Directors' Report

We are pleased to present the financial statements (un-audited) for the period ended September 30, 2012.

The principle activity of the Company is to own, operate and maintain a 1600 MW name plate capacity multi-fuel combined cycle gas turbine power plant at Kot Addu.

The net output from the plant was 1852 GWh of electricity, resulting in a load factor of 62.4% and an overall commercial availability of 97.9%. The generation level was impacted by payment default from the Company's sole customer, WAPDA.

Turnover for the review period was Rs. 29,430 Million and cost of sales were Rs. 26,255 Million. Profit after tax for the period was Rs. 1,754 Million (compared to Rs. 1,198 Million in the corresponding period in 2011), delivering an earnings per share (EPS) of Rs. 1.99 per share of Rs. 10 each (EPS Rs. 1.36 in corresponding period in 2011).

On September 30, 2011 the overdue receivables from the Company's sole customer, the Pakistan Water and Power Development Authority (WAPDA) were Rs. 41,687 Million. The Company continues to actively pursue WAPDA and concerned Ministries in the Government of Pakistan for settlement of the outstandings.

As with other IPPs, WAPDA has raised invoices for liquidated damages to the Company for the years ended June 2009, June 2010 and June 2011. The cumulated amount of these invoices is Rs. 6.360 Billion. The Company has disputed the claims for imposition of liquidated damages in accordance with the provisions of the Power Purchase Agreement. The Company's contention is that it could not meet dispatch requirements due to shortage of fuel caused by payment default from the Company's sole customer (WAPDA). For details, please refer to Note 6.1(iv) of the Financial Statements.

During the review period, the Power Plant was operated and maintained in accordance with international standards. A Hot Gas Path Inspection of one Gas Turbine was completed as per the outage plan.

The fuel mix for the dispatched output was 90.6% on Low Sulphur Furnace Oil; 9.3% on Gas; and 0.1% on High Speed Diesel.

On behalf of the Board

Aftab Mahmood Butt
Chief Executive

Islamabad: October 22, 2012

Financial Statements

Condensed Interim Balance Sheet
as at September 30, 2012 (Un-audited)

	Note	September 30, 2012	June 30, 2012
		(Rupees in Thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
3,600,000,000 (June 30, 2012: 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, 2012: 880,253,228)			
ordinary shares of Rs 10 each		8,802,532	8,802,532
Capital reserve		444,451	444,451
Unappropriated profit		16,156,532	14,402,413
		25,403,515	23,649,396
NON-CURRENT LIABILITIES			
Long term finances	4	4,024,969	4,270,905
Liabilities against assets subject to finance lease		75,201	61,454
Deferred liabilities		3,851,885	3,918,411
		7,952,055	8,250,770
CURRENT LIABILITIES			
Current portion of long term liabilities		1,937,867	1,677,142
Finances under mark-up arrangements - secured		21,874,060	20,049,549
Trade and other payables	5	25,853,972	45,718,500
		49,665,899	67,445,191
CONTINGENCIES AND COMMITMENTS	6		
		83,021,469	99,345,357

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

Aftab Mahmood Butt
(Chief Executive)

Syed Nizam Ahmad Shah
(Director)

	Note	September 30, 2012	June 30, 2012
		(Rupees in Thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	18,088,254	18,264,486
Intangible assets		9,055	7,388
Assets subject to finance lease		56,722	40,914
Capital work-in-progress		151,532	130,768
Long term loans and deposits		56,259	53,198
		18,361,822	18,496,754
CURRENT ASSETS			
Stores and spares		4,047,055	3,726,404
Stock-in-trade		3,435,742	4,239,457
Trade debts	8	54,351,360	69,332,911
Loans, advances, deposits, prepayments and other receivables		2,520,764	3,243,061
Cash and bank balances		304,726	306,770
		64,659,647	80,848,603
		83,021,469	99,345,357

Aftab Mahmood Butt
(Chief Executive)

Syed Nizam Ahmad Shah
(Director)

Condensed Interim Profit and Loss Account
for the quarter ended September 30, 2012 (Un-audited)

	Note	Quarter ended September 30, 2012	Quarter ended September 30, 2011
		(Rupees in Thousand)	
Sales		29,430,211	22,096,313
Cost of sales	9	(26,255,132)	(19,633,364)
Gross profit		3,175,079	2,462,949
Administrative expenses		(110,020)	(89,873)
Other operating income		1,792,218	2,239,348
Profit from operations		4,857,277	4,612,424
Finance cost		(2,266,260)	(2,788,113)
Profit before tax		2,591,017	1,824,311
Taxation		(836,898)	(626,752)
Profit for the period		1,754,119	1,197,559
Earnings per share - basic and diluted	**Rupees**	1.99	1.36

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)

Syed Nizam Ahmad Shah
(Director)

Condensed Interim Statement of Comprehensive Income
for the quarter ended September 30, 2012 (Un-audited)

	Quarter ended	
	September 30, 2012	**September 30, 2011**
	(Rupees in Thousand)	
Profit for the period	1,754,119	1,197,559
Other comprehensive income	-	-
Total comprehensive income for the period	1,754,119	1,197,559

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

Aftab Mahmood Butt
(Chief Executive)

Syed Nizam Ahmad Shah
(Director)

Condensed Interim Cash Flow Statement

for the quarter ended September 30, 2012 (Un-audited)

	Note	Quarter ended September 30, 2012	Quarter ended September 30, 2011
		(Rupees in Thousand)	
Cash flows from operating activities			
Cash generated from operations	11	(560,825)	371,913
Finance cost paid		(804,058)	(1,618,036)
Taxes paid		(34,550)	(608,478)
Staff retirement benefits paid		(83,439)	(9,444)
Net cash used in operating activities		(1,482,872)	(1,864,045)
Cash flows from investing activities			
Fixed capital expenditure		(329,984)	(1,039,381)
Interest income received		361	526
Net increase in long term loans and deposits		(3,061)	(255)
Proceeds from sale of property, plant and equipment		2,145	-
Net cash used in investing activities		(330,539)	(1,039,110)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(7,718)	(4,929)
Proceeds from long term loan-secured		-	1,282,972
Dividend paid		(5,426)	(4,979)
Net cash used in financing activities		(13,144)	1,273,064
Net decrease in cash and cash equivalents		(1,826,555)	(1,630,091)
Cash and cash equivalents at beginning of the period		(19,742,779)	(23,236,055)
Cash and cash equivalents at the end of the period	12	(21,569,334)	(24,866,146)

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

Aftab Mahmood Butt
(Chief Executive)

Syed Nizam Ahmed Shah
(Director)

Condensed Interim Statement of Changes in Equity
for the quarter ended September 30, 2012 (Un-audited)

	Share capital	Capital reserve	Un-appro-priated profit	Total
		(Rupees in Thousand)		
Balance as on June 30, 2011	8,802,532	444,451	14,712,962	23,959,945
Total comprehensive income for the period	-	-	1,197,559	1,197,559
Balance as on September 30, 2011	8,802,532	444,451	15,910,521	25,157,504
Final dividend for the year ended June 30, 2011 - Rs 3.50 per share	-	-	(3,080,886)	(3,080,886)
Total comprehensive income for the period	-	-	4,873,728	4,873,728
Interim dividend - Rs 3.75 per share	-	-	(3,300,950)	(3,300,950)
Balance as on June 30, 2012	8,802,532	444,451	14,402,413	23,649,396
Total comprehensive income for the period	-	-	1,754,119	1,754,119
Balance as on September 30, 2012	8,802,532	444,451	16,156,532	25,403,515

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

Aftab Mahmood Butt
(Chief Executive)

Syed Nizam Ahmed Shah
(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 and to sell the electricity produced therefrom to a single customer, the Pakistan Water and Power Development Authority (WAPDA) under a Power Purchase Agreement (PPA). This agreement is for a term of 25 years which commenced from June 1996.

2. Basis of preparation

This condensed interim financial information is un-audited and has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 -'Interim Financial Reporting' and provisions of and directives issued under The Companies Ordinance, 1984. In case where the requirements differ, the provisions of or directives issued under The Companies Ordinance, 1984 have been followed.

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, 2012.

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, 2012.

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 3,410 million (June 30, 2012: Rs 3,410 million) of which Rs 701 million (June 30, 2012: Rs 701 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 9,250 million (June 30, 2012: Rs 30,776 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 Inland Revenue (Appeals) ['CIR(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 Appellate Tribunal Inland Revenue ('ATIR') contesting such amendments.

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 CIR(A). The Company preferred appeal before ATIR against the decision of CIR(A).

Both the above appeals have now been decided in favour of the Company by ATIR declaring the orders passed by the tax authorities for amended assessments as null and void. The Company is now entitled to the appeal effect of the order passed by ATIR for tax years 2003 to 2008 amounting in total to Rs. 1,605 million. The Tax Department has a right to file an appeal before the High Court against the decision of ATIR.

In view of the above fact, 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 2,779.718 million (June 30, 2012: Rs 2,784.356 million).

Tax department carried out assessment for the Tax Years 2009, 2010 and 2011. Based on these assessments they created a demand of Rs. 1,027 million which mainly pertains to the matters connected with the revised depreciation case which has now been decided in Company's favour by ATIR. The Tax Department has also filed an appeal before ATIR against CIR(A) decision. Based on the foregoing the company has not made any provision against this demand.

(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 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, 2012: 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 1,364.064 million upto September 30, 2012 (June 30, 2012: Rs 1,270.852 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 204.610 million (June 30, 2012: Rs 190.628 million) to the OEM out of the discount recognised upto September 30, 2012. 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 has raised invoices for liquidated damages to the Company for the years ended 30 June 2009, 2010 and 2011 (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. The cumulated amount of these invoices is Rs 6.360 billion. Estimated amount of liquidated damages upto September 30, 2012 is not expected to increase beyond Rs 12.429 billion (June 30, 2012: Rs 10.101 billion) approximately based on the best available estimate to the management.

The Company disputes and rejects any claim on account of liquidated damages raised by WAPDA on the premise that its failure to dispatch electricity was due to WAPDA's non-payment of dues on timely basis to the Company and consequential inability of the Company to make timely payments to its fuel supplier (PSO) that resulted in inadequate level of electricity production owing to shortage of fuel.

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, 2012: 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 71.449 million (June 30, 2012: Rs 71.449 million).

6.2 Commitments

(i) Contracts for capital expenditure Rs 58.448 million (June 30, 2012: Rs 333.318 million).

(ii) Letters of credit other than for capital expenditure Rs 168.335 million (June 30, 2012: Rs 347.294 million).

	Note	September 30, 2012	June 30, 2012
		(Rupees in Thousand)	
7. Property, plant and equipment			
Opening book value		18,264,486	16,958,177
Add: Additions/transfers during the period	- note 7.1	323,165	3,171,673
		18,587,651	20,129,850
Less: Disposals during the period (at book value)		2,145	1,175
Depreciation charged during the period		497,252	1,864,189
		499,397	1,865,364
		18,088,254	18,264,486

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

	Note	September 30, 2012	June 30, 2012
		(Rupees in Thousand)	
Buildings on freehold land		-	4,678
Plant and machinery		-	270,124
Gas turbine blading		312,581	2,850,928
Auxiliary plant and machinery		6,235	31,382
Office equipment		1,445	9,880
Fixtures and fittings		-	66
Vehicles		2,904	4,615
		323,165	3,171,673

	Note	September 30, 2012	June 30, 2012
8. Trade debts			
Trade debts	- note 8.1	54,419,658	69,401,209
Less: Provision for doubtful debts		68,298	68,298
		54,351,360	69,332,911

8.1 These are considered good and include an overdue amount of Rs 41,687 million (June 30, 2012: Rs 58,109 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 September 30, 2012	Quarter ended September 30, 2011
	(Rupees in Thousand)	
9. Cost of sales		
Fuel cost	25,340,749	18,768,678
Salaries, wages and benefits	315,639	312,194
Plant maintenance	35,810	40,005
Gas turbines overhauls	48,441	29,774
Repair and renewals	9,976	53,933
Depreciation on property, plant and equipment	488,868	418,469
Amortisation on intangible assets	632	503
Provision for store obsolescence	15,017	9,808
	26,255,132	19,633,364

10. Transactions with related parties

Relationship with the Company	Nature of transaction	September 30, 2012	September 30, 2011
i. Associated undertakings	Purchase of services	1,359	728
	Sale of electricity	29,430,211	22,096,313
	Interest expense	119,337	148,672
	Interest income on late payments	1,783,717	2,221,414
ii. Post retirement benefit plans	Expense charged	36,365	47,301
iii. Key management personnel	Compensation	64,260	53,739

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

	September 30, 2012	June 30, 2012
	(Rupees in Thousand)	
Period end balances		
Receivable from related parties	55,161,195	69,960,871
Payable to related parties	326,467	286,861

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

	Quarter ended	
	September 30, 2012	September 30, 2011
	(Rupees in thousand)	
11. Cash generated from operations		
Profit before tax	2,591,017	1,824,311
Adjustments for:		
- Depreciation on property, plant and equipment	497,252	426,431
- Amortisation on intangible assets	632	503
- Depreciation on assets subject to finance lease	4,202	4,075
- Income on bank deposits	(361)	(526)
- Provision for store obsolescence	15,017	9,808
- Advances written off	56	-
- Staff retirement benefits accrued	30,134	41,613
- Finance cost	2,266,260	2,788,113
Profit before working capital changes	5,404,209	5,094,328
Effect on cash flow due to working capital changes		
(Increase)/decrease in current assets		
- Stores and spares	(335,668)	(1,173,250)
- Stock in trade	803,715	(535,296)
- Trade debts	14,981,551	(7,826,133)
- Loans, advances, deposits, prepayments and and other receivables	(93,328)	(30,463)
- (Decrease)/ Increase in trade and other payables	(21,321,304)	4,842,727
	(5,965,034)	(4,722,415)
	(560,825)	371,913

	Quarter ended	
	September 30, 2012	September 30, 2011
	(Rupees in thousand)	
12. Cash and cash equivalents		
Cash and bank balances	304,726	262,008
Finances under mark-up arrangements - secured	(21,874,060)	(25,128,154)
	(21,569,334)	(24,866,146)

13. Date of authorisation for issue

This condensed interim financial information was authorised for issue on October 22, 2012 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)

Syed Nizam Ahmad Shah
(Director)