Directors Report
for the half year ended December 31, 2009

We are pleased to present the financial statements (un-audited) for the half year ended December 31, 2009.

Turnover for the review period was Rs. 41,108 Million and Cost of Sales was Rs. 35,947 Million. Profit after tax for the review period was Rs. 2,717 Million (compared to Rs. 2,711 Million in the corresponding period last year), delivering an EPS of Rs. 3.09 (Rs. 3.08 in the corresponding period last year).

During the review period, the Power Plant generated 3,855 GWh of electricity, resulting in a load factor of 65% with an overall availability of 81.9%. The fuel mix for the dispatched output to the Company's customer, WAPDA was 3.8% gas, 86.2% low sulphur furnace oil and 10% high speed diesel.

The Company continues to maintain a commendable safety record. On December 31, 2009, the Company achieved 5,472,230 man hours worked (1617 days) without a Lost Time Accident.

To ensure technical availability for its sole customer (WAPDA), the Company operates and maintains its Power Plant in accordance with high international standards. During the review period, 3 major overhauls of gas turbines, and 2 major overhauls of steam turbines were successfully completed. Also, 2 hot gas path inspections and 7 combustion inspections of gas turbines were carried out.

Delayed payments from 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 with WAPDA and the concerned Ministries in the Government of Pakistan. On December 31, 2009, the overdue amount from WAPDA stood at Rs. 20,835 Million.

The Company continues to progress matters in respect of its proposed Expansion Project of approximately 280 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. 4.20 per share (Rs. 10 each) approved by the shareholders at the Annual General Meeting held in October 2009 was paid in November 2009; resulting in a full year 2008/09 dividend of Rs. 6.45 per share (Rs. 10 each).

We are pleased to announce an interim cash dividend of Rs. 2.25 per share (Rs. 10 each), which will be paid to the shareholders whose names appear on the Company's Register of Members on March 10, 2010.

On behalf of the Board

Aftab Mahmood Butt
Chief Executive

Lahore: February 17, 2010

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, 2009, 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, 2008 and 2009 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2009.

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, 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our review opinion, we draw attention to note 6.1(iv) to the financial statements. The company has not made any provision for liquidated damages for the period upto December 31, 2009 as management in consultation with its legal counsel is of the view that the plant was technically available to deliver the electricity and failure to dispatch was consequential to shortage of fuel due to default in payments by WAPDA. The ultimate outcome of the matter cannot presently be determined, and no provision for any liquidated damages that may result has been made in the financial statements.

A. F. Ferguson & Co.
Chartered Accountants
ENGAGEMENT PARTNER: Imran Farooq Mian

Lahore: February 17, 2010

Condensed Interim Balance Sheet
as at December 31, 2009 (Un-audited)

	Note	December 31, 2009	June 30, 2009
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
3,600,000,000 (June 30, 2009: 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, 2009: 880,253,228) ordinary shares of Rs 10 each		8,802,532	8,802,532
Capital reserve		444,451	444,451
Unappropriated profit		12,855,848	13,836,253
		22,102,831	23,083,236
NON–CURRENT LIABILITIES			
Long term loan–unsecured		4,697,617	5,147,476
Liabilities against assets subject to finance lease		49,109	46,214
Deferred liabilities		3,077,063	2,943,032
		7,823,789	8,136,722
CURRENT LIABILITIES			
Current portion of long term liabilities		910,400	908,568
Finances under mark–up arrangements – secured		10,217,470	8,617,641
Trade and other payables	5	19,807,786	19,213,087
		30,935,656	28,739,296
CONTINGENCIES AND COMMITMENTS	6		
		60,862,276	59,959,254

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

Aftab Mahmood Butt
Chief Executive

	Note	December 31, 2009	June 30, 2009
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	18,264,687	18,504,118
Intangible assets		2,796	3,335
Assets subject to finance lease		49,567	46,745
Capital work-in-progress		354,979	212,606
Long term loans and deposits		34,340	29,621
		18,706,369	18,796,425
CURRENT ASSETS			
Stores and spares		3,506,243	3,131,479
Stock-in-trade		4,225,862	1,967,212
Trade debts	8	31,237,470	32,721,969
Loans, advances, deposits, prepayments and other receivables		2,900,510	2,941,816
Cash and bank balances		285,822	400,353
		42,155,907	41,162,829
		60,862,276	59,959,254

Vince R. Harris OBE
Director

Condensed Interim Profit and Loss Account

for the Quarter and Half Year ended December 31, 2009 (Un-audited)

	Note	Quarter ended December 31, 2009	Quarter ended December 31, 2008	Half year ended December 31, 2009	Half year ended December 31, 2008
		(Rupees in thousand)			
Sales		20,782,744	17,170,739	41,107,983	39,656,510
Cost of sales	9	(18,219,307)	(14,541,715)	(35,946,943)	(34,218,618)
Gross profit		2,563,437	2,629,024	5,161,040	5,437,892
Administrative expenses		(106,229)	(239,178)	(225,443)	(332,741)
Other operating income		582,942	1,360,084	1,389,557	2,165,928
Profit from operations		3,040,150	3,749,930	6,325,154	7,271,079
Finance cost		(921,213)	(1,960,760)	(2,149,246)	(3,101,685)
Profit before tax		2,118,937	1,789,170	4,175,908	4,169,394
Taxation		(738,673)	(613,959)	(1,459,249)	(1,458,039)
Profit for the period		1,380,264	1,175,211	2,716,659	2,711,355
Earnings per share –basic and diluted	Rupees	1.57	1.34	3.09	3.08

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 Statement of Comprehensive Income

for the Quarter and Half Year ended December 31, 2009 (Un-audited)

	Quarter ended		Half year ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	(Rupees in thousand)			
Profit for the period	1,380,264	1,175,211	2,716,659	2,711,355
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	1,380,264	1,175,211	2,716,659	2,711,355

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, 2009 (Un-audited)

	Note	Half Year Ended December 31, 2009	Half Year Ended December 31, 2008
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	11	5,121,694	5,140,399
Finance cost paid		(1,442,464)	(1,917,120)
Taxes paid		(595,897)	(1,451,723)
Staff retirement benefits paid		(15,185)	(10,622)
Net cash from operating activities		3,068,148	1,760,934
Cash flows from investing activities			
Fixed capital expenditure and capital work in progress		(673,672)	(47,989)
Income on bank deposits received		775	600
Net increase in long term loans and deposits		(4,719)	(5,953)
Proceeds from sale of property, plant and equipment		2,839	329
Net cash used in investing activities		(674,777)	(53,013)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(5,637)	(3,948)
Repayment of long term loan		(449,859)	(449,859)
Dividend paid		(3,652,235)	(1,914,735)
Net cash used in financing activities		(4,107,731)	(2,368,542)
Net decrease in cash and cash equivalents		(1,714,360)	(660,621)
Cash and cash equivalents at beginning of the period		(8,217,288)	(23,457,589)
Cash and cash equivalents at the end of the period	12	(9,931,648)	(24,118,210)

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, 2009 (Un-audited)

	Share Capital	Capital Reserve	Un-appropriated Profit	Total
	(Rupees in thousand)			
Balance as on June 30, 2008	8,802,532	444,451	12,081,025	21,328,008
Profit for the period	–	–	2,711,355	2,711,355
Final dividend for the year ended June 30, 2008 – Rs 2.20 per share	–	–	(1,936,557)	(1,936,557)
Balance as on December 31, 2008	8,802,532	444,451	12,855,823	22,102,806
Profit for the period	–	–	2,961,000	2,961,000
Interim dividend – Rs 2.25 per share	–	–	(1,980,570)	(1,980,570)
Balance as on June 30, 2009	8,802,532	444,451	13,836,253	23,083,236
Profit for the period	–	–	2,716,659	2,716,659
Final dividend for the year ended June 30, 2009 – Rs 4.20 per share	–	–	(3,697,064)	(3,697,064)
Balance as on December 31, 2009	8,802,532	444,451	12,855,848	22,102,831

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

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, 2009.

2.1 The following amendments to standards are mandatory for the first time for the financial year beginning July 1, 2009.

– IAS 1 (Revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The Company has preferred to present two statements; a profit and loss account and a statement of comprehensive income. The condensed interim financial information has been prepared under revised disclosure requirements.

– In addition to above IAS 23 'Borrowing Costs' are mandatory for the first time for the financial year beginning July 1, 2009 however, its adoption did not have any significant impact on the financial information of the Company.

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. This condensed interim financial information should be read in conjunction with annual published financial statements of the Company for the year ended June 30, 2009.

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 15,290 million (June 30, 2009: Rs 15,482 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 filed an appeal before the Commissioner of Income Tax (Appeals) ['CIT(A)'] against the foregoing amended assessments, which was rejected by maintaining the tax department's position. Aggrieved with the decision, Company has filed appeal before Income Tax Appellate Tribunal ('ITAT') contesting such amendments which is pending adjudication.

The return for tax year 2008 was also filed on the basis of written down values of assets brought forward from tax year 2007, as computed in the revised return of income in accordance with position explained above. Such return has also been amended by tax authorities in line with the action taken in respect of revised returns for tax year 2003 through 2007 and have also been endorsed by CIT(A). The Company has preferred appeal before ITAT against the decision of CIT(A) in this respect also which is pending.

In view of the fact that management considers that position adopted by Company is 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 year would have been lower by Rs 2,712.957 million.

(ii) The Company had obtained legal advice in connection with the establishment of Workers' Profit Participation Fund (WPPF) under Companies Profits (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, 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 (WWF) Ordinance, 1971.

Furthermore, 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 pending adjudication in Sindh High Court at Karachi on a constitutional petition filed by another Company in December 2003.

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.

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 yet to be announced by the Federal Government, no such penalty may be imposed and the Company may not be liable to pay interest.

Furthermore, the Company has obtained opinion from its legal advisors who have confirmed that in case WPPF becomes payable as a consequence of the decision by the Honourable Sindh High Court, the Company will not be required to pay any interest, as interest is payable to workers only. It is an established fact that the Company did not have any worker as per the applicable definition upto June 30, 2006.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3.463 billion (June 30, 2009: Rs 3.463 billion). 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.

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

(iii) Company entered into a 'Long Term Supply Agreement' (LTSA) with one of the Original Equipment Manufacturers (OEM) for the supply of spares to the Company. According to the terms of LTSA, the Company has availed discount amounting to Rs 311.165 million upto December 31, 2009 (June 30, 2009: Rs 143.463 million). This discount is contingent upon the Company procuring at least a specified amount of spares from the OEM during the tenure of LTSA. Inability of the Company to achieve the desired level of purchases would result in payment of compensation fee amounting to Rs 155.582 million (June 30, 2009: Rs 71.731 million) to the OEM out of the discount recognised upto December 31, 2009. The management of the Company feels that the minimum specified level of purchases will be achieved during the contractual period and no compensation fee would be payable to the OEM, consequently no provision for compensation fee as referred above has been made in these financial statements.

(iv) WAPDA may impose liquidated damages (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 cashflow constraints of the Company as a result of default by WAPDA in making timely payments. Currently, liquidated damages cannot be estimated reliably, however, these are not expected to increase upto December 31, 2009 beyond Rs 1.5 billion approximately based on the best available estimate to the management.

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 despatch 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.

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 these financial statements.

(v) Claims against the Company not acknowledged as debts Rs 88.111 million (June 30, 2009: Rs 88.111 million).

(vi) The Company has provided guarantee in favour of Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 164.707 million (June 30, 2009: Rs 977.580 million).

6.2 Commitments

(i) Letter of credit and contracts for capital expenditure Rs 76.521 million (June 30, 2009: Rs 2.001 million).

(ii) Letters of credit other than for capital expenditure Rs 411.319 million (June 30, 2009: Rs 438.510 million).

	Note	December 31, 2009	June 30, 2009
		(Rupees in thousand)	
7. Property, plant and equipment			
Opening book value		18,504,118	19,683,665
Add: Additions during the period	7.1	531,973	318,869
		19,036,091	20,002,534
Less: Disposals during the period (at book value)		2,038	666
Depreciation charged during the period		769,366	1,497,750
		771,404	1,498,416
		18,264,687	18,504,118
7.1 Following is the detail of additions during the period			
Buildings on freehold land		171	314
Plant and machinery		–	16,237
Gas turbine blading		515,832	293,304
Auxiliary plant and machinery		4,698	6,125
Office equipment		3,128	2,889
Vehicles		8,144	–
		531,973	318,869
8. Trade debts			
Trade debts	8.1	31,340,150	32,824,649
Less: Provision for doubtful debts		102,680	102,680
		31,237,470	32,721,969

8.1 These are considered good and include an overdue amount of Rs 20,835 million (June 30, 2009: Rs 25,619 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, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	(Rupees in thousand)			
9. Cost of sales				
Fuel cost	17,449,397	13,880,353	34,431,300	32,954,152
Salaries, wages and benefits	155,725	148,198	392,413	331,062
Plant maintenance	69,660	39,706	103,986	69,225
Gas turbines overhauls	67,439	85,441	124,599	88,939
Repair and renewals	95,341	19,273	137,598	31,477
Depreciation on property, plant and equipment	378,656	363,835	752,378	728,398
Amortisation on intangible assets	248	291	539	514
Provision for store obsolescence	2,841	4,618	4,130	14,851
	18,219,307	14,541,715	35,946,943	34,218,618

10. Transactions with related parties

	Relationship with the Company	Nature of transaction		
i.	Associated undertakings	Purchase of services	144	207
		Sale of electricity	41,107,983	39,656,510
		Interest expense	424,760	485,593
		Interest income on late payments	1,374,874	2,155,024
ii.	Post retirement benefit plans	Expense charged	46,482	38,947
iii.	Key management personnel	Salaries and benefits	65,484	58,558

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

	December 31, 2009	June 30, 2009
	(Rupees in thousand)	
Period end balances		
Receivable from related parties	32,142,459	33,334,499
Payable to related parties	494,555	401,781

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

	Half Year Ended December 31, 2009	Half Year Ended December 31, 2008
	(Rupees in thousand)	
11. Cash generated from operations		
Profit before tax	4,175,908	4,169,394
Adjustments for:		
– Depreciation on property, plant and equipment	769,366	745,817
– Amortisation on intangible assets	539	514
– Depreciation on assets subject to finance lease	6,868	4,600
– Profit on disposal of property, plant and equipment	(801)	(329)
– Income on bank deposits	(775)	–
– Advances written off	–	436
– Provision for store obsolescence	4,130	14,851
– Provision for doubtful debts	–	26,462
– Staff retirement benefits accrued	37,663	31,552
– Finance cost	2,149,246	3,101,685
Profit before working capital changes	7,142,144	8,094,982
Effect on cash flow due to working capital changes		
– Increase in stores and spares	(378,893)	(234,972)
– (Increase)/decrease in stock–in–trade	(2,258,650)	549,479
– Decrease/(increase) in trade debts	1,484,499	(17,158,568)
– (Increase)/decrease in loans, advances, deposits, prepayments and other receivables	(710,493)	143,544
– (Decrease)/increase in trade and other payables	(156,913)	13,745,934
	(2,020,450)	(2,954,583)
	5,121,694	5,140,399
12. Cash and cash equivalents		
Cash and bank balances	285,822	304,412
Finances under mark up arrangements – secured	(10,217,470)	(24,422,622)
	(9,931,648)	(24,118,210)

13. Proposed dividend

The Board of Directors of the Company have declared an interim cash dividend of Rs 2.25 per share (December 31, 2008: Rs 2.25 per share), amounting to Rs 1,981 million (December 31, 2008: Rs 1,981 million) at their meeting held on February 17, 2010. 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 17, 2010 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

Vince R. Harris OBE
Director