Directors' Report

We are pleased to present the financial statements (un-audited) for the half year ended December 31, 2011.

During the review period, the Power Plant generated 2,874 GWh of electricity, resulting in a load factor of 48.5 % and an overall availability of 83.6%. The fuel mix for dispatched output to WAPDA was 3.2% on gas, 95.8% on low sulphur furnace oil and 1% on high speed diesel.

In the review period, the turnover was Rs. 46,420 Million; cost of sales were Rs. 41,208 Million; profit after tax was Rs. 2,703 Million (compared to Rs. 3,850 Million in the corresponding period last year); and EPS stood at Rs. 3.07 (Rs. 4.37 in the corresponding period last year).

The Company's sole customer, WAPDA, continues to default on its payment obligations towards the Company. At the end of the review period, overdue amounts from WAPDA stood at Rs. 64,171 Million. The Company continues to pursue WAPDA and concerned Ministries in the Government of Pakistan for resolution of the matter.

To improve plant performance with better efficiency and output five Gas Turbines were upgraded during the review period. In addition to this Major Overhaul of 3 Gas Turbines was completed; 5 Gas Turbines under went Combustion Inspections; and Minor Inspection of one Steam Turbine was completed.

Following shareholder approval at the Annual General Meeting in October 2011, the final cash divided of Rs. 3.50 per share (Rs. 10 each) was paid in November 2011; resulting in a full year 2010/11 dividend of Rs. 6.50 per share (Rs. 10 each).

It pleases us to announce an interim cash dividend of Rs. 3.75 per share (Rs. 10 each), which will be paid to the shareholders whose names appear on the Company's Register of Members on March 8, 2012.

On behalf of the Board

Aftab Mahmood Butt
Chief Executive

Islamabad: February 15, 2012

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, 2011, 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, 2010 and 2011 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2011.

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, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

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 up to December 31, 2011 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 condensed interim financial information. Our opinion is not qualified in respect of this matter.

Lahore: February 15, 2012

A. F. Ferguson & Co.
Chartered Accountants
Name of engagement partner: Imran Farooq Mian

Condensed Interim Balance Sheet

as at December 31, 2011 (Un-audited)

	Note	December 31, 2011	June 30, 2011
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
3,600,000,000 (June 30, 2011: 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, 2011: 880,253,228) ordinary shares of Rs 10 each		8,802,532	8,802,532
Capital reserve		444,451	444,451
Unappropriated profit		14,335,382	14,712,962
		23,582,365	23,959,945
NON-CURRENT LIABILITIES			
Long term finances	4	5,306,229	4,209,628
Liabilities against assets subject to finance lease		38,995	45,648
Deferred liabilities		3,813,027	3,362,859
		9,158,251	7,618,135
CURRENT LIABILITIES			
Current portion of long term liabilities		988,752	857,502
Finances under mark-up arrangements - secured		26,973,385	23,512,168
Trade and other payables	5	45,543,455	39,389,473
		73,505,592	63,759,143
CONTINGENCIES AND COMMITMENTS	6		
		106,246,208	95,337,223

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

Aftab Mahmood Butt
(Chief Executive)

	Note	December 31, 2011	June 30, 2011
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	18,610,815	16,958,177
Intangible assets		4,823	5,791
Assets subject to finance lease		46,239	52,908
Capital work-in-progress		87,409	362,005
Long term loans and deposits		37,226	42,496
		18,786,512	17,421,377
CURRENT ASSETS			
Stores and spares		3,765,736	3,400,571
Stock-in-trade		4,502,080	3,341,020
Trade debts	8	75,630,603	67,120,940
Loans, advances, deposits, prepayments and other receivables		3,260,899	3,777,202
Cash and bank balances		300,378	276,113
		87,459,696	77,915,846
		106,246,208	95,337,223

Malcolm P. Clampin
(Director)

Condensed Interim Profit and Loss Account

for the quarter and half year ended December 31, 2011 (Un-audited)

	Note	Quarter ended		Half year ended	
		December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
		(Rupees in thousand)		(Rupees in thousand)	
Sales		24,323,756	13,836,411	46,420,069	30,037,014
Cost of sales	9	(21,574,844)	(11,279,041)	(41,208,209)	(24,172,743)
Gross profit		2,748,912	2,557,370	5,211,860	5,864,271
Administrative expenses		(112,325)	(88,755)	(202,198)	(228,702)
Other operating income		2,166,034	2,428,631	4,395,392	4,367,454
Profit from operations		4,802,621	4,897,246	9,405,054	10,003,023
Finance cost		(2,830,479)	(2,149,471)	(5,608,602)	(4,164,207)
Profit before tax		1,972,142	2,747,775	3,796,452	5,838,816
Taxation		(466,394)	(934,888)	(1,093,146)	(1,988,537)
Profit for the period		1,505,748	1,812,887	2,703,306	3,850,279
Earnings per share - basic and diluted	Rupees	1.71	2.06	3.07	4.37

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)

Malcolm P. Clampin
(Director)

Condensed Interim Statement of Comprehensive Income

for the quarter and half year ended December 31, 2011 (Un-audited)

	Quarter ended		Half year ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(Rupees in thousand)		(Rupees in thousand)	
Profit for the period	1,505,748	1,812,887	2,703,306	3,850,279
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	1,505,748	1,812,887	2,703,306	3,850,279

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

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

Condensed Interim Cash Flow Statement

for the half year ended December 31, 2011 (Un-audited)

	Note	Half year ended December 31, 2011	Half year ended December 31, 2010
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	11	4,723,124	5,314,174
Finance cost paid		(2,777,621)	(1,865,468)
Taxes paid		(1,281,805)	(1,538,142)
Staff retirement benefits paid		(17,587)	(14,211)
Net cash from operating activities		646,111	1,896,353
Cash flows from investing activities			
Fixed capital expenditure		(2,275,717)	(304,136)
Income on bank deposits received		527	231
Net decrease/(increase) in long term loans and deposits		5,270	(15,391)
Proceeds from sale of property, plant and equipment		808	532
Net cash used in investing activities		(2,269,112)	(318,764)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(8,629)	(6,351)
Repayment of long term loans-unsecured		(419,067)	(449,859)
Proceeds from long term loan-secured		1,647,305	-
Dividend paid		(3,033,560)	(2,387,933)
Net cash used in financing activities		(1,813,951)	(2,844,143)
Net decrease in cash and cash equivalents		(3,436,952)	(1,266,554)
Cash and cash equivalents at beginning of the period		(23,236,055)	(16,986,714)
Cash and cash equivalents at the end of the period	12	(26,673,007)	(18,253,268)

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

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

Condensed Interim Statement of Changes in Equity

for the half year ended December 31, 2011 (Un-audited)

	Share capital	Capital reserve	Un-appro-priated profit	Total
	(Rupees in thousand)			
Balance as on June 30, 2010	8,802,532	444,451	13,247,745	22,494,728
Total comprehensive income for the period	-	-	3,850,279	3,850,279
Final dividend for the year ended June 30, 2010 - Rs 2.75 per share	-	-	(2,420,696)	(2,420,696)
Balance as on December 31, 2010	8,802,532	444,451	14,677,328	23,924,311
Total comprehensive income for the period	-	-	2,676,394	2,676,394
Interim dividend - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
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

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

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(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 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.

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, 2011 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, 2011.

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, 2011.

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 3,828 million (June 30, 2011: Rs 4,248 million) of which Rs 770 million (June 30, 2011: Rs 838 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 33,069 million (June 30, 2011: Rs 29,551 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 up to June 27, 2006 were not claimed being the date up to 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 has 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 yet to be taken up for hearing.

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 this condensed interim financial information. Had such liabilities been recognized, the profit for the period would have been lower by Rs 2,660.60 million (June 30, 2011: Rs 2,705.081 million).

(ii) The Company had obtained legal advice in connection with the establishment of Workers' Profit Participation Fund under the Companies Profit (Workers' Participation) Act, 1968 (the Act). The legal advisor advised the Company that since it did not employ any person who fell under the definition of Worker as defined in the Act of 1968, the Company was not required to establish the Fund under the Act. As a consequence the Company was not required to make contributions to the Fund established pursuant to Workers' Welfare Fund Ordinance, 1971.

Furthermore, the question whether a company to which the Act 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 sub judice 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.

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

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 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 up to June 30, 2006.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3.463 billion (June 30, 2011: 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 up to June 30, 2006.

(iii) The Company has 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 1,178.290 million upto December 31, 2011 (June 30, 2011: Rs 954.442 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 176.743 million (June 30, 2011: Rs 143.166 million) to the OEM out of the discount recognised upto December 31, 2011. 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 this condensed interim financial information.

(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 up to December 31, 2011 beyond Rs 6.527 billion (June 30, 2011: Rs 4.032 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 this condensed interim financial information.

(v) Claims against the Company not acknowledged as debts Rs 88.111 million (June 30, 2011: Rs 88.111 million).

(vi) The Company has provided following guarantees in favour of:

Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 576.197 million (June 30, 2011: Rs 576.197 million).

Custom Authorities for import of professional equipment, tools etc., amounting to Rs 1.924 million (June 30, 2011: Rs 0.115 million).

6.2 Commitments

(i) Contracts for capital expenditure Rs 182.781 million (June 30, 2011: Rs 1,125.377 million).

(ii) Letters of credit other than for capital expenditure Rs 275.416 million (June 30, 2011: Rs 516.583 million).

7. Property, plant and equipment

	Note	December 31, 2011	June 30, 2011
		(Rupees in thousand)	
Opening book value		16,958,177	17,800,135
Add: Additions/transfers during the period	7.1	2,550,313	778,472
		19,508,490	18,578,607
Less: Disposals during the period (at book value)		-	610
Depreciation charged during the period		897,675	1,619,820
		897,675	1,620,430
		18,610,815	16,958,177

7.1 Following is the detail of additions/transfers during the period

	December 31, 2011	June 30, 2011
Buildings on freehold land	1,163	11,749
Plant and machinery	246,077	-
Gas turbine blading	2,297,771	719,937
Auxiliary plant and machinery	2,648	35,165
Office equipment	2,556	11,117
Fixtures and fittings	-	219
Vehicles	98	285
	2,550,313	778,472

8. Trade debts

	Note	December 31, 2011	June 30, 2011
Trade debts	8.1	75,740,354	67,230,691
Less: Provision for doubtful debts		109,751	109,751
		75,630,603	67,120,940

8.1 These are considered good and include an overdue amount of Rs 64,171 million (June 30, 2011: Rs 54,362 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, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(Rupees in thousand)		(Rupees in thousand)	

9. Cost of sales

Fuel cost	20,645,740	10,322,514	39,414,418	22,567,303
Salaries, wages and benefits	212,625	198,623	524,819	407,011
Plant maintenance	61,567	54,577	101,572	85,705
Gas turbines overhauls	92,449	173,911	122,223	183,307
Repair and renewals	88,827	125,317	142,760	127,422
Depreciation on property, plant and equipment	463,363	394,511	881,833	782,766
Amortisation on intangible assets	465	288	968	629
Provision for store obsolescence	9,808	9,300	19,616	18,600
	21,574,844	11,279,041	41,208,209	24,172,743

10. Transactions with related parties

Relationship with the Company	Nature of transaction	December 31, 2011	December 31, 2010
		(Rupees in thousand)	
i. Associated undertakings	Purchase of services	810	-
	Sale of electricity	46,420,069	30,037,014
	Interest expense	297,343	361,435
	Interest income on late payments	4,375,680	4,046,108
ii. Post retirement benefit plans	Expense charged	95,017	57,550
iii. Key management personnel	Compensation	78,895	65,042

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

	December 31, 2011	June 30, 2011
	(Rupees in thousand)	
Period end balances		
Receivable from related parties	75,922,310	68,416,229
Payable to related parties	362,378	321,215

These transactions are in the normal course of business.

	Half year ended	
	December 31, 2011	December 31, 2010
	(Rupees in thousand)	

11. Cash generated from operations

	December 31, 2011	December 31, 2010
Profit before tax	3,796,452	5,838,816
Adjustments for :		
- Depreciation on property, plant and equipment	897,675	798,881
- Amortisation on intangible assets	968	629
- Depreciation on assets subject to finance lease	7,451	8,207
- Profit on disposal of property, plant and equipment	-	(532)
- Income on bank deposits	(527)	(231)
- Provision for store obsolescence	19,616	18,600
- Advances written off	9,742	-
- Staff retirement benefits accrued	83,225	47,696
- Finance cost	5,608,602	4,164,207
Profit before working capital changes	10,423,204	10,876,273
Effect on cash flow due to working capital changes		
(Increase)/decrease in current assets		
- Stores and spares	(384,781)	(190,204)
- Stock in trade	(1,161,060)	(277,537)
- Trade debts	(8,509,663)	154,249
- Loans, advances, deposits, prepayments and other receivables	1,079,749	(647,887)
Increase/ (decrease) in trade and other payables	3,275,675	(4,600,720)
	(5,700,080)	(5,562,099)
	4,723,124	5,314,174

	December 31, 2011	December 31, 2010
	(Rupees in thousand)	

12. Cash and cash equivalents

	December 31, 2011	December 31, 2010
Cash and bank balances	300,378	273,218
Finances under mark-up arrangements - secured	(26,973,385)	(18,526,486)
	(26,673,007)	(18,253,268)

13. Proposed dividend

The Board of Directors of the Company have declared an interim cash dividend of Rs 3.75 per share (December 31, 2010: Rs 3 per share), amounting to Rs 3,301 million (December 31, 2010: Rs 2,641 million) at their meeting held on February 15, 2012. 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 15, 2012 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)	Malcolm P. Clampin (Director)