

Report Of The Directors for the Half Year Ended December 31, 2007 (Un-audited)

The Directors have pleasure in presenting the financial statements (un-audited) for the half year ended December 31, 2007.

The principle activity of the Company is to own, operate and maintain a multi-fuel combined cycle gas turbine power station at Kot Addu.

During the review period, the Power Plant generated 4600 GWh of electricity, resulting in a load factor of 77.6% with an overall availability of 88.1%. The fuel mix for the dispatched output to the Company's customer, WAPDA was 63.2% gas, 34.1% fuel oil and 2.7% high speed diesel.

Turnover for the review period was Rs. 22,263 Million and Cost of Sales was Rs. 17,691 Million. Profit after tax for the review period was Rs. 2,618 Million (compared to Rs. 2,321 Million in the corresponding period last year), delivering an EPS of Rs. 2.97 (Rs. 2.64 July, 06 to December, 06).

In November and December 2007, four Combustions and two Hot Gas Path Inspections were completed as per schedule.

At the close of the review period, the Company achieved 2,991,368 man hours worked without a Lost Time Accident.

The Company's position with respect to Workers Profit Participation Fund (WPPF) has been that since it did not employ any person who fell under the definition of Worker as defined in the Companies Profit (Workers' Participation) Act, 1968 the Company was not required to establish a Fund under the Act and consequently not required to make contributions to the Fund established pursuant to the Workers' Welfare Fund Ordinance, 1971. The Company, therefore, did not make any provision for Worker's Profit Participation Fund in its financial statements until June 30, 2006. However, after the amendments introduced in the Finance Act, 2006 relating to the Companies Profit (Workers' Participation) Act, 1968, the Company sought legal advice on its applicability to the Company. The legal counsel has advised that with the change introduced by the Finance Act, 2006, the establishment of the Fund has become mandatory to be set-up within nine (9) months of the close of the financial year of the Company ended June 30, 2007, to which contributions based on future profits of the Company are to be made. Based on the legal advice received, the Company has accounted for the effect of the contribution payable in its accounts for the Period and has initiated the process for setting-up the Fund. Since the contributions to the Fund are a pass through to the off-taker under the Power Purchase Agreement, there will be no financial impact on the profits of the Company.

The Company continues to pursue the expansion of its generation capacity (proposed) by initiating the process for requesting tenders for appointing the EPC Contractor. Approval of the Feasibility Study and appointment of Fichtner as Owner's Engineer is no assurance/guarantee at this stage that the Company will increase its generation capacity.

The Company, being a responsible corporate citizen, supports a range of social action programmes. During the review period, the Company made a donation of Rs. 10 Million to the burns unit set-up by WAPDA at its hospital in Lahore; and a donation of Rs. 15 Million for the construction of the LUMS School of Science & Engineering.

The final dividend of Rs. 3.00 per share recommended by the Board and approved by the Shareholders in October 2007 was paid in December 2007; resulting in a full year 2006/07 dividend per share of Rs. 6.00.

The Directors have pleasure in announcing an Interim Dividend of Rs. 3.25 per share. This will be paid to the shareholders who appear on the Company's Register of Members on March 10, 2008.

On behalf of the Board

Lahore; February 14, 2008

Chief Executive



Auditors' Report To The Members On Review Of Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of Kot Addu Power Company Limited as at December 31, 2007 and the related condensed interim profit and loss account, 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. 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, 2006 and 2007 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2007.

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, 2007 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our review report, we draw attention to note 5.1(i) to the financial statements. The company has not made any provision for Workers' Profit Participation Fund for the years upto June 30, 2006 based on a legal advice and in view of a constitutional petition pending adjudication in Sindh High Court on this matter. As more fully explained in the note, the ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements, including any penalties which may become payable in connection therewith.

February 14, 2008
Lahore,

A.F. Ferguson & Co,
Chartered Accountants

Condensed Interim Balance Sheet as at December 31, 2007 (Un-audited)

	December 31, 2007	June 30, 2007
Note	(Rupees in thousand)	
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Authorised capital		
3,600,000,000 (June 2007: 3,600,000,000) ordinary shares of Rs 10 each	<u>36,000,000</u>	<u>36,000,000</u>
Issued, subscribed and paid up capital 880,253,228 (June 2007: 880,253,228) ordinary shares of Rs 10 each	8,802,532	8,802,532
Capital reserve	444,451	444,451
Unappropriated profit	<u>9,593,372</u>	<u>9,616,465</u>
	18,840,355	18,863,448
NON-CURRENT LIABILITIES		
Long term loan-unsecured	6,497,047	6,946,906
Long term advances	-	14,414
Liabilities against assets subject to finance lease	32,574	-
Deferred liabilities	<u>3,621,807</u>	<u>3,575,932</u>
	10,151,428	10,537,252
CURRENT LIABILITIES		
Current portion of long term liabilities	905,719	902,121
Finances under mark-up arrangements - secured	10,934,369	6,431,343
Creditors, accrued and other liabilities	1,418,175	2,152,227
Provision for taxation	<u>17,771</u>	<u>44,635</u>
	13,276,034	9,530,326
CONTINGENCIES AND COMMITMENTS		
	<u>42,267,817</u>	<u>38,931,026</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive



		December 31, 2007	June 30, 2007
	Note	(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	20,395,500	21,174,460
Intangible assets		2,776	2,674
Assets subject to finance lease		37,257	-
Capital work-in-progress		90,302	90,724
Long term loans and deposits		27,917	20,217
		<u>20,553,752</u>	<u>21,288,075</u>
CURRENT ASSETS			
Stores and spares		2,566,087	2,553,701
Stock-in-trade		1,400,242	1,759,459
Trade debts		14,889,835	11,574,384
Loans, advances, deposits, prepayments and other receivables		2,568,381	1,546,408
Cash and bank balances		289,520	208,999
		<u>21,714,065</u>	<u>17,642,951</u>
		<u>42,267,817</u>	<u>38,931,026</u>

Director

Condensed Interim Profit and Loss Account

for the Quarter and Half year ended December 31, 2007 (Un-Audited)

		<u>Quarter ended</u>		<u>Half year ended</u>	
		December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
(Rupees in thousand)					
	Note				
Sales		12,030,907	8,624,447	22,263,101	17,409,703
Cost of sales	7	<u>(9,773,607)</u>	<u>(6,563,954)</u>	<u>(17,691,586)</u>	<u>(13,392,897)</u>
Gross profit		2,257,300	2,060,493	4,571,515	4,016,806
Administrative expenses		(70,412)	(48,141)	(169,070)	(106,335)
Other operating income		<u>272,478</u>	<u>105,819</u>	<u>464,481</u>	<u>192,529</u>
Profit from operations		2,459,366	2,118,171	4,866,926	4,103,000
Finance cost		<u>(450,080)</u>	<u>(318,516)</u>	<u>(842,299)</u>	<u>(628,753)</u>
Profit before tax		2,009,286	1,799,655	4,024,627	3,474,247
Taxation		<u>(703,370)</u>	<u>(597,738)</u>	<u>(1,406,960)</u>	<u>(1,153,338)</u>
Profit for the period		<u>1,305,916</u>	<u>1,201,917</u>	<u>2,617,667</u>	<u>2,320,909</u>
Earnings per share - basic & diluted	Rupees	<u>1.48</u>	<u>1.37</u>	<u>2.97</u>	<u>2.64</u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive

Director



Condensed Interim Cash Flow Statement for the Half Year Ended December 31, 2007 (Un-Audited)

		December 31, 2007	December 31, 2006
	Note	(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	9	839,447	851,050
Finance cost paid		(759,139)	(625,744)
Taxes paid		(1,410,662)	(865,607)
Staff retirement benefits paid		(198)	(71)
Net cash used in operating activities		(1,330,552)	(640,372)
Cash flows from investing activities			
Purchase of property, plant and equipment		(26,925)	(65,989)
Income on bank deposits received		1,057	141,664
Net (increase)/decrease in long term loans- and deposits		(7,700)	655
Sale proceeds of property, plant and equipment		6,738	4,220
Net cash (used in)/from investing activities		(26,830)	80,550
Cash flows from financing activities			
Repayment of finance lease liabilities		(1,863)	-
Repayment of long term loan		(449,859)	(503,608)
Dividend paid		(2,613,401)	(3,539,793)
Net cash used in financing activities		(3,065,123)	(4,043,401)
Net decrease in cash and cash equivalents		(4,422,505)	(4,603,223)
Cash and cash equivalents at beginning of the period		(6,222,344)	4,366,054
Cash and cash equivalents at the end of the period	10	(10,644,849)	(237,169)

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive

Director



Condensed Interim Statement of Changes in Equity for the half year ended December 31, 2007 (Un-Audited)

(Rupees in thousand)

	Share capital	Capital reserve	Un-appro- priated profit	Total
Balance as on June 30, 2006	8,802,532	444,451	10,874,854	20,121,837
Final dividend for the year ended June 30, 2006 - Rs 4.10 per share	-	-	(3,609,038)	(3,609,038)
Profit for the period	-	-	2,320,909	2,320,909
Balance as on December 31, 2006	<u>8,802,532</u>	<u>444,451</u>	<u>9,586,725</u>	<u>18,833,708</u>
Profit for the period	-	-	2,670,500	2,670,500
Interim dividend - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Balance as on June 30, 2007	<u>8,802,532</u>	<u>444,451</u>	<u>9,616,465</u>	<u>18,863,448</u>
Final dividend for the year ended June 30, 2007 - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Profit for the period	-	-	2,617,667	2,617,667
Balance as on December 31, 2007	<u><u>8,802,532</u></u>	<u><u>444,451</u></u>	<u><u>9,593,372</u></u>	<u><u>18,840,355</u></u>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive

Director

Notes to and Forming Part of the Financial Information for the Quarter and Half year ended December 31, 2007 (Un-Audited)

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, 2007.
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.
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. Contingencies and commitments

5.1 Contingencies

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 of 1968 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.

The issue of WPPF was also taken up by the Government and a meeting took place involving Ministry of Water & Power, Private Power Infrastructure Board (PPIB), WAPDA Power Privatization Organization (WPPPO), Ministry of Labour, HUBCO and the Company to formally discuss the issue. A strong case was put up by PPIB, supported by WPPPO, HUBCO and the Company. The Ministry of Water & Power supported the case and stated that they would request the Ministry of Finance to exempt Independent Power Producers (IPPs), who had no workers under the Act, from the payment of WPPF.

The matter was then referred to Economic Coordination Committee (ECC). ECC formed a sub committee to look into the matter and to give recommendations.

Certain amendments have been 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 to be decided by the Federal Government, no such penalty may be imposed and the Company may not be liable to pay interest. Moreover the payments made by the Company will be recoverable from WAPDA as a pass through item under the provisions of the Power Purchase Agreement.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3,463 billion (June 2007: Rs 3,463 billion). Further, if it is established that interest is also applicable, in case of non compliance with the above said amendments in the Act, the liability for interest would amount to Rs 11,232 billion (June 2007: Rs 10,067 billion) as on the date of this condensed interim financial information. However it is not certain presently whether or not any penalties payable in connection with this contribution would also be recoverable from WAPDA under the Power Purchase Agreement.

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

(ii) (Claims against the Company not acknowledged as debts Rs 58,576 million (June 2007: Rs 58,576 million),

(iii) 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 1,123,742 million (June 2007: Rs 1,248,618 million),

Custom Authorities for import of professional equipment, tools etc., amounting to Rs 0,387 million (June 2007: Rs 0,638 million),

5.2 Commitments

(i) Contracts for capital expenditure Rs 32,920 million (June 2007: Rs 7,801 million),

(ii) Letters of credit other than for capital expenditure Rs 235,609 million (June 2007: Rs 213,930 million),

	December 31, 2007	June 30, 2007
	(Rupees in thousand)	
6. Property, plant and equipment		
Opening book value	21,174,460	22,695,516
Add: Additions during the period - note 6.1	10,332	68,830
	21,184,792	22,764,346
Less: Disposals during the period (at book value)	5,714	1,289
Depreciation charged during the period	783,578	1,588,597
	789,292	1,589,886
Closing book value	20,395,500	21,174,460

6.1 Following is the detail of additions during the period

Buildings on freehold land	3,509	5,864
Plant and machinery	-	1,037
Gas turbine blading	-	40,899
Auxiliary plant and machinery	5,669	11,252
Office equipment	1,090	3,250
Fixtures and fittings	-	2,987
Vehicles	64	3,541
	10,332	68,830

Quarter ended		Half year ended	
December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006

(Rupees in thousand)

7. Cost of sales

Fuel cost	9,105,758	5,841,754	16,412,828	11,799,616
Salaries, wages and benefits	101,563	81,018	255,300	208,340
Plant maintenance	44,684	43,017	75,807	72,814
Gas turbines overhauls	50,615	142,030	76,286	360,662
Repair and renewals	79,356	70,763	84,824	169,628
Depreciation on property, plant and equipment	381,216	385,261	765,719	781,705
Amortisation on intangible assets	192	111	366	132
Provision for store obsolescence	10,223	-	20,456	-
	<u>9,773,607</u>	<u>6,563,954</u>	<u>17,691,586</u>	<u>13,392,897</u>

8. Transactions with related parties

Relationship with the Company	Nature of transaction		
i. Associated undertakings	Purchase of services	656	498
	Sale of electricity	22,263,101	17,409,708
	Interest expense	551,372	622,199
	Interest income on-late payment	453,014	39,535
	Donations	10,000	-
ii. Post retirement benefit plans	Expense charged	22,911	19,855
iii. Key management personnel	Sale of property, plant and equipment	1,733	767
	Compensation	30,308	38,881
		December 31, 2007	June 30, 2007

(Rupees in thousand)

Period end balances

Receivable from related parties	14,891,148	12,111,912
Payable to related parties	114,917	75,270



	Half year ended	
	December 31, 2007	December 31, 2006
9. Cash generated from operations	(Rupees in thousand)	
Profit before tax	4,024,627	3,474,247
Adjustments for:		
- Depreciation on property, plant and equipment	783,578	800,445
- Depreciation on assets subject to finance lease	2,911	-
- Amortisation on intangible assets	366	132
- Profit on disposal of property, plant and equipment	(1,024)	(3,191)
- Income on bank deposits	(727)	(137,929)
- Provision for stores obsolescence	20,456	-
- Provision for doubtful debts	10,500	-
- Staff retirement benefits accrued	22,911	14,635
- Finance cost	842,299	628,753
Profit before working capital changes	5,705,897	4,777,092
Effect on cash flow due to working capital changes		
- Increase in stores and spares	(32,842)	(86,012)
- Decrease in stock-in-trade	359,217	174,524
- Increase in trade debts	(3,325,951)	(2,507,170)
- Increase in loans, advances, deposits, prepayments and other receivables	(1,022,303)	(561,146)
- Decrease in creditors, accrued and other liabilities	(844,571)	(946,238)
	<u>(4,866,450)</u>	<u>(3,926,042)</u>
	<u>839,447</u>	<u>851,050</u>

	December 31, 2007	December 31, 2006
10. Cash and cash equivalents	(Rupees in thousand)	
Cash and bank balances	289,520	220,831
Finances under mark up arrangements	(10,934,369)	(458,000)
	<u>(10,644,849)</u>	<u>(237,169)</u>

11. Proposed dividend

The Board of Directors have declared an interim cash dividend of Rs 3.25 per share (December 31, 2006: Rs 3.00 per share), amounting to Rs 2,861 million (December 31, 2006: Rs 2,641 million) at their meeting held on February 14, 2008. 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.

12. Date of authorization for issue

This condensed interim financial information was authorised for issue on February 14, 2008 by the Board of Directors of the Company.

13. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.

Chief Executive

Director

Book Post

Under Postal Certificate



Corporate Office:

404, Siddiq Trade Centre
72-Main Boulevard, Gulberg
Lahore 54660
Tel: +92 (0)42 578 1631-5
Fax: +92 (0)42 578 1636-7

Power Project:

Kot Addu Power Complex
Kot Addu, District Muzaffargarh
Tel: +92 (0)66 224 1336
Fax: +92 (0)66 224 1817

Registered Office:

House No. 62, Nazim-ud-Din Road
F-6/1, Islamabad

Email: info@kapco.com.pk

Website: www.kapco.com.pk