DIRECTORS REPORT

FOR THE PERIOD ENDED MARCH 31, 2010 (UN-AUDITED)

The Board of Directors is pleased to present the un-audited financial statements of Kot Addu Power Company Limited for the nine months period (ended March 31, 2010).

The Company's turnover during the review period was Rs. 62,880 Million (Rs. 52,978 Million in Jul 08 - Mar 09) and Cost of Sales was Rs. 55,600 Million (Rs. 44,942 Million in Jul 08 - Mar 09). Profit from operations was Rs. 9,255 Million (Rs. 11,608 Million in Jul 08 - Mar 09) and profit after tax during the review period was Rs. 3,718 Million (Rs. 4,176 Million in Jul 08 - Mar 09). The resultant Earnings per Share were Rs. 4.22 per share (Rs. 10 each) (Rs. 4.74 per share in July 08 -March 09).

From January 1, 2010 to March 31, 2010, the Power Plant generated 1,703 GWh of electricity at a load factor of 58.9% and with an overall availability of 67.2%. The fuel mix was 83.5% on Low Sulphur Furnace Oil; and 16.5% on High Speed Diesel. There was no generation on Gas.

The Company continues to operate and maintain its Power Plant in accordance with international standards. Major overhaul of two Gas and one Steam Turbine commenced in February 2010. As per outage plan, Hot Gas Path Inspection of two Gas Turbines was completed; and four Gas Turbines underwent Combustion Inspections. As per Company Policy, all such maintenance works are charged to the Profit and Loss Account in the respective periods when incurred.

The Company continues to actively pursue delayed payments against Capacity and Energy Payments from its sole customer, WAPDA. The matter continues to be taken up not only with WAPDA, but also before the concerned Ministries in the Government of Pakistan. On March 31, 2010, overdue receivables from WAPDA were of the amount of Rs. 34,107 Million.

Whilst the Company continues to pursue growth opportunities in the energy sector for maximizing shareholder value, progress on the earlier proposed expansion project (280 MWs) has been discontinued due to the impending circular debt and its consequential impact on the fuel supply chain to the power sector.

Kot Addu: April 21, 2010

Aftab Mahmood Butt
Chief Executive

CONDENSED INTERIM BALANCE SHEET

AS AT MARCH 31, 2010 (UN-AUDITED)

	Note	March 31, 2010	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		11,876,751	13,836,253
		21,123,734	23,083,236
NON-CURRENT LIABILITIES			
Long term loan-unsecured		4,697,617	5,147,476
Liabilities against assets subject to finance lease		46,658	46,214
Deferred liabilities		3,156,569	2,943,032
		7,900,844	8,136,722
CURRENT LIABILITIES			
Current portion of long term liabilities		911,039	908,568
Finances under mark-up arrangements - secured		13,305,204	8,617,641
Trade and other payables	5	26,727,777	19,213,087
		40,944,020	28,739,296
CONTINGENCIES AND COMMITMENTS	6		
		69,968,598	59,959,254

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

Aftab Mahmood Butt
Chief Executive

	Note	March 31, 2010	June 30, 2009
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	18,183,279	18,504,118
Intangible assets		2,526	3,335
Assets subject to finance lease		51,169	46,745
Capital work-in-progress		244,462	212,606
Long term loans and deposits		33,153	29,621
		18,514,589	18,796,425
CURRENT ASSETS			
Stores and spares		3,318,991	3,131,479
Stock-in-trade		3,520,753	1,967,212
Trade debts	8	41,703,463	32,721,969
Loans, advances, deposits, prepayments and other receivables		2,667,152	2,941,816
Cash and bank balances		243,650	400,353
		51,454,009	41,162,829
		69,968,598	59,959,254

Vince R. Harris OBE
Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2010 (UN-AUDITED)

	Note	Quarter ended		Nine months ended	
		March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
		(Rupees in thousand)			
Sales		21,771,818	13,321,193	62,879,801	52,977,703
Cost of sales	9	(19,652,583)	(10,723,076)	(55,599,526)	(44,941,694)
Gross profit		2,119,235	2,598,117	7,280,275	8,036,009
Administrative expenses		(104,146)	(102,417)	(329,589)	(435,158)
Other operating income		914,988	1,841,303	2,304,545	4,007,231
Profit from operations		2,930,077	4,337,003	9,255,231	11,608,082
Finance cost		(1,387,906)	(2,085,641)	(3,537,152)	(5,187,326)
Profit before tax		1,542,171	2,251,362	5,718,079	6,420,756
Taxation		(540,698)	(787,069)	(1,999,947)	(2,245,108)
Profit for the period		1,001,473	1,464,293	3,718,132	4,175,648
Earnings per share -basic and diluted	**Rupees**	1.14	1.66	4.22	4.74

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

The annexed notes 1 to 14 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 NINE MONTHS ENDED MARCH 31, 2010 (UN-AUDITED)

	Quarter ended		Nine months ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
	(Rupees in thousand)			
Profit for the period	1,001,473	1,464,293	3,718,132	4,175,648
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	1,001,473	1,464,293	3,718,132	4,175,648

The annexed notes 1 to 14 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 NINE MONTHS ENDED MARCH 31, 2010 (UN-AUDITED)

	Note	Nine months ended March 31, 2010	Nine months ended March 31, 2009
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	11	4,148,079	27,667,431
Finance cost paid		(2,765,743)	(3,241,965)
Taxes paid		(1,189,715)	(2,047,051)
Staff retirement benefits paid		(23,820)	(16,281)
Net cash from operating activities		168,801	22,362,134
Cash flows from investing activities			
Fixed capital expenditure and capital work in progress		(877,076)	(373,093)
Income on bank deposits received		1,112	1,058
Net increase in long term loans and deposits		(3,532)	(5,320)
Proceeds from sale of property, plant and equipment		2,966	470
Net cash used in investing activities		(876,530)	(376,885)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(9,076)	(5,368)
Repayment of long term loan		(449,858)	(449,858)
Dividend paid		(3,677,603)	(3,901,875)
Net cash used in financing activities		(4,136,537)	(4,357,101)
Net (decrease)/increase in cash and cash equivalents		(4,844,266)	17,628,148
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	(13,061,554)	(5,829,441)

The annexed notes 1 to 14 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 NINE MONTHS ENDED MARCH 31, 2010 (UN-AUDITED)

	Share capital	Capital reserve	Un-appro-priated 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	-	-	4,175,648	4,175,648
Final dividend for the year ended June 30, 2008 - Rs 2.20 per share	-	-	(1,936,557)	(1,936,557)
Interim dividend - Rs 2.25 per share	-	-	(1,980,570)	(1,980,570)
Balance as on March 31, 2009	8,802,532	444,451	12,339,546	21,586,529
Profit for the period	-	-	1,496,707	1,496,707
Balance as on June 30, 2009	8,802,532	444,451	13,836,253	23,083,236
Profit for the period	-	-	3,718,132	3,718,132
Final dividend for the year ended June 30, 2009 - Rs 4.20 per share	-	-	(3,697,064)	(3,697,064)
Interim dividend - Rs 2.25 per share	-	-	(1,980,570)	(1,980,570)
Balance as on March 31, 2010	8,802,532	444,451	11,876,751	21,123,734

The annexed notes 1 to 14 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 (Revised), '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'. 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 19,789 million (June 30, 2009: Rs 15,482 million) and proposed dividend amounting to Rs 1,981 million (June 30, 2009: Rs Nil).

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 2,712.289 million (June 30, 2009: Rs 2,713.057 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 461.037 million upto March 31, 2010 (June 30, 2009: Rs 143.463 million). This discount is contingent upon the Company procuring atleast 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 230.519 million (June 30, 2009: Rs 71.731 million) to the OEM out of the discount recognised upto March 31, 2010. 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 cash flow 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 March 31, 2010 beyond Rs 1.5 billion approximately based on the best available estimate to the managements.

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).

Custom Authorities for import of professional equipment, tools etc., amounting to Rs 37.824 million (June 30, 2009: Rs Nil).

6.2 Commitments

(i) Letter of credit and contracts for capital expenditure Rs 204.469 million (June 30, 2009: Rs 2.001 million).

(ii) Letters of credit other than for capital expenditure Rs 436.720 million (June 30, 2009: Rs 438.510 million).

	Note	March 31, 2010	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	842,111	318,869
		19,346,229	20,002,534
Less: Disposals during the period (at book value)		2,212	666
Depreciation charged during the period		1,160,738	1,497,750
		1,162,950	1,498,416
		18,183,279	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		798,917	293,304
Auxiliary plant and machinery		30,383	6,125
Office equipment		4,393	2,889
Fixtures and fittings		103	-
Vehicles		8,144	-
		842,111	318,869
8. Trade debts			
Trade debts	8.1	41,806,143	32,824,649
Less: Provision for doubtful debts		102,680	102,680
		41,703,463	32,721,969

8.1 These are considered good and include an overdue amount of Rs 34,107 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.

9. Cost of sales

	Quarter ended		Nine months ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
	(Rupees in thousand)			
Fuel cost	18,144,838	9,850,183	52,576,138	42,804,335
Salaries, wages and benefits	150,433	136,466	542,846	467,528
Plant maintenance	33,903	37,100	137,889	106,325
Gas turbines overhauls	397,103	298,457	521,702	387,396
Repair and renewals	541,665	28,406	679,263	59,883
Depreciation on property, plant and equipment	383,341	366,064	1,135,719	1,094,462
Amortisation on intangible assets	270	290	809	804
Provision for store obsolescence	1,030	6,110	5,160	20,961
	19,652,583	10,723,076	55,599,526	44,941,694

10. Transactions with related parties

Relationship with the Company	Nature of transaction	March 31, 2010	March 31, 2009
i. Associated undertakings	Purchase of services	714	327
	Sale of electricity	62,879,801	52,977,703
	Interest expense	620,667	712,990
	Interest income on late payments	2,283,173	3,990,754
ii. Post retirement benefit plans	Expense charged	69,902	58,678
iii. Key management personnel	Salaries and benefits	83,040	77,059

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

	March 31, 2010	June 30, 2009
	(Rupees in thousand)	
Period end balances		
Receivable from related parties	42,280,261	33,334,499
Payable to related parties	287,176	401,781

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

11. Cash generated from operations

	Nine months ended March 31, 2010	Nine months ended March 31, 2009
	(Rupees in thousand)	
Profit before tax	5,718,079	6,420,756
Adjustments for:		
- Depreciation on property, plant and equipment	1,160,738	1,120,484
- Amortisation on intangible assets	809	804
- Depreciation on assets subject to finance lease	10,677	7,132
- Profit on disposal of property, plant and equipment	(754)	(470)
- Income on bank deposits	(1,112)	(458)
- Advances written off	-	436
- Provision for store obsolescence	5,160	20,961
- Bad debts written off	-	8,927
- Provision for doubtful debts	-	26,462
- Staff retirement benefits accrued	56,494	47,328
- Finance cost	3,537,152	5,187,326
Profit before working capital changes	10,487,243	12,839,688
Effect on cash flow due to working capital changes		
- Increase in stores and spares	(192,672)	(272,573)
- (Increase)/decrease in stock-in-trade	(1,553,541)	684,152
- (Increase)/decrease in trade debts	(8,981,494)	6,009,242
- (Increase)/decrease in loans, advances, deposits, prepayments and other receivables	(354,706)	741,619
- Increase in trade and other payables	4,743,249	7,665,303
	(6,339,164)	14,827,743
	4,148,079	27,667,431

12. Cash and cash equivalents

	March 31, 2010	March 31, 2009
	(Rupees in thousand)	
Cash and bank balances	243,650	249,805
Finances under mark up arrangements - secured	(13,305,204)	(6,079,246)
	(13,061,554)	(5,829,441)

13. Date of authorisation for issue

This condensed interim financial information was authorised for issue on April 21, 2010 by the Board of Directors of the Company.

14. 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