives issued under The Companies Ordinance, 1984 have been followed.

The figures for the half year ended December 31, 2012 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements for the year ended June 30, 2012.

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, 2012.

3. 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.

4. Long term finances

Long term finances include un-secured loan payable to WAPDA (related party) amounting to Rs 3,059 million (June 30, 2012: Rs 3,410 million) of which Rs 701 million (June 30, 2012: Rs 701 million) is included in current portion of long term liabilities. It carries a mark up of 14% payable semi-annually.

5. Trade and other payables

Trade creditors include payable to oil supplier in respect of oil purchased amounting to Rs 9,615 million (June 30, 2012: Rs 30,776 million).

Notes to and forming part of the Condensed Interim Financial Information

for the quarter and half year ended December 31, 2012 (Un-audited)

6. Contingencies and commitments

6.1 Contingencies

There has been no change in the status of the contingent liabilities disclosed as at June 30, 2012 except for the following:

- (a) WAPDA has raised invoices for liquidated damages to the company for the years ended June 30, 2009, 2010, 2011 and 2012 (after taking into account forced outage allowance stipulated under the terms of Power Purchase Agreement) on account of short supply of electricity by the Company, which was due to cash flow constraints of the Company as a result of default by WAPDA in making timely payments. Liquidated damages invoiced to the Company amount to Rs 12.645 billion. Estimated amount of liquidated damages are not expected to exceed Rs 15.194 billion as at December 31, 2012 based on the best estimate of the management of the Company.

The Company disputes and rejects the claim on account of liquidated damages on the premise that its failure to dispatch electricity was due to WAPDA's non-payment of dues on timely basis to the Company and consequential inability of the Company to make timely payments to its fuel supplier that resulted in inadequate level of electricity production owing to shortage of fuel. In this regard the company has initiated the dispute resolution procedures specified in the Power Purchase Agreement.

According to legal advice available with the Company, there are adequate grounds to defend any claim by WAPDA for such liquidated damages since these conditions were imposed on the Company due to circumstances beyond its control. The ultimate outcome of the matter cannot presently be determined and consequently, no provision for such liquidated damages has been made in this condensed interim financial information.

- (b) During the period, oil supplier of the Company has claimed additional late payment charges amounting to Rs 1.021 billion on account of delayed payments by the Company. This claim pertains to revision of the basis of calculation which the oil supplier had been following since September 2008. Based on the Company's best estimate the total amount of such claims is not expected to exceed Rs 1.308 billion as at December 31, 2012. The Company disputes the claim lodged by the oil supplier since the management is of the view that there are adequate grounds to defend the revised claim. The ultimate outcome of the matter cannot presently be determined, and consequently, no provision for such late payment charges has been made in this condensed interim financial information.

Notes to and forming part of the Condensed Interim Financial Information

for the quarter and half year ended December 31, 2012 (Un-audited)

6.2 Commitments

- (i) Contracts for capital expenditure Rs 70.533 million (June 30, 2012: Rs 333.318 million).
- (ii) Letters of credit other than for capital expenditure Rs 105.860 million (June 30, 2012: Rs 347.294 million).

	Note	December 31, 2012 (Rupees in thousand)	June 30, 2012
7. Property, plant and equipment			
Opening book value		18,264,486	16,958,177
Add: Additions/transfers during the period	7.1	346,627	3,171,673
		<u>18,611,113</u>	<u>20,129,850</u>
Less: Disposals during the period (at book value)		31,808	1,175
Depreciation charged during the period		997,916	1,864,189
		<u>1,029,724</u>	<u>1,865,364</u>
		<u>17,581,389</u>	<u>18,264,486</u>
7.1 Following is the detail of additions/transfers during the period			
Additions :			
Buildings on freehold land		14,237	4,678
Plant and machinery		-	270,124
Gas turbine blading		312,581	2,850,928
Auxiliary plant and machinery		12,840	31,382
Office equipment		2,998	9,880
Fixtures and fittings		-	66
Vehicles		-	98
		<u>342,656</u>	<u>3,167,156</u>
Transfers:			
Vehicles		3,971	4,517
		<u>346,627</u>	<u>3,171,673</u>
8. Trade debts			
Trade debts	8.1	57,525,116	69,401,209
Less: Provision for doubtful debts		69,111	68,298
		<u>57,456,005</u>	<u>69,332,911</u>

Notes to and forming part of the Condensed Interim Financial Information

for the quarter and half year ended December 31, 2012 (Un-audited)

8.1 These are considered good and include an overdue amount of Rs 47,926 million (June 30, 2012: Rs 58,109 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, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(Rupees in thousand)		(Rupees in thousand)	
9. Cost of sales				
Fuel cost	15,291,820	20,645,740	40,632,569	39,414,418
Salaries, wages and benefits	217,894	212,625	533,533	524,819
Plant maintenance	80,530	61,567	116,340	101,572
Gas turbines overhauls	40,645	92,449	89,086	122,223
Repair and renewals	15,976	88,827	25,952	142,760
Depreciation on property, plant and equipment	492,295	463,363	981,162	881,833
Amortisation on intangible assets	690	465	1,323	968
Provision for store obsolescence	15,017	9,808	30,034	19,616
	<u>16,154,867</u>	<u>21,574,844</u>	<u>42,409,999</u>	<u>41,208,209</u>

		Half year ended	
		December 31, 2012	December 31, 2011
		(Rupees in thousand)	
10. Transactions with related parties			
Relationship with the Company	Nature of transaction		
i. Associated undertakings	Purchase of services	1,359	810
	Sale of electricity	48,665,915	46,420,069
	Interest expense	239,309	297,343
	Interest income on late payments	3,034,864	4,375,680
ii. Post retirement benefit plans	Expense charged	73,328	95,017
iii. Key management personnel	Compensation	95,400	78,895

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to and forming part of the Condensed Interim Financial Information

for the quarter and half year ended December 31, 2012 (Un-audited)

	December 31, 2012	June 30, 2012
	(Rupees in thousand)	

Period end balances

Receivable from related parties	57,905,938	69,960,844
Payable to related parties	202,678	286,861

They are in the normal course of business and are interest free.

	Half Year ended	
	December 31, 2012	December 31, 2011
	(Rupees in thousand)	

11. Cash generated from operations

Profit before tax	5,469,049	3,796,452
Adjustments for :		
- Depreciation on property, plant and equipment	997,916	897,675
- Amortisation on intangible assets	1,323	968
- Depreciation on assets subject to finance lease	11,321	7,451
- Write-down of property, plant and equipment	24,762	-
- Income on bank deposits	(3,045)	(527)
- Provision for store obsolescence	30,034	19,616
- Advances written off	56	9,742
- Bad debts written off	663	-
- Provision for doubtful debts	813	-
- Staff retirement benefits accrued	60,267	83,225
- Finance cost	3,555,011	5,608,602
Profit before working capital changes	10,148,170	10,423,204
Effect on cash flow due to working capital changes (Increase)/decrease in current assets		
- Stores and spares	(313,457)	(384,781)
- Stock in trade	208,863	(1,161,060)
- Trade debts	11,875,430	(8,509,663)
- Loans, advances, deposits, prepayments and other receivables	293,135	1,079,749
(Decrease)/Increase in trade and other payables	(21,535,869)	3,275,675
	(9,471,898)	(5,700,080)
	676,272	4,723,124

Notes to and forming part of the Condensed Interim Financial Information

for the quarter and half year ended December 31, 2012 (Un-audited)

Half year ended
December 31, December 31,
2012 2011
(Rupees in thousand)

12. Cash and cash equivalents

Cash and bank balances	387,005	300,378
Finances under mark-up arrangements - secured	(25,409,365)	(26,973,385)
	<u>(25,022,360)</u>	<u>(26,673,007)</u>

13. Proposed dividend

The Board of Directors of the Company have declared an interim cash dividend of Rs 3.00 per share (December 31, 2011: Rs 3.75 per share), amounting to Rs 2,641 million (December 31, 2011: Rs 3,301 million) at their meeting held on February 20, 2013. 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 authorisation for issue

This condensed interim financial information was authorised for issue on February 20, 2013 by the Board of Directors of the Company.

15. Corresponding figures

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet and condensed interim statement of changes in equity have been compared with the balances of annual audited financial statements of preceding financial year, whereas, the condensed interim profit and loss account, condensed interim statement of comprehensive income and condensed interim cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

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



Syed Nizam Ahmad Shah
Director