



# 2nd Quarter **Report**

December 31, 2016 (un-audited)

**KOT ADDU POWER COMPANY LIMITED**

## Contents

---

Company Information	1
Directors' Report (English)	2
Directors' Report (Urdu)	3
Auditors' Report to the Members on Review of Condensed Interim Financial Information	4
Condensed Interim Balance Sheet	5
Condensed Interim Profit and Loss Account	7
Condensed Interim Statement of Comprehensive Income	8
Condensed Interim Cash Flow Statement	9
Condensed Interim Statement of Changes in Equity	10
Notes to and forming part of the Condensed Interim Financial Information	11

## Company Information

Board of Directors	Lt. General (Retd) Muzammil Hussain (Chairman) Mr. Aftab Mahmood Butt (Chief Executive) Mr. Anwar-ul-Haq Mr. Owais Shahid Mr. Aqeel Ahmed Nasir Mr. Badr ul Munir Murtiza Mr. Saad Iqbal
Audit Committee	Mr. Anwar-ul-Haq <sup>1</sup> (Chairman) Mr. Owais Shahid (Member) Mr. Badr ul Munir Murtiza (Member) Mr. Saad Iqbal <sup>2</sup>
HR Committee	Mr. Aqeel Ahmed Nasir <sup>3</sup> (Chairman) Mr. Aftab Mahmood Butt (Member) Mr. Anwar-ul-Haq (Member)
General Manager Finance / CFO	Mr. M. Mohtashim Aftab
Company Secretary	Mr. A. Anthony Rath
Head of Internal Audit	Mr. Sikandar Usmani
Auditors	A. F. Ferguson & Co. Chartered Accountants
Internal Auditors	Ernst & Young Ford Rhodes Sidad Hyder Chartered Accountants
Legal Advisor	Cornelius, Lane & Mufti
Bankers	Allied Bank Limited AlBaraka Bank (Pakistan) Limited Askari Bank Limited Bank Alfalah Limited Bank Al-Habib Limited BankIslami Pakistan Limited Citibank, N.A. Dubai Islamic Bank Pakistan Limited Faysal Bank Limited Habib Bank Limited Habib Metropolitan Bank Limited MCB Bank Limited Meezan Bank Limited National Bank of Pakistan-IBD NIB Bank Limited Samba Bank Limited Standard Chartered Bank (Pakistan) Limited The Bank of Punjab United Bank Limited
Share Registrar	THK Associates (Private) Limited First Floor, 40-C, Block-6 P.E.C.H.S. Karachi 75400, Pakistan Tel: +92 (0)21 111 000 322 Fax: +92 (0)21 34168271
Registered Office	House No. 4, Street No. 54-A F-7/4, Islamabad 44210, Pakistan
Corporate Office	5B/3, Gulberg III, Lahore 54660, Pakistan Tel: +92 (0)42 3577 2912-16 Fax: +92 (0)42 3577 2922
Power Project	Kot Addu Power Complex, Kot Addu District Muzaffargarh, Punjab, Pakistan Tel: +92 (0)66 230 1047-9 Fax: +92 (0)66 230 1025
Email	Info@kapco.com.pk
Website	www.kapco.com.pk

<sup>1</sup>Appointed Chairman, Audit Committee on February 21, 2017

<sup>2</sup>Appointed Member, Audit Committee on February 21, 2017

<sup>3</sup>Appointed Chairman, HR Committee on February 21, 2017

## Directors' Report

for the half year ended December 31, 2016

It pleases us to present the financial statements (un-audited) for the half year ended December 31, 2016.

For the Half Year, the turnover was Rs. 32,916 Million; cost of sales were Rs. 26,958 Million; and profit after tax stood at Rs. 4,172 Million (compared to Rs. 4,331 Million in the corresponding period last year). EPS stood at Rs. 4.74 (Rs. 4.92 in the corresponding period last year).

During the Second Quarter, the Power Plant generated 1,155 GWh of electricity (year to date generation level 2,874 GWh) at a load factor of 39.0% (year to date load factor 48.5%) with an overall commercial availability of 96.6% (year to date overall commercial availability: 95.5%).

The off-taker continues to default in payments to the Company. On December 31, 2016, the overdue receivables from the off-taker amounted to Rs. 69,665 Million. The Company continues to pursue the off-taker and concerned Ministries in the Government of Pakistan for resolution of the matter.

The off-taker raises liquidated damages invoices for the Company's failure to dispatch due to fuel oil shortage (as it raises with other IPPs) consequentially caused by off-taker's payment defaults. The accumulated amount of liquidated damages invoiced to the Company amount to Rs. 27,898 Million for the period 2008-09 to 2015-16. As with previously raised invoices, the Company has disputed the claims for imposition of liquidated damages in accordance with the provisions of the Power Purchase Agreement.

To operate and maintain the Power Plant in accordance with international standards, combustion inspections of four gas turbines were carried out as per plan; and major overhauling of two gas turbines was duly completed.

Following shareholders' approval at the Annual General Meeting in October 2016, the final cash dividend of Rs. 4.75 per share (par value of Rs. 10.00 each) was paid in November 2016; culminating in a full year 2015/16 cash dividend of Rs. 9.00 per share (par value of Rs. 10.00 each).

Keeping in view the Company's performance, we announce an interim cash dividend of Rs. 4.30 per share (par value of Rs. 10.00 each), which will be paid to the shareholders whose names appear on the Company's Register of Members on April 6, 2017.

On behalf of the Board



Aftab Mahmood Butt  
Chief Executive

Islamabad: February 21, 2017

ہمیں 31 دسمبر، 2016 کو ختم ہونے والی شش ماہی مدت کے مالیاتی گوشوارے (غیر مستقیم شدہ) پیش کرنے پر خوشی محسوس ہو رہی ہے۔

ان چھ ماہ کے دوران کمپنی کا کاروباری حجم 32,916 ملین روپے تھا جس میں فروخت کی لاگت 26,958 ملین روپے تھی۔ گیس کی ادائیگی کے بعد منافع 4,172 ملین روپے رہا ہے (جبکہ گزشتہ سال اسی مدت کے دوران یہ منافع 4,331 ملین روپے تھا)۔ اس طرح اس سال آمدن فی حصص (EPS) 4.74 روپے رہی ہے (جبکہ گزشتہ سال اسی مدت کے دوران یہ آمدن 4.92 روپے فی حصص تھی)۔

دوسری سہ ماہی کے دوران اس بجلی گھر کی مجموعی پیداوار 1,155 GWh تھی (جبکہ سال بھر کی مجموعی پیداواری سطح 2,874 GWh تھی) جس کے نتیجے میں 39.0 فیصد لوڈ فیکٹر رہا ہے (اس طرح سال بھر کا لوڈ فیکٹر 48.5 فیصد رہا ہے) اور مجموعی تجارتی دستیابی 96.6 فیصد رہی ہے (جبکہ سال بھر کی مجموعی تجارتی دستیابی 95.5 فیصد تھی)۔

بجلی کا خریدار ادارہ کمپنی کی واجب الادا رقم کی ادائیگی میں مسلسل تاخیر رہا ہے۔ 31 دسمبر، 2016 تک کمپنی کے متعلقہ خریدار کے ذمہ واجب الادا رقم 69,665 ملین روپے تھی۔ کمپنی مذکورہ بتایا عوامی رقم وصول کرنے کے لیے حکومت پاکستان کی متعلقہ وزارتوں سے اس معاملے پر بات کر رہی ہے۔

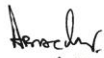
بجلی کے خریدار کی جانب سے کمپنی کو بجلی کی عبوری عدم فراہمی کا ذمہ دار قرار دیتے ہوئے نقصانات کے ازالے کے لیے مسلسل انوائسز موصول ہو رہی ہیں (جیسا کہ دوسرے آئی پی جیز کو بھی موصول ہو رہی ہیں)۔ کمپنی کا موقف ہے کہ بجلی کی عبوری فراہمی متاثر ہونے کی وجہ خریدار کی طرف سے اس کے واجبات کی بروقت ادائیگی نہ کرنا ہے۔ چونکہ ایندھن کی عدم دستیابی کی وجہ بنا۔ 09-2008 سے 16-2015 تک کے سالوں کے لیے نقصانات کے ازالے کی مجموعی رقم 27,898 ملین روپے بنتی ہے۔ کمپنی نے بجلی کی خریداری کے معاہدے کی دفعات کے تحت ان انوائسز پر اپنے اختلافات کا اظہار کیا ہے۔

اس بجلی گھر کو بین الاقوامی معیارات کے مطابق چلایا جاتا ہے اور اس کی دیکھ بھال کی جاتی ہے۔ اس مقصد کے لیے منسوبے کے مطابق چارجس ٹربائیکوں کی حرارت پذیری کا معائنہ کیا گیا اور دو گیس ٹربائیکوں کی اور بائیک کا مکمل کیا جا چکا ہے۔

اکتوبر 2016 کے سالانہ اجلاس عام میں حصص مالکان کی منظوری کے ساتھ حتمی منافع 4.75 فی حصص (فی 10 روپے مالیت کے مساوی) نومبر 2016ء میں ادا کیا گیا تھا جو سال 2015/16 کے لیے 9.00 روپے فی حصص (فی 10 روپے مالیت کے مساوی) ہے۔

کمپنی کی کارکردگی کو مد نظر رکھتے ہوئے ہم 4.30 روپے فی حصص (فی 10 روپے مالیت کے مساوی) عبوری نقد منافع کا اعلان کرتے ہیں جو ان حصص داران کو ادا کیا جائے گا جن کے نام 24 مارچ 2017 تک کمپنی کے رجسٹرار کمپن میں تحریر ہوں گے۔

منجانب بورڈ

  
آفتاب محمود  
چیف ایگزیکٹو

اسلام آباد: 21 فروری 2017ء

## 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, 2016 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 "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed 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, 2016 and 2015 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2016.

### Scope of review

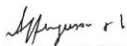
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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 condensed interim financial information as of and for the half year ended December 31, 2016 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 (d) to the financial statements which describes the uncertainty regarding the outcome of certain claims lodged by WAPDA, 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 21, 2017

Name of engagement partner: Amer Raza Mir

**Condensed Interim Balance Sheet**  
as at December 31, 2016 (Un-audited)

	December 31, 2016	June 30, 2016
Note	(Rupees in thousand)	
<b>EQUITY AND LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Authorised capital 3,600,000,000 (June 30, 2016: 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, 2016: 880,253,228) ordinary shares of Rs 10 each	8,802,532	8,802,532
Capital reserve	444,451	444,451
Unappropriated profit	21,698,617	21,708,105
	30,945,600	30,955,088
<b>NON-CURRENT LIABILITIES</b>		
Long term finances	193,097	386,195
Liabilities against assets subject to finance lease	40,226	47,982
Deferred liabilities	2,326,681	2,508,136
	2,560,004	2,942,313
<b>CURRENT LIABILITIES</b>		
Current portion of long term liabilities	490,913	569,057
Finances under mark-up arrangements - secured	46,012,280	41,346,145
Trade and other payables	24,879,723	16,397,140
	71,382,916	58,312,342
<b>CONTINGENCIES AND COMMITMENTS</b>		
	6	
	104,888,520	92,209,743

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



Aftab Mahmood Butt  
Chief Executive

		December 31, 2016	June 30, 2016
	Note	(Rupees in thousand)	
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	11,896,505	12,632,019
Intangible assets		7,299	9,527
Assets subject to finance lease		57,982	53,140
Capital work-in-progress		35,211	29,226
Long term loans and deposits		32,619	31,859
		<u>12,029,616</u>	<u>12,755,771</u>
<b>CURRENT ASSETS</b>			
Stores and spares		4,230,814	4,361,205
Stock-in-trade		5,115,303	3,134,827
Trade debts	8	78,802,548	69,376,790
Loans, advances, deposits, prepayments and other receivables	9	4,074,577	1,983,500
Cash and bank balances		635,662	597,650
		<u>92,858,904</u>	<u>79,453,972</u>
		<u>104,888,520</u>	<u>92,209,743</u>

  
 Anwar-ur-Haq  
 Director



## Condensed Interim Profit and Loss Account

for the quarter and half year ended December 31, 2016 (Un-audited)

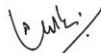
	Note	Quarter ended		Half year ended	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
		(Rupees in thousand)		(Rupees in thousand)	
Sales		15,191,186	12,446,164	32,916,374	34,434,459
Cost of sales	10	(12,571,013)	(9,174,508)	(26,957,536)	(28,101,937)
<b>Gross profit</b>		<b>2,620,173</b>	<b>3,271,656</b>	<b>5,958,838</b>	<b>6,332,522</b>
Administrative expenses		(114,899)	(118,015)	(217,386)	(271,558)
Other income		1,225,080	1,022,397	2,302,664	1,970,186
<b>Profit from operations</b>		<b>3,730,354</b>	<b>4,176,038</b>	<b>8,044,116</b>	<b>8,031,150</b>
Finance cost		(1,008,245)	(872,474)	(1,963,515)	(1,712,923)
<b>Profit before tax</b>		<b>2,722,109</b>	<b>3,303,564</b>	<b>6,080,601</b>	<b>6,318,227</b>
Taxation		(868,718)	(1,079,893)	(1,908,886)	(1,987,307)
<b>Profit for the period</b>		<b>1,853,391</b>	<b>2,223,671</b>	<b>4,171,715</b>	<b>4,330,920</b>
Earnings per share					
- basic and diluted Rupees		2.11	2.53	4.74	4.92

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

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



Aftab Mahmood Butt  
Chief Executive



Anwar-ul-Haq  
Director

**Condensed Interim Statement of Comprehensive Income**  
for the quarter and half year ended December 31, 2016 (Un-audited)

	Quarter ended		Half year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Rupees in thousand)		(Rupees in thousand)	
Profit for the period	1,853,391	2,223,671	4,171,715	4,330,920
- Items that will not be reclassified to profit or loss	-	-	-	-
- Items that may be reclassified subsequently to profit or loss	-	-	-	-
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	<u>1,853,391</u>	<u>2,223,671</u>	<u>4,171,715</u>	<u>4,330,920</u>

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



Aftab Mahmood Butt  
Chief Executive



Anwar-ul-Haq  
Director

**Condensed Interim Cash Flow Statement**  
for the half year ended December 31, 2016 (Un-audited)

	Note	Half year ended	
		December 31, 2016	December 31, 2015
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from operations	12	5,314,983	6,087,107
Finance cost paid		(2,110,229)	(1,606,173)
Taxes paid		(2,985,970)	(3,103,493)
Staff retirement benefits paid		(20,514)	(23,205)
<b>Net cash generated from operating activities</b>		<b>198,270</b>	<b>1,354,236</b>
<b>Cash flows from investing activities</b>			
Fixed capital expenditure		(410,373)	(50,394)
Income on bank deposits received		2,699	12,342
Net increase in long term loans and deposits		(760)	(2,808)
Proceeds from sale of property, plant and equipment		1,545	1,931
<b>Net cash used in investing activities</b>		<b>(406,889)</b>	<b>(38,929)</b>
<b>Cash flows from financing activities</b>			
Repayment of liabilities against assets subject to finance lease		(15,907)	(18,228)
Repayment of long term loans - unsecured		(270,104)	(270,104)
Dividend paid		(4,133,493)	(4,322,144)
<b>Net cash used in financing activities</b>		<b>(4,419,504)</b>	<b>(4,610,476)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(4,628,123)</b>	<b>(3,295,169)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>(40,748,495)</b>	<b>(32,196,606)</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>(45,376,618)</b>	<b>(35,491,775)</b>

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



Aftab Mahmood Butt  
Chief Executive



Anwar-ul-Haq  
Director

**Condensed Interim Statement of Changes in Equity**  
for the half year ended December 31, 2016 (Un-audited)

	Share Capital	Capital reserve	Un-appro- priated profit	Total
	(Rupees in thousand)			
Balance as at June 30, 2015	8,802,532	444,451	20,481,626	29,728,609
Total comprehensive income for the period	-	-	4,330,920	4,330,920
Final dividend for the year ended June 30, 2015 - Rs 4.75 per share	-	-	(4,181,203)	(4,181,203)
<b>Balance as at December 31, 2015</b>	<b>8,802,532</b>	<b>444,451</b>	<b>20,631,343</b>	<b>29,878,326</b>
Profit for the period	-	-	4,740,131	4,740,131
Other comprehensive gain for the period: - Re-measurement of net defined benefit obligation - net of tax	-	-	77,707	77,707
Total comprehensive income for the period	-	-	4,817,838	4,817,838
Interim dividend for the year ended June 30, 2016 - Rs 4.25 per share	-	-	(3,741,076)	(3,741,076)
<b>Balance as at June 30, 2016</b>	<b>8,802,532</b>	<b>444,451</b>	<b>21,708,105</b>	<b>30,955,088</b>
Total comprehensive income for the period	-	-	4,171,715	4,171,715
Final dividend for the year ended June 30, 2016 - Rs 4.75 per share	-	-	(4,181,203)	(4,181,203)
<b>Balance as at December 31, 2016</b>	<b>8,802,532</b>	<b>444,451</b>	<b>21,698,617</b>	<b>30,945,600</b>

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.



Aftab Mahmood Butt  
Chief Executive



Anwar-ul-Haq  
Director

**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 Pakistan Stock Exchange. 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, 2016 have, however, been subjected to limited scope review by the auditors of the Company as required by the Code of Corporate Governance.

This condensed interim financial information does not include all the information required for annual financial statements including financial risk management information and therefore should be read in conjunction with the annual financial statements for the year ended June 30, 2016.

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, 2016. Further, the basis of significant estimates are same as those that were applied to the financial statements for the year ended June 30, 2016, except for estimation of provision for taxation as referred to in note 3.

**2.1 Standards, amendments and interpretations to published approved accounting standards**

**2.1.1 Standards, amendments and interpretations to existing standards effective in current period**

Certain standards, amendments and interpretations to approved accounting standards are effective for the annual periods beginning on or after January 1, 2016 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in this condensed interim financial information.

2.1.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

Certain standards, amendments to the approved accounting standards and interpretations are mandatory for the annual periods beginning on or after January 1, 2017 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in this condensed interim financial information.

3. Income tax expense is recognised based on management's best estimate of the weighted average income tax rate expected for the full financial year. Furthermore, no provision has been recognised in respect of tax on undistributed reserves as introduced by Finance Act, 2015 since the Company has distributed the requisite amount of dividend within the stipulated time period from preceding year end.

4. Long term finances

Long term finances represent unsecured loan payable to associated undertaking amounting to Rs 656 million (June 30, 2016: Rs 926 million) out of which Rs 463 million (June 30, 2016: Rs 540 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 Pakistan State Oil amounting to Rs 8,332 million (June 30, 2016: Rs 671 million).

6. Contingencies and commitments

6.1 Contingencies

There has been no change in the status of the contingent liabilities disclosed as at June 30, 2016 except for the following:

- (a) Before introduction of amendments in Finance Act 2006, the Company had not established Workers' Profit Participation Fund under the Companies Profit (Workers' Participation) Act, 1968 (the Act) based on the opinion of the legal advisor that it did not employ any person who fell under the definition of Worker as defined in the Act.

Further, the question whether a company to which the Act 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 subjudice before the Sindh High Court as the Supreme Court of

Pakistan accepted the petition of another company and remanded the case to the Sindh High Court for fresh decision in accordance with its order.

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 (WPPF) is applicable to the Company and Company makes the principal payment on or before the date which is yet to be decided by the Federal Government, no such penalty may be imposed and the Company may not be liable to pay interest.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3,463 million (2015: Rs 3,463 million) upto June 30, 2006. However, it is not certain at the moment that any penalties will be levied on non-payment of WPPF as the relaxation provided under the Finance Act 2006 is still applicable. 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.

In view of the foregoing, the Company did not make any provision for Workers' Profit Participation Fund and interest thereon in the financial statements up to June 30, 2006.

Subsequent to the amendments in Finance Act 2006, the Company had established the KAPCO Workers' Participation Fund in March 2008 to allocate the amount of annual profits stipulated by the Act for distribution amongst workers eligible to receive such benefits under the Act.

During the half year ended December 31, 2016, the Honorable Supreme Court of Pakistan decided that amendments in Workers' Welfare Fund Ordinance, 1971 and Companies Profit (Workers Participation) Act, 1968 cannot be introduced through Finance Act, thereby, the said amendments made through the Finance Act 2006 are void ab initio. Subsequently, the Commissioner Inland Revenue (Peshawar) filed review petition in the Honorable Supreme Court of Pakistan against the said decision in case of another Company, which is pending adjudication. The ultimate outcome of the matter cannot presently be determined, and consequently no impact of the said decision has been made in this condensed interim financial information.

- (b) For Tax Year 2015, Additional Commissioner Inland Revenue (ACIR) created a demand of Rs 149 million in July 2016. The Company filed appeal with Commissioner Inland Revenue (Appeals) which was decided in favour of the Company. However, Tax Department has the right to go in appeal with higher appellate forum.

The management is of the view that there are meritorious grounds available to defend the foregoing demands at higher forums as well. Consequently no provision for such demands has been made in this condensed interim financial information.

- (c) For Tax Year 2014, Additional CIR issued demand notice amounting to Rs 98 million. Company filed an appeal before CIR(A) who decided some of the issues in favor of the Company whereas others were upheld. Being aggrieved, both the Company and Tax Department have filed appeal with ATIR in respect of issues decided against them. The Additional Commissioner Inland Revenue (ACIR) further amended the assessment order by disallowing certain repair and maintenance expenses by treating them as a capital expenditure and issued a combined appeal effect order of Rs 284 million. Company filed an appeal with CIR(A) against the appeal effect order. The CIR(A) reduced the demand to Rs 116 million. The appeal effect granted by Additional Commissioner Inland Revenue (ACIR) failed to consider the impact of compensation for delayed refund as directed by CIR(A). During the half year ended December 31, 2016, the CIR(A) incorporated the effect of the same and resultantly, reduced the demand to Rs 9 million. Tax department is already in appeal before Honorable ATIR in respect of order of CIR(A), which is pending adjudication.

The Management is of the view that there are meritorious grounds available to defend the foregoing demand. Consequently, no provision has been made in this condensed interim financial information.

- (d) WAPDA has raised invoices for liquidated damages to the Company for the years ended June 30, 2009 through 2016 (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 on account of fuel shortages amount to Rs 27,898 million (June 30, 2016: Rs 27,872 million). Estimated amount of liquidated damages (including un-invoiced liquidated damages till December 31, 2016) are not expected to exceed Rs 27,681 million as at December 31, 2016 (June 30, 2016: Rs 27,681 million) based on the best estimate of the management of the Company.

The Company disputes and rejects any claim on account of liquidated damages that may be raised by WAPDA 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 (PSO) 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.

- (e) Tax Department had issued a sales tax order against the Company for the financial period June 2008 to June 2013 creating a demand of Rs.10,102 million by apportioning input sales tax between Capacity invoices and Energy invoices and allowed input sales tax allocated to Energy invoices only. The refund claims of the Company pertaining to the aforementioned period were also rejected by the Tax Authorities. The Commissioner Inland Revenue (Appeals) decided the appeal partially in favor of KAPCO by deleting the demand to the extent of demand relating to the tax periods beyond limitation of five years and rejected the other grounds. KAPCO being aggrieved filed an appeal and stay application at Appellate Tribunal Inland Revenue (ATIR). The appeal was heard at ATIR and was decided against KAPCO vide order dated May 04, 2015. KAPCO being aggrieved filed writ petition before Lahore High Court.

The tax department had also raised a demand for tax year 2014, which included a demand of Rs. 2,933 million pertaining to the aforementioned issue of apportionment of input tax. The Company had filed an appeal before CIR(A) who had remanded back the demand of Rs. 2,933 million till adjudication of petition from Lahore High Court on inadmissibility of input tax.

The Lahore High Court vide its judgment dated October 31, 2016 decided the case in favor of KAPCO. Subsequent to half year ended December 31, 2016, the Tax Department, being aggrieved, filed an appeal in the Honorable Supreme Court of Pakistan. The management is of the view that there are meritorious grounds available to defend the foregoing demands in the Honorable Supreme Court. Consequently, no provision for such demands has been made in this condensed interim financial information.

- (f) The Company has provided following bank guarantees in favour of :
- Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales, amounting to Rs 47 million (June 30, 2016: Rs 4,504 million); and
  - Punjab Power Development Board on account of coal project amounting to Nil (June 30, 2016: Rs 65 million).

**Notes to and forming part of the Condensed Interim Financial Information**  
for the quarter and half year ended December 31, 2016 (Un-audited)

**6.2 Commitments**

- (i) Contracts for capital expenditure Rs 69 million (June 30, 2016: Rs 428 million).
- (ii) Letters of credit other than for capital expenditure Rs 224 million (June 30, 2016: Rs 392 million).

	December 31, 2016	June 30, 2016
Note	(Rupees in thousand)	
<b>7. Property, plant and equipment</b>		
Opening Net Book Value (NBV)	12,632,019	14,038,572
Add: Additions / transfers during the period	397,086	821,721
	<u>13,029,105</u>	<u>14,860,293</u>
Less: Disposals during the period (at NBV)	1,545	5,654
Depreciation charged during the period	1,131,055	2,222,620
	<u>1,132,600</u>	<u>2,228,274</u>
	<u>11,896,505</u>	<u>12,632,019</u>
<b>7.1 Following is the detail of additions / transfers during the period</b>		
Additions:		
Buildings on freehold land	22,301	22,036
Gas turbine blading	349,675	-
Plant and machinery	-	750,986
Auxiliary plant and machinery	19,721	18,489
Office equipment	4,162	18,960
Vehicles	-	1,716
	<u>395,859</u>	<u>812,187</u>
Transfers:		
Vehicles	1,227	9,534
	<u>397,086</u>	<u>821,721</u>
<b>8. Trade debts</b>		
Trade debts	79,025,289	69,599,531
Less: Provision for doubtful debts	222,741	222,741
	<u>78,802,548</u>	<u>69,376,790</u>

**Notes to and forming part of the Condensed Interim Financial Information**  
for the quarter and half year ended December 31, 2016 (Un-audited)

- 8.1 These are considered good except Rs 223 million (June 30, 2016: Rs 223 million) which are considered doubtful. Trade debts include an overdue amount of Rs 69,665 million (June 30, 2016: Rs 58,646 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.
9. Included in loans, advances, deposits, prepayments and other receivables is sales tax recoverable amounting to Rs. 2,498 million (June 30, 2016: Rs. 775 million). This amount mainly represents the differential of 20% input sales tax and 17% output sales tax on sales of electricity produced from Low Sulphur Furnance Oil (LSFO) for the period October, 2015 till period end, booked as recoverable from Tax Department.

	Quarter ended		Half year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Rupees in thousand)		(Rupees in thousand)	
<b>10. Cost of sales</b>				
Fuel cost	10,670,443	7,792,387	23,569,207	25,300,872
Salaries, wages and benefits	345,157	307,567	843,551	783,337
Plant maintenance	126,617	88,503	176,903	133,542
Gas turbines overhauls	605,273	51,919	806,022	127,276
Repair and renewals	183,531	382,717	290,136	658,496
Depreciation on property, plant and equipment	561,457	549,902	1,111,074	1,089,877
Amortisation on intangible assets	1,114	1,319	2,228	2,619
Liquidated damages	-	-	46	-
Provision for store obsolescence	77,421	194	158,369	5,918
	<u>12,571,013</u>	<u>9,174,508</u>	<u>26,957,536</u>	<u>28,101,937</u>

**11. Transactions with related parties**

**Relationship with the Company Nature of transaction**

i. Associated undertakings	Receipt of services	1,000	1,402
	Sale of electricity	32,916,374	34,434,459
	Interest expense	64,434	102,707
	Interest income on late payments	2,254,699	1,920,652
ii. Post retirement benefit plans	Expense charged	88,484	108,628
iii. Key management personnel	Compensation	154,130	134,232

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

**Notes to and forming part of the Condensed Interim Financial Information**  
for the quarter and half year ended December 31, 2016 (Un-audited)

	December 31, 2016	June 30, 2016
	(Rupees in thousand)	
<b>Period end balances</b>		
Associated Undertakings		
Receivable from related parties	79,543,128	70,377,854
Payable to related parties	1,602,566	1,380,443

These are in the normal course of business and interest free except for long term finances referred to in note 4.

	Half Year ended	
	December 31, 2016	December 31, 2015
	(Rupees in thousand)	
<b>12. Cash generated from operations</b>		
Profit before tax	6,080,601	6,318,227
Adjustments for:		
- Depreciation on property, plant and equipment	1,131,055	1,107,635
- Depreciation on assets subject to finance lease	9,473	13,829
- Amortisation on intangible assets	2,228	2,619
- Income on bank deposits	(2,699)	(12,342)
- Provision for store obsolescence	158,369	5,918
- Staff retirement benefits accrued	68,564	90,843
- Finance cost	1,963,515	1,712,923
<b>Profit before working capital changes</b>	<b>9,411,106</b>	<b>9,239,652</b>
Effect on cash flow due to working capital changes:		
(Increase) / decrease in current assets		
- Stores and spares	(27,978)	(356,612)
- Stock-in-trade	(1,980,476)	50,708
- Trade debts	(9,425,758)	9,592,687
- Loans, advances, deposits, prepayments and other receivables	(1,498,171)	(971,449)
Increase / (decrease) in trade and other payables	8,836,260	(11,467,879)
	(4,096,123)	(3,152,545)
<b>Cash generated from operations</b>	<b>5,314,983</b>	<b>6,087,107</b>

**Notes to and forming part of the Condensed Interim Financial Information**  
for the quarter and half year ended December 31, 2016 (Un-audited)

	December 31, 2016	December 31, 2015
	(Rupees in thousand)	
<b>13. Cash and cash equivalents</b>		
Cash and bank balances	635,662	1,874,728
Finances under mark-up arrangements - secured	<u>(46,012,280)</u>	<u>(37,366,503)</u>
	<u>(45,376,618)</u>	<u>(35,491,775)</u>

**14. Date of authorisation for issue**

This condensed interim financial information was authorised for issue on February 21, 2017 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.

**16. Non-adjusting event after the balance sheet date**

The Board of Directors of the Company has declared an interim cash dividend of Rs 4.30 per share (December 31, 2015: Rs 4.25 per share), amounting to Rs 3,785 million (December 31, 2015: Rs 3,741 million) at their meeting held on February 21, 2017. This condensed interim financial information does not include the effect of above interim cash dividend which will be accounted for in the period in which it is declared.



Aftab Mahmood Butt  
Chief Executive



Anwar-ul-Haq  
Director