Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Kot Addu Power Company Limited to comply with the Listing Regulation No. 37, 43 and 36 of the Karachi, Lahore and Islamabad Stock Exchanges respectively, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price regarding proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the statement of compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2009.

Lahore
September 3, 2009

A. F. Ferguson & Co.
Chartered Accountants

Name of engagement partner: Muhammad Masood

Auditors Report to the Members

We have audited the annexed balance sheet of Kot Addu Power Company Limited as at June 30, 2009 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have beendrawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   (ii) the expenditure incurred during the year was for the purpose of the company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

(e) Without qualifying our opinion, we draw attention to note 13.1(iv) to the financial statements. The Company has not made any provision for liquidated damages for the year ended June 30, 2009 as management in consultation with its legal counsel is of the view that the plant was technically available to deliver the electricity and failure to dispatch was consequential to shortage of fuel due to default in payments by WAPDA. The ultimate outcome of the matter cannot presently be determined, and no provision for any liquidated damages that may result has been made in the financial statements.

Lahore
September 3, 2009
Name of engagement partner: Muhammad Masood

A. F. Ferguson & Co.
Chartered Accountants

Balance Sheet
as at June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
3,600,000,000 (2008: 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 (2008: 880,253,228) ordinary shares of Rs 10 each	5	8,802,532	8,802,532
Capital reserve	6	444,451	444,451
Unappropriated profit		13,836,253	12,081,025
		23,083,236	21,328,008
NON-CURRENT LIABILITIES			
Long term loan-unsecured	7	5,147,476	6,047,191
Liabilities against assets subject to finance lease	8	46,214	30,924
Deferred liabilities	9	2,943,032	2,729,895
		8,136,722	8,808,010
CURRENT LIABILITIES			
Current portion of long term liabilities	10	908,568	906,342
Finances under mark-up arrangements - secured	11	8,617,641	23,637,028
Trade and other payables	12	19,213,087	2,285,073
		28,739,296	26,828,443
CONTINGENCIES AND COMMITMENTS	13		
		59,959,254	56,964,461

The annexed notes 1 to 40 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

	Note	2009	2008
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	18,504,118	19,683,665
Intangible assets	15	3,335	2,398
Assets subject to finance lease	16	46,745	36,525
Capital work-in-progress	17	212,606	133,276
Long term loans and deposits	18	29,621	25,254
		18,796,425	19,881,118
CURRENT ASSETS			
Stores and spares	19	3,131,479	2,551,182
Stock-in-trade	20	1,967,212	2,191,568
Trade debts	21	32,721,969	29,303,453
Loans, advances, deposits, prepayments and other receivables	22	2,941,816	2,857,701
Cash and bank balances	23	400,353	179,439
		41,162,829	37,083,343
		59,959,254	56,964,461

Vince R. Harris OBE
(Director)

Profit And Loss Account

for the year ended June 30, 2009

		Note	2009	2008
			(Rupees in thousand)	
Sales		24	69,363,913	55,947,078
Cost of sales		25	(58,373,072)	(46,600,485)
Gross profit			10,990,841	9,346,593
Administrative expenses		26	(727,267)	(381,261)
Other operating income		27	4,869,530	1,302,323
Profit from operations			15,133,104	10,267,655
Finance costs		28	(6,410,224)	(2,208,130)
Profit before tax			8,722,880	8,059,525
Taxation		29	(3,050,525)	(93,382)
Profit for the year			5,672,355	7,966,143
Earnings per share	Rupees	37	6.44	9.05

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

The annexed notes 1 to 40 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Vince R. Harris OBE
(Director)

Cash Flow Statement
for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from/(used in) operations	35	28,325,266	(6,411,515)
Finance cost paid		(4,372,789)	(1,739,254)
Taxes paid		(3,501,346)	(2,567,475)
Staff retirement benefits paid		(23,139)	(5,374)
Net cash from/(used in) operating activities		20,427,992	(10,723,618)
Cash flows from investing activities			
Fixed capital expenditure		(396,029)	(127,827)
Income on bank deposits received		1,094	2,376
Net increase in long term loans and deposits		(4,367)	(5,037)
Proceeds from sale of property, plant and equipment		1,864	7,873
Net cash used in investing activities		(397,438)	(122,615)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(7,105)	(4,852)
Repayment of long term loan		(899,715)	(899,715)
Dividend paid		(3,883,433)	(5,484,445)
Net cash used in financing activities		(4,790,253)	(6,389,012)
Net increase/(decrease) in cash and cash equivalents		15,240,301	(17,235,245)
Cash and cash equivalents at beginning of the year		(23,457,589)	(6,222,344)
Cash and cash equivalents at the end of the year	36	(8,217,288)	(23,457,589)

The annexed notes 1 to 40 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Vince R. Harris OBE
(Director)

Statement of Changes in Equity
for the year ended June 30, 2009

(Rupees in thousand)

	Share capital	Capital reserve	Un-appro-priated profit	Total
Balance as on June 30, 2007	8,802,532	444,451	9,616,465	18,863,448
Final dividend for the year ended June 30, 2007 - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Profit for the year	-	-	7,966,143	7,966,143
Interim dividend - Rs 3.25 per share	-	-	(2,860,823)	(2,860,823)
Balance as on June 30, 2008	8,802,532	444,451	12,081,025	21,328,008
Final dividend for the year ended June 30, 2008 - Rs 2.20 per share	-	-	(1,936,557)	(1,936,557)
Profit for the year	-	-	5,672,355	5,672,355
Interim dividend - Rs 2.25 per share	-	-	(1,980,570)	(1,980,570)
Balance as on June 30, 2009	8,802,532	444,451	13,836,253	23,083,236

The annexed notes 1 to 40 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Vince R. Harris OBE
(Director)

Notes to and Forming Part of the Financial Statements

for the year ended June 30, 2009

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

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

2.2 Standards, Interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Amendments to published standards effective in current year

- IAS 29 'Financial Reporting in Hyperinflationary Economies' is effective from July 1, 2008. The Company does not have any operations in hyperinflationary economies and therefore, the application of this standard has no effect on the Company's financial statements.

- IFRS 7 'Financial Instruments: Disclosures' is effective from July 1, 2008 and supersedes the disclosure requirements of IAS 32 'Financial Instruments: Presentation'. It introduces new disclosures relating to financial instruments which have been set out in note 38 to these financial statements. Its adoption does not have any impact on the classification and valuation of the Company's financial instruments.

- IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective from July 1, 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company has applied IFRIC 14 from July 1, 2008, but it has no significant impact on the Company's financial statements.

2.2.2 Amendments and interpretations to published standards applicable to the Company not yet effective

The following amendments and interpretations to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after their respective effective dates:

- IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' is applicable for periods beginning on or after January 1, 2006, however, Independent Power Producers (IPPs), whose letter of intent has been/ will be signed on or before June 30, 2010, have been exempted from its application by Securities and Exchange Commission of Pakistan (SECP). This interpretation provides guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for as a lease in accordance with International Accounting Standard (IAS) 17, 'Leases'.

Consequently, the Company will not be required to account for a portion of its Power Purchase Agreement (PPA) as a lease under International Accounting Standard (IAS) - 17. If the Company were to follow IFRIC - 4 and IAS - 17, the effect on the financial statements would be as follows:

	2009	2008
	(Rupees in thousand)	
De-recognition of property, plant and equipment	(18,476,591)	(19,645,993)
Recognition of lease debtor	11,620,754	12,437,907
Decrease in unappropriated profit at the beginning of the year	(4,387,308)	(3,736,964)
Increase/(decrease) in profit for the year	236,566	(650,344)
Decrease in unappropriated profit at the end of the year	(4,150,742)	(4,387,308)

- IAS 1 (Presentation of Financial Statements – Revised), effective for accounting periods beginning on or after July 1, 2009. The revised standard aims to enhance the usefulness of information presented in the financial statements including the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with 'other comprehensive income'. The application of the revised standard will not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

- Certain amendments to IAS 23 'Borrowing Costs' have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after July 1, 2009. Adoption of these amendments would require the Company to capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. Its adoption will not have any impact on the Company's financial statements.

2.2.3 Standards and interpretations to existing standards that are not applicable to the Company and not yet effective

Standards or Interpretations	Effective date (accounting periods beginning on or after)
IFRS 4 - Insurance Contracts	July 01, 2009
IFRS 8 - Operating Segments	July 01, 2009
IFRIC 15 - Accounting for agreements for the construction of real estate	July 01, 2009
IFRIC 16 - Hedge of net investment in a foreign operation	July 01, 2009
IFRIC 17 - Distributions of non-cash assets to owners	July 01, 2009

3. Basis of measurement

These financial statements have been prepared under the historical cost convention except for recognition of certain staff retirement benefits at present value.

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Staff retirement benefits

The Company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.2

b) Provision for taxation

The Company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

c) Useful life and residual values of property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Previously, income of the Company derived from the power station upto June 27, 2006 was exempt from income tax under clause 138 of the Part-I of the Second Schedule to the Income Tax Ordinance, 2001. The Company was also exempt from minimum tax under clause 13(A) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001 for the period it continued to be entitled to exemption under clause 138 of the Part I of the Second Schedule i.e. upto June 27, 2006.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.2 Staff retirement benefits

The main features of the schemes operated by the Company for its employees are as follows:

(a) The Company operates an approved funded defined benefit pension scheme for all employees with a qualifying service period of ten years. Monthly contribution is made to the fund on the basis of actuarial recommendation. The latest actuarial valuation was carried out as at June 30, 2009. The actual return on plan assets during the year was Rs 99.192 million (2008: Rs 107.771 million). The actual return on plan assets represents the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the Company as reduced by benefits paid during the year.

The future contribution rate includes allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

- Discount rate 11.5 percent per annum (2008: 12 percent per annum).
- Expected rate of increase in salary level 7.4 percent per annum for 2010 and 11.5 percent per annum for subsequent years (2008: 25 percent per annum for 2009 and 12 percent per annum for subsequent years).
- Expected rate of increase in pension 6.5 percent per annum (2008: 7 percent per annum).
- Expected rate of return 11.5 percent per annum (2008: 12 percent per annum).

Plan assets include long-term Government bonds, investment in mutual funds, term finance certificates of financial institutions and term deposits with banks. Return on Government bonds and debt is at fixed and floating rates.

The Company is expected to contribute Rs 33.796 million to the pension fund in the next year ending June 30, 2010.

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 'Employee Benefits'.

(b) The Company also operates an approved funded contributory provident fund for all employees. Equal monthly contributions are made by both the Company and the employees to the fund.

(c) The Company provides medical facilities to its retired employees and eligible dependant family members along with free electricity. Provisions are made annually to cover the obligation on the basis of actuarial valuation and are charged to income currently. The latest actuarial valuation was carried out as at June 30, 2009.

Projected unit credit method, using the following significant assumptions, is used for valuation of these schemes:

- Discount rate 11.5 percent per annum (2008: 12 percent per annum).
- Expected rate of increase in medical cost 8.5 percent per annum (2008: 9 percent per annum).
- Expected rate of increase in electricity benefit 11.5 percent per annum (2008: 12 percent per annum).

Retirement benefits are payable to all regular employees on completion of prescribed qualifying period of service under these schemes.

4.3 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost represents the acquisition price of assets transferred to the Company in accordance with the Transfer Agreement signed between Pakistan Water and Power Development Authority (WAPDA) and the Company on June 26, 1996 based on a valuation by M/s Stone and Webster using depreciated replacement cost basis.

Depreciation on all property, plant and equipment is charged to profit on the straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates mentioned in note 14.

The assets' residual values and estimated useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Major plant modifications and improvements are capitalised. Overhauls, maintenance and repairs are charged to income as and when incurred. The gain or loss on disposal or retirement of an asset, represented by the difference between the sale proceeds and the carrying amount of the asset, is recognised as an income or expense.

Blades for Gas Turbines are considered a separate category of assets with useful life span of 10 years. All blades are depreciated regardless of whether they are in use or not. Refurbishment costs are accrued and charged to profit and loss account.

4.4 Intangible assets

Expenditure incurred to acquire computer software are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised using the straight line method over a period of five years.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised, while no amortisation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.5 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

4.6 Leases

The Company is the lessee:

Finance leases

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. At inception finance leases are capitalised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and long term depending upon the timing of the payment.

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method. Depreciation of leased assets is charged to profit and loss account.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.7 Stores and spares

Usable stores and spares are valued principally at weighted average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Refurbishable items are valued at the lower of cost and net realisable value. Cost of refurbishment is charged to the profit and loss account as it is incurred. The item is charged to the profit and loss account when, upon inspection, it cannot be refurbished.

4.8 Stock in trade

Stock in trade except for those in transit are valued at lower of cost based on FIFO and net realisable value.

Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale. Provision is made in the financial statements for obsolete and slow moving stock in trade based on management estimate.

4.9 Financial instruments

4.9.1 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise advances, deposits and other receivables and cash and cash equivalents in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) Held to maturity

Financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are classified as held to maturity and are stated at amortised cost.

All financial assets are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Company's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Company’s right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

4.9.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit and loss account.

4.10 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the Company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

4.11 Long term loans and deposits

Loans and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets for having maturities greater than 12 months after the balance sheet date. Initially they are recognised at fair value and subsequently stated at amortised cost.

4.12 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

4.13 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

4.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. Finance costs are accounted for on an accrual basis and are reported under accrued finance costs to the extent of the amount remaining unpaid.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

4.15 Trade and other payables

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the Company.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.16 Derivative financial instruments

These are initially recorded at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates.

4.17 Foreign currencies

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

4.18 Borrowing costs

Mark up, interest and other charges on borrowings are capitalised upto the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark up, interest and other charges are charged to income.

4.19 Revenue recognition

Revenue on account of energy is recognised on transmission of electricity to WAPDA, whereas on account of capacity is recognised when due. Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

4.20 Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved.

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2009

5. Issued, subscribed and paid up capital

2009	2008		2009	2008
(Number of shares)			(Rupees in thousand)	
253,000	253,000	Ordinary shares of Rs 10 each fully paid in cash	2,530	2,530
880,000,228	880,000,228	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	8,800,002	8,800,002
880,253,228	880,253,228		8,802,532	8,802,532

Ordinary shares of the Company held by associated undertakings are as follows:

	2009	2008
	(Number of shares)	
Pakistan Water and Power Development Authority (WAPDA)	402,563,562	402,563,562
National Power (Kot Addu) Limited (a wholly owned subsidiary of International Power plc)	316,891,159	316,891,159
	719,454,721	719,454,721

6. Capital reserve

This represents the value of fuel stock taken over by the Company at the time of take over of Kot Addu Gas Turbine Power Station from WAPDA. The value of stock was not included in the valuation of assets at the time of take over.

7. Long term loan - unsecured

Lender	Currency	2009	2008	Rate of interest per annum	No of semi annual instalments	Interest payable
		(Rupees in thousand)				
WAPDA - Related party	PKR	6,047,191	6,946,906	14%	18, ending June 2018	Semi annually
Less: Current maturity		899,715	899,715			
		5,147,476	6,047,191			

8. Liabilities against assets subject to finance lease

	2009	2008
	(Rupees in thousand)	
Present value of minimum lease payments	55,067	37,551
Less: Current portion shown under current liabilities	8,853	6,627
	46,214	30,924

Minimum lease payments have been discounted at an implicit interest rate ranging from 14.47 percent (2008: 10.95 percent) to 16.68 percent (2008: 11.31 percent) per annum to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs, replacements and insurance costs are to be borne by the lessee.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2009

Years	Minimum lease payment	Future finance charge	Present value of lease liability (Rupees in thousand) 2009	2008
Not later than one year	16,236	7,383	8,853	6,627
Later than one year and not later than five years	58,019	11,805	46,214	30,924
	74,255	19,188	55,067	37,551

		2009	2008
		(Rupees in thousand)	

9. Deferred Liabilities

		2009	2008
Deferred taxation	- note 9.1	2,576,733	2,402,469
Staff retirement benefits	- note 9.2	366,299	327,426
		2,943,032	2,729,895

9.1 Deferred taxation

The liability for deferred taxation comprises of timing differences relating to:

	2009	2008
	(Rupees in thousand)	
Accelerated tax depreciation	2,661,691	2,460,010
Provision for store obsolescence	(29,747)	(26,107)
Provision for doubtful debts	(35,938)	(18,291)
Liabilities against assets subject to finance lease	(19,273)	(13,143)
	2,576,733	2,402,469

The gross movement in deferred tax liability during the year is as follows:

	2009	2008
Opening balance	2,402,469	3,288,955
Charge/(reversal) during the year	174,264	(886,486)
Closing balance	2,576,733	2,402,469

9.2 Staff retirement benefits

These are composed of:

		2009	2008
Pension	- note 9.2.1	744	1,298
Medical	- note 9.2.2	149,748	132,776
Free electricity	- note 9.2.2	215,807	193,352
		366,299	327,426

9.2.1 Pension

	2009	2008
	(Rupees in thousand)	
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	823,819	658,959
Fair value of plan assets	(805,960)	(694,732)
Unrecognised actuarial (gains)/losses	(17,115)	37,071
Liability as at June 30	744	1,298
Liability/(asset) as at July 1	1,298	(10,464)
Charge to profit and loss account	20,944	15,579
Contribution paid by the Company	(21,498)	(3,817)
Liability as at June 30	744	1,298
The movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation as at July 1	658,959	524,958
Current service cost	25,520	21,800
Interest cost for the year	79,075	53,148
Benefits paid during the year	(9,462)	(7,139)
Experience loss	69,727	66,192
Present value of defined benefit obligation as at June 30	823,819	658,959
The movement in fair value of plan assets is as follows:		
Fair value as at July 1	694,732	590,283
Expected return on plan assets	83,651	59,369
Company contribution	21,498	3,817
Benefits paid during the year	(9,462)	(7,139)
Experience gain	15,541	48,402
Fair value as at June 30	805,960	694,732
Plan assets are comprised as follows:		
Mutual Funds	3%	-
Debt	74%	26%
Cash	23%	74%
	100%	100%

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of pension fund is as follows:

	2009	2008	2007	2006	2005
		Rupees in thousand			
As at June 30					
Present value of defined benefit obligations	823,819	658,959	524,958	401,056	383,998
Fair value of plan assets	(805,960)	(694,732)	(590,283)	(498,170)	(427,351)
Deficit/(surplus)	17,859	(35,773)	(65,325)	(97,114)	(43,353)
Experience adjustment on obligation	-9%	-13%	-18%	7%	-5%
Experience adjustment on plan assets	2%	8%	11%	10%	9%

9.2.2

	Medical		Free electricity	
	2009	2008	2009	2008
	(Rupees in thousand)		(Rupees in thousand)	
The amounts recognised in the balance sheet are as follows:				
Present value of defined benefit obligation	102,280	116,906	190,619	153,849
Unrecognised actuarial gains	47,468	15,870	25,188	39,503
Liability as at June 30	149,748	132,776	215,807	193,352
Liability as at July 1	132,776	120,306	193,352	177,135
Charge to profit and loss account	18,128	13,478	22,940	16,766
Contribution paid by the Company	(1,156)	(1,008)	(485)	(549)
Liability as at June 30	149,748	132,776	215,807	193,352
The movement in the present value of defined benefit obligation is as follows:				
Present value of defined benefit obligation as at July 1	116,906	101,335	153,849	134,189
Current service cost	4,215	3,831	5,891	5,229
Interest cost for the year	14,212	10,278	18,772	13,646
Benefits paid during the year	(1,156)	(1,008)	(485)	(549)
Experience (gain)/loss	(31,897)	2,470	12,592	1,334
Present value of defined benefit obligation as at June 30	102,280	116,906	190,619	153,849

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of post retirement medical is as follows:

	2009	2008	2007	2006	2005
		Post Retirement Medical (Rupees in thousand)			
As at June 30					
Present value of defined benefit obligation	102,280	116,906	101,335	88,005	88,968
Fair value of plan assets	-	-	-	-	-
Deficit	102,280	116,906	101,335	88,005	88,968
Experience adjustment on obligation gain/(loss)	9%	-2%	-3%	14%	5%

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of post retirement electricity is as follows:

	2009	2008	2007	2006	2005
		Post Retirement Electricity (Rupees in thousand)			
As at June 30					
Present value of defined benefit obligation	190,619	153,849	134,189	107,247	125,488
Fair value of plan assets	-	-	-	-	-
Deficit	190,619	153,849	134,189	107,247	125,488
Experience adjustment on obligation (loss)/gain	-8%	-1%	-12%	33%	27%

A one percentage point change in medical cost trend assumption would have the following effects:

	One percent point increase	One percent point decrease
	(Rupees in thousand)	
Effect on the aggregate of the service cost and interest cost	3,959	(3,115)
Effect on the defined benefit obligation	21,667	(17,063)

		2009	2008
		(Rupees in thousand)	
10. Current portion of long term liabilities			
Long term loans - unsecured	- note 7	899,715	899,715
Liabilities against assets subject to finance lease	- note 8	8,853	6,627
		908,568	906,342

11. Finances under mark-up arrangements - secured

Short term running finances available from various commercial banks under mark up arrangements amount to Rs 17,950 million (2008: Rs 24,015 million). The rate of mark-up range from Re 0.3570 to Re 0.5068 (2008: Re 0.2648 to Re 0.3995) per Rs 1,000 per diem or part thereof on the balances outstanding. In the event, the Company fails to pay the balances on the expiry of the quarter, year or earlier demand, mark up is to be computed at the rate of Re 0.5479 to Re 0.6575 (2008: Re 0.5479) per Rs 1,000 per diem or part thereof on the balances unpaid.

Of the aggregate facility of Rs 1,395.161 million (2008: Rs 870.000 million) for opening letters of credit and Rs 1,248.039 million (2008: Rs 1,500.000 million) for guarantees, the amount utilised as at June 30, 2009 was Rs 438.511 million (2008: Rs 231.753 million) and Rs 977.581 million (2008: Rs 1,185.827 million) respectively.

The aggregate running finances, letters of credit and guarantees are secured by charge on stores, spares, stock-in-trade and trade debts upto a limit of Rs 38,382 million (2008: Rs 33,315 million) and charge on property, plant and equipment upto a limit of Rs 37,468 million (2008: 29,401 million).

12. Trade and other payables

		2009	2008
		(Rupees in thousand)	
Trade creditors	- note 12.1	15,506,757	786,722
Accrued liabilities		331,013	488,139
Liquidated damages		1,119	1,262
Mark-up accrued on:			
- Long term loan - unsecured		9,278	10,658
- Finances under mark-up arrangements - secured		427,680	556,530
- Liabilities against assets subject to finance lease		927	495
- Credit supplies of raw material		2,167,233	-
Deposits - interest free repayable on demand		123	653
Workers' Profit Participation Fund	- note 22.4	-	2,976
Workers' Welfare Fund	- note 12.2	174,458	161,191
Differential payable to WAPDA	- note 26.2	400,869	114,548
Unclaimed dividends		187,405	153,711
Others		6,225	8,188
		19,213,087	2,285,073

12.1 Trade creditors include amount due to related parties Rs 0.912 million (2008: Rs 0.667 million) and payable to Pakistan State Oil (PSO) amounting to Rs 15,482 million (2008: Rs 137 million).

	2009	2008
	(Rupees in thousand)	
12.2 Workers' Welfare Fund		
Opening balance	161,191	151,673
Provision for the year	174,458	161,191
	335,649	312,864
Less: Payments made during the year	161,191	151,673
Closing balance	174,458	161,191

13. Contingencies and commitments

13.1 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 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 these financial statements. Had such liabilities been recognized, the profit for the year would have been lower by Rs 2,713.057 million.

(ii) The Company had obtained legal advice in connection with the establishment of Workers' Profit Participation Fund 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 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 (2008: 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) During the year, 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 143.463 million upto June 30, 2009. 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 71.731 million to the OEM out of the discount recognised upto June 30, 2009. The management of the Company feels that the minimum specified level of purchases will be achieved during the contractual period and no compensation fee would be payable to the OEM, consequently no provision for compensation fee as referred above has been made in these financial statements.

(iv) WAPDA may impose liquidated damages (after taking into account forced outage allowance stipulated under the terms of Power Purchase agreement) on account of short supply of electricity by the Company, which was due to cashflow constraints of the Company as a result of default by WAPDA in making timely payments. Currently, liquidated damages cannot be estimated reliably, however, these are not expected to increase beyond Rs 1.5 billion approximately based on the best available estimate to the management.

The Company disputes and rejects any claim on account of liquidated damages that may be raised by WAPDA on the premise that its failure to despatch electricity was due to WAPDAs' 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 (2008: Rs 58.576 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 977.580 million (2008: Rs 1,185.827 million).

13.2 Commitments

(i) Contracts for capital expenditure Rs 2.001 million (2008: Rs 13.149 million).

(ii) Letters of credit other than for capital expenditure Rs 438.510 million (2008: Rs 219.373 million).

14. Property, plant and equipment

2009

(Rupees in thousand)

	Cost as at June 30, 2008	Additions/ (deletions)	Cost as at June 30, 2009	Accumulated depreciation as at June 30, 2008	Depreciation charge for the year/ (deletions)	Accumulated depreciation as at June 30, 2009	Book value as at June 30, 2009	Rate %
Freehold land	46,285	-	46,285	-	-	-	46,285	-
Buildings on freehold land	692,392	314	692,706	317,479	28,856	346,335	346,371	4 - 7.95
Plant and machinery	34,238,103	16,237	34,254,340	15,932,159	1,277,325	17,209,484	17,044,856	4 - 8.22
Gas turbine blading	2,861,694	293,304	3,154,998	1,988,861	163,645	2,152,506	1,002,492	10
Auxiliary plant and machinery	179,142	6,125	185,267	133,045	15,556	148,601	36,666	20
Office equipment	80,018	2,889 (4,675)	78,232	59,926	6,653 (4,675)	61,904	16,328	20
Fixtures and fittings	17,037	-	17,037	13,858	1,304	15,162	1,875	20
Vehicles	48,270	- (2,574)	45,696	33,948	4,411 (1,908)	36,451	9,245	25
2009	38,162,941	318,869 (7,249)	38,474,561	18,479,276	1,497,750 (6,583)	19,970,443	18,504,118	

2008

	Cost as at June 30, 2007	Additions/ (deletions)	Cost as at June 30, 2008	Accumulated depreciation as at June 30, 2007	Depreciation charge for the year/ (deletions)	Accumulated depreciation as at June 30, 2008	Book value as at June 30, 2008	Rate %
Freehold land	46,285	-	46,285	-	-	-	46,285	-
Buildings on freehold land	684,902	7,490	692,392	288,931	28,548	317,479	374,913	4 - 7.55
Plant and machinery	34,208,900	29,203	34,238,103	14,656,908	1,275,251	15,932,159	18,305,944	4 - 7.45
Gas turbine blading	2,859,728	1,966	2,861,694	1,773,184	215,677	1,988,861	872,833	10
Auxiliary plant and machinery	164,932	14,210	179,142	113,798	19,247	133,045	46,097	20
Office equipment	66,315	13,703	80,018	54,721	5,205	59,926	20,092	20
Fixtures and fittings	17,037	-	17,037	12,316	1,542	13,858	3,179	20
Vehicles	74,963	64 (26,757)	48,270	48,744	5,472 (20,268)	33,948	14,322	25
2008	38,123,062	66,636 (26,757)	38,162,941	16,948,602	1,550,942 (20,268)	18,479,276	19,683,665	

Notes to and Forming Part of the Financial Statements

for the year ended June 30, 2009

14.1 Disposal of property, plant & equipment

2009 (Rupees in thousand)

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds	Mode of disposal
Vehicles	Employees					
	Mr. Jamil Ahmad Shah	868	694	174	174	Company Policy
	Muhammad Yaseen	801	641	160	509	Negotiation
	Third parties					
	Syed Azhar Hameed	905	573	332	852	Negotiation
Other assets having book value less than Rs 50,000		4,675	4,675	-	329	Negotiation
		7,249	6,583	666	1,864	

2008 (Rupees in thousand)

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds	Mode of disposal
Vehicles	Employees					
	Mr. Mohtashim Aftab	1,306	1,045	261	261	Company Policy
	Mr. Khalid Pervaiz Bajwa	1,196	957	239	239	Company Policy
	Mr. Iqbal Khattak	869	695	174	174	Company Policy
	Mr. Ehsan-ul-Haq	869	695	174	174	Company Policy
	Mr. Waheed Sohail	869	695	174	165	Company Policy
	Mr. Sajjad Mehmood	869	695	174	174	Company Policy
	Mr. Ghulam Muhammad	801	641	160	160	Company Policy
	Mr. Fazal-ur-Rehman	802	641	161	160	Company Policy
	Mr. Iftikhar-ul-Hassan	802	641	161	160	Company Policy
	Mr. Muhammad Idrees	802	641	161	160	Company Policy
	Mr. Muhammad Khan	802	641	161	160	Company Policy
	Mr. Muhammad Tanveer Zaidi	802	641	161	160	Company Policy
	Mr. Abdul Salam	802	641	161	160	Company Policy
	Mr. Muhammad Asif	802	641	161	160	Company Policy
	Mr. Muhammad Younus	802	641	161	160	Company Policy
	Mr. Atta-ur-Rehman	869	695	174	174	Company Policy
	Mr. Ghulam Rasool Saber	869	695	174	156	Company Policy
	Mr. Muhammad Bilal	869	695	174	174	Company Policy
	Mr. Nadeem Mukhtar Rana	869	695	174	174	Company Policy
	Mr. Shakeel Ahmad Khan	869	695	174	174	Company Policy
	Mr. Muhammad Anwar	802	641	161	159	Company Policy
	Mr. Muhammad Jamal Younus	865	561	304	591	Negotiation
	Mr. Naeem Ahmad Tariq	886	479	407	742	Negotiation
	Mr. Muhammad Ashfaq Mehmood	1,363	591	772	951	Negotiation
	Mr. Khalid Naseem	801	641	160	160	Company Policy
	Mr. Muhammad Asim	750	600	150	150	Company Policy
	Mr. Irfan-ur-Rab Siddiqui	868	694	174	174	Company Policy
	Widow of Ex-employee					
	Mrs. Aslam Shad	869	695	174	174	Company Policy
	Third Parties					
	M/s Jan & Co.	986	713	273	636	Negotiation
	Mr. Muhammad Aamir Saleem Malik	1,027	627	400	657	Negotiation
		26,757	20,268	6,489	7,873	

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2009

15. Intangible assets

(Rupees in thousand)

	Cost as at June 30, 2008	Additions	Cost as at June 30, 2009	Accumulated amortisation as at June 30, 2008	Amortisation charge for the year	Accumulated amortisation as at June 30, 2009	Book value as at June 30, 2009
Computer software (acquired)	24,392	2,032	26,424	21,994	1,095	23,089	3,335
2009	24,392	2,032	26,424	21,994	1,095	23,089	3,335
2008	23,924	468	24,392	21,250	744	21,994	2,398

15.1 The depreciation/amortisation charge for the year has been allocated as follows:

		Depreciation	Amortisation	Total 2009
Cost of sales	- note 25	1,463,179	1,095	1,464,274
Administrative expenses	- note 26	34,571	-	34,571
		1,497,750	1,095	1,498,845

		Depreciation	Amortisation	Total 2008
Cost of sales	- note 25	1,515,380	744	1,516,124
Administrative expenses	- note 26	35,562	-	35,562
		1,550,942	744	1,551,686

16. Assets subject to finance lease

(Rupees in thousand)

	Cost as at June 30, 2008	Additions/ (deletions)	Cost as at June 30, 2009	Accumulated depreciation as at June 30, 2008	Deperecition charge for the year	Accumulated depreciation as at June 30, 2009	Book value as at June 30, 2009	Rate %
Vehicles	43,754	21,643	63,837	7,229	10,199	17,092	46,745	25
		(1,560)			(336)			
2009	43,754	21,643	63,837	7,229	10,199	17,092	46,745	
		(1,560)			(336)			
2008	-	43,754	43,754	-	7,229	7,229	36,525	

16.1 The depreciation charge for the year has been allocated to administrative expenses

	2009	2008
	(Rupees in thousand)	
17. Capital work-in-progress		
Civil works	71,352	50,422
Plant and machinery	9,848	3,336
Others	131,406	79,518
	212,606	133,276
18. Long term loans and deposits		
Loans to employees - considered good	28,874	26,041
Security deposits	6,550	4,240
	35,424	30,281
Less: Receivable within one year	5,803	5,027
	29,621	25,254

hese represent unsecured loans to non-executive employees for the purchase of plot, car, construction of house etc. and are repayable in monthly instalments over a maximum period of 120 months. These loans carry interest of 9 percent per annum (2008: 9 percent per annum).

		2009	2008
		(Rupees in thousand)	
19. Stores and spares			
Stores and spares including in transit Rs 221.681 million (2008: Rs 9.037 million)	- note 19.1	3,216,471	2,625,775
Less: Provision for store obsolescence	- note 19.2	84,992	74,593
		3,131,479	2,551,182

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

19.1 Included in stores are items valuing Rs 83.860 million (2008: Rs 0.628 million) which are being held by the following suppliers:

	2009	2008
	(Rupees in thousand)	
Siemens AG Germany	-	312
Middle East Engineering Company (MEELSA)	35,260	-
Scherzinger Pump Technology, Germany	3,355	-
MJB International, UAE	45,245	316
	83,860	628
19.2 Provision for store obsolescence		
Opening balance	74,593	40,931
Add: Provision for the year	38,753	43,811
	113,346	84,742
Less: Stores written off against provision	28,354	10,149
	84,992	74,593
20. Stock in trade		
Furnace oil	1,698,214	1,843,789
Diesel	268,998	347,779
	1,967,212	2,191,568

		2009	2008
21. Trade debts			
Trade debts	- note 21.1	32,824,649	29,355,713
Less: Provision for doubtful debts	- note 21.2	102,680	52,260
		32,721,969	29,303,453

21.1 These are considered good and include an overdue amount of Rs 25,619 million (2008: Rs 20,341 million) receivable from WAPDA. 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.

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2009

		2009	2008
		(Rupees in thousand)	
21.2 Provision for doubtful debts			
Opening balance		52,260	14,500
Add: Provision for the year		79,127	37,870
		131,387	52,370
Less: Trade debts written off against provision		28,707	110
		102,680	52,260
22. Loans, advances, deposits, prepayments and other receivables			
Loans to employees - considered good		5,803	5,027
Advances to suppliers - considered good	- note 22.1	29,174	11,633
Claims recoverable from Government			
- Sales tax	- note 22.2	108,784	202,626
- Income tax		2,168,057	1,542,972
Prepayments		5,139	5,731
Income receivable on bank deposits		-	600
Claims recoverable from WAPDA for pass through items			
Workers' Welfare Fund		174,458	319,480
Workers' Profit Participation Fund		436,144	759,407
	- note 22.3	610,602	1,078,887
Security deposits		2,216	1,416
Workers' Profit Participation Fund - refundable	- note 22.4	3,856	-
Other receivables	- note 22.5	8,185	8,809
		2,941,816	2,857,701

22.1 Advances to suppliers include amounts due from WAPDA Rs 1.809 million (2008: Rs 1.313 million). These are in the normal course of business and are interest free.

22.2 Sales tax recoverable includes an amount of Rs 16.994 million (2008: Rs 16.972 million), which represents refund for input tax on purchase of diesel for start-up. This refund was withheld by Deputy Collector (Refunds) and has also been adjudicated against the Company by Collector of Customs, Federal Excise & Sales Tax. Company has filed an appeal before the Customs, Excise and Sales Tax Appellate Tribunal.

Pending the outcome of the appeal the amount has been shown as recoverable in the financial statements as according to the management of the Company, there are meritorious grounds that the ultimate decision would be in its favour.

22.3 Under section 14.2(a) of Part III of Schedule 6 to the Power Purchase Agreement (PPA) with WAPDA, payments to Workers' Welfare Fund and Workers' Profit Participation Fund are recoverable from WAPDA as pass through items.

	2009	2008
	(Rupees in thousand)	
22.4 Workers' Profit Participation Fund		
Opening balance	2,976	379,182
Provision for the year	436,144	402,976
	439,120	782,158
Less: Payments made during the year	442,976	779,182
Closing (refundable)/payable	(3,856)	2,976

Following the amendments made by the Finance Act 2006 to the Companies Profits (Workers' Participation) Act, 1968, the Company has established the KAPCO Workers' Participation Fund in March, 2008 to allocate the amount of annual profits stipulated by the Act for distribution amongst workers eligible to receive such benefits under the Act.

As fully explained in note 13.1(ii), 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.

22.5 Other receivables include amounts due from International Power plc Rs 0.119 million (2008: Rs 0.299 million).

		2009	2008
		(Rupees in thousand)	
23. Cash and bank balances			
At banks on:			
- Current accounts		395,821	177,534
- Savings accounts	- note 23.1	4,362	1,752
		400,183	179,286
In hand		170	153
		400,353	179,439

23.1 Included in these are total restricted funds of Rs 203.292 million (2008: Rs 12.805 million) held by banks under lien as margin against letters of credit. The balances in saving accounts bear mark up of 5 percent per annum (2008: 0.5 percent to 7.50 percent per annum).

	2009	2008
	(Rupees in thousand)	
24. Sales		
Energy purchase price	55,904,957	44,988,378
Capacity purchase price	13,458,956	10,958,700
	69,363,913	55,947,078

Energy purchase price is exclusive of sales tax of Rs 8,924.236 million (2008: Rs 6,727.495 million).

		2009	2008
		(Rupees in thousand)	
25. Cost of sales			
Fuel cost		55,621,836	43,960,675
Salaries, wages and benefits	- note 25.1	599,771	458,561
Plant maintenance		152,900	158,120
Gas turbines overhauls		419,584	249,448
Repair and renewals		75,954	213,209
Depreciation on property, plant and equipment	- note 15.1	1,463,179	1,515,380
Amortisation on intangible assets	- note 15.1	1,095	744
Liquidated damages		-	537
Provision for store obsolescence	- note 19.2	38,753	43,811
		58,373,072	46,600,485

Cost of sales include Rs 577.859 million (2008: Rs 365.893 million) for stores and spares consumed.

	2009	2008
	(Rupees in thousand)	
25.1 Salaries, wages and benefits		
Salaries, wages and benefits include following in respect of staff retirement benefits:		
Pension		
Current service cost	25,520	21,800
Interest cost for the year	79,075	53,148
Expected return on plan assets	(83,651)	(59,369)
	20,944	15,579
Medical		
Current service cost	4,215	3,831
Interest cost for the year	14,212	10,278
Amortisation of actuarial gain	(299)	(631)
	18,128	13,478
Free electricity		
Current service cost	5,891	5,229
Interest cost for the year	18,772	13,646
Amortisation of actuarial gain	(1,723)	(2,109)
	22,940	16,766

In addition to above, salaries, wages and benefits also include Rs 15.418 million (2008: Rs 12.225 million) in respect of provident fund contribution by the Company.

		2009	2008
		(Rupees in thousand)	
26. Administrative expenses			
Travelling		11,655	7,775
Motor vehicles running		28,401	23,161
Postage, telephone and telex		10,108	8,974
Legal and professional charges		29,451	18,417
Computer charges		5,795	4,965
Auditors' remuneration	- note 26.1	2,174	1,507
Printing, stationery and periodicals		5,868	5,286
Repairs and maintenance infrastructure		24,241	21,317
Training expenses		7,977	11,109
Rent, rates and taxes		11,669	10,079
Depreciation on property, plant and equipment	- note 15.1	34,571	35,562
Depreciation on assets subject to finance lease	- note 16.1	10,199	7,229
Infrastructure cost		13,666	9,778
Differential payable to WAPDA	- note 26.2	286,321	114,548
Education fee		23,865	22,187
Donations		-	25,000
Bad debts written off		92,396	-
Advances written off		436	581
Provision for doubtful debts	- note 21.2	79,127	37,870
Project development cost		34,852	-
Other expenses		14,495	15,916
		727,267	381,261
26.1 Auditors' remuneration			
The charges for auditors' remuneration include the following in respect of auditors' services for:			
Statutory audit		1,200	970
Half yearly review		400	300
Workers' Profit Participation Fund audit, Employees Provident and Pension Fund audit, special reports and certificates.		406	100
Out of pocket expenses		168	137
		2,174	1,507

26.2 This represents income tax differential payable to WAPDA in accordance with clause 6.7 and 6.15(a) of Part I of Schedule 6 of Power Purchase Agreement (PPA) on account of difference in income tax rate as provided for in the PPA and the current tax rate as applicable to the Company.

	2009	2008
	(Rupees in thousand)	
27. Other operating income		
Income from financial assets		
Income on bank deposits	494	2,046
Interest on loans to employees	2,787	2,415
Interest on late payment - WAPDA	4,848,215	1,244,746
	4,851,496	1,249,207
Income from non-financial assets		
Profit on disposal of property, plant and equipment	1,198	1,384
Colony electricity	1,591	1,577
Provisions and unclaimed balances written back	3,260	34,836
Others	11,985	15,319
	18,034	53,116
	4,869,530	1,302,323
28. Finance costs		
Interest and mark up including commitment charges on		
- long term loan from WAPDA - unsecured	939,696	1,065,656
- finances under mark-up arrangements - secured	3,178,818	1,103,508
- credit supplies of raw material	2,267,233	-
- liabilities against assets subject to finance lease	6,060	3,723
Exchange loss	11,684	29,813
Bank and other charges	6,733	5,430
	6,410,224	2,208,130
29. Taxation		
For the year		
- Current	2,876,292	2,601,032
- Deferred	174,264	218,605
	3,050,556	2,819,637
Prior years		
- Current	(31)	(1,621,164)
- Deferred	-	(1,105,091)
	(31)	(2,726,255)
	3,050,525	93,382

	2009 %age	2008 %age
29.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	35.00	35.00
Effect of change in prior years' tax	-	(33.84)
Effect of income taxed at different rate	(0.03)	-
Average effective tax rate	34.97	1.16

30. Remuneration of Directors, Chief Executive and Executives

30.1 The aggregate amount charged in the financial statements for the year for remuneration including certain benefits to the chief executive, full time working directors including alternate directors and executives of the Company is as follows:

(Rupees in thousand)

	Chief Executive		Executives	
	2009	2008	2009	2008
Managerial remuneration including bonus and other allowances	23,708	14,303	129,803	67,738
Contribution to provident & pension funds and other retirement benefit plans	1,227	1,430	13,534	7,827
Leave passage	-	-	4,445	2,759
	24,935	15,733	147,782	78,324
Number of Persons	1	1	54	42

Salary of Chief Executive includes an amount of Rs 11.441 million paid to Ex- Chief Executive Officer. The Company also provides the Chief Executive and some of the Executives with Company transport and telephones.

30.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 6 directors (2008: 6 directors) was Rs 0.586 million (2008: Rs 0.265 million).

31. Transactions with related parties

The related parties comprise associated undertakings, key management personnel and post retirement benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due to/from related parties are shown under payables and receivables and remuneration of the key management personnel is disclosed in note 30. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transaction	2009	2008
		(Rupees in thousand)	
i. Associated undertakings	Purchase of services	1,417	1,426
	Sale of goods and electricity	69,364,198	55,947,078
	Interest expense	939,696	1,065,656
	Interest income on late payment	4,848,215	1,244,746
	Bad debts written off	92,396	-
ii. Post retirement benefit plans	Expense charged	77,430	58,078
iii. Key management personnel	Sale of property, plant and equipment	-	1,733

Sale and purchase transactions with related parties are carried out on commercial terms and conditions. Interest is charged between associated undertakings on the basis of mutually agreed terms.

32. Proposed dividend

The Board of Directors of the Company have proposed a final dividend for the year ended June 30, 2009 of Rs 4.20 (2008: Rs 2.20) per share amounting to Rs 3,697,064 million (2008: Rs 1,936.557 million) at their meeting held on September 03, 2009 for approval of members at the Annual General Meeting to be held on October 26, 2009. These financial statements do not reflect this dividend payable.

33. Capacity and production

	2009 MWh	2008 MWh
Annual dependable capacity (Based on 8,760 hours)	11,755,920	11,755,920
Actual energy delivered	7,545,364	8,862,957

Capacity for the power plant taking into account all the planned scheduled outages is 10,736,826 MWh (2008: 10,983,251 MWh). Actual energy delivered by the plant is dependent on the load demanded by WAPDA and the plant availability.

34. Rates of exchange

Liabilities in foreign currencies have been translated into Rupees at USD 1.230 (2008: USD 1.4663), EURO 0.8709 (2008: EURO 0.9289), GBP 0.7387 (2008: GBP 0.7356) and YEN 117.9941 (2008: YEN 155.8118) equal to Rs 100.

	2009	2008
	(Rupees in thousand)	

35. Cash generated from/(used in) operations

	2009	2008
Profit before tax	8,722,880	8,059,525
Adjustments for:		
- Depreciation on property, plant and equipment	1,497,750	1,550,942
- Amortisation on intangible assets	1,095	744
- Depreciation on assets subject to finance lease	10,199	7,229
- Profit on disposal of property, plant and equipment	(1,198)	(1,384)
- Income on bank deposits	(494)	(2,046)
- Bad debts written off	92,396	-
- Advances written off	436	581
- Provision for store obsolescence	38,753	43,811
- Provision for doubtful debts	79,127	37,870
- Staff retirement benefits accrued	62,012	45,823
- Finance costs	6,410,224	2,208,130
Profit before working capital changes	16,913,180	11,951,225
Effect on cash flow due to working capital changes		
- Increase in stores and spares	(619,050)	(41,292)
- Decrease/(increase) in stock-in-trade	224,356	(432,109)
- Increase in trade debts	(3,590,039)	(17,766,939)
- Decrease in loans, advances, deposits, prepayments and other receivables	539,934	230,768
- Increase/(decrease) in trade and other payables	14,856,885	(353,168)
	11,412,086	(18,362,740)
	28,325,266	(6,411,515)

36. Cash and cash equivalents

	2009	2008
Cash and bank balances	400,353	179,439
Finances under mark up arrangements - secured	(8,617,641)	(23,637,028)
	(8,217,288)	(23,457,589)

37. Earnings per share

37.1 Basic earnings per share

		2009	2008
Profit for the year	Rupees in thousand	5,672,355	7,966,143
Weighted average number of ordinary shares	Numbers	880,253,228	880,253,228
Earnings per share	Rupees	6.44	9.05

37.2 Diluted earnings per share

A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at June 30, 2009 and June 30, 2008 which would have any effect on the earnings per share if the option to convert is exercised.

38. Financial risk management

38.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board has provided 'Risk Management Policy' covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of this policy.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Great Britain Pound (GBP) and Euro. Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from/payable to the foreign entities. The Company's exposure to currency risk was as follows:

	2009	2008
Trade and other payables - USD	(2,491,038)	(538)
Advances to suppliers - USD	6,941	12,783
Net exposure - USD	(2,484,097)	12,245
Trade and other payables - GBP	(7,500)	(8,200)
Advances to suppliers - GBP	-	14,110
Net exposure - GBP	(7,500)	5,910
Trade and other payables - Euro	(274,376)	(866,570)
Advances to suppliers - Euro	149,158	4,680
Net exposure - Euro	(125,218)	(861,890)
The following significant exchange rates were applied during the year:		
Rupees per USD		
Average rate	78.89	62.77
Reporting date rate	81.30	68.18
Rupees per GBP		
Average rate	126.69	126.18
Reporting date rate	135.38	135.94
Rupees per Euro		
Average rate	108.26	93.35
Reporting date rate	114.82	107.62

If the functional currency, at reporting date, had fluctuated by 5% against the USD, GBP and Euro with all other variables held constant, the impact on profit after taxation for the year would have been Rs 7.065 million (2008: Rs 2.962 million) respectively lower / higher, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity price risk since there are no investments in equity securities.

(iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was:

	2009	2008
	(Rupees in thousand)	
Financial assets		
Fixed rate instruments		
Staff loans	28,874	26,041
Floating rate instruments		
Bank balances - savings accounts	4,362	1,752
Financial liabilities		
Fixed rate instruments		
Long term loan - WAPDA	6,047,191	6,946,906
Floating rate instruments		
Liabilities against assets subject to finance lease	55,067	37,551
Finances under mark-up arrangements	8,617,641	23,637,028
Trade payables	15,481,936	137,046
	24,154,644	23,811,625

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on late payments, liabilities subject to finance lease and finances under mark-up arrangement, at the year end date, fluctuate by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs 35.424 million (2008: Rs 12.472 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's credit risk is primarily attributable to its trade debts and its balances at banks. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2009	2008
	(Rupees in thousand)	
Long term loans and deposits	35,425	30,281
Trade debts	32,721,969	29,303,453
Loans, advances, deposits, prepayments and other receivables		
- Profit receivable on bank deposits	-	600
- Workers' Welfare Fund receivable from WAPDA	174,458	319,480
- Workers' Profit Participation Fund receivable from WAPDA	436,144	759,407
- Security deposits	2,216	1,416
- Workers' Profit Participation Fund - refundable	3,856	-
- Others receivables	1,618	1,973
Cash and bank balances	400,183	179,286
	33,775,869	30,595,896

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company believes that it is not exposed to major concentration of credit risk and the risk attributable to trade debts and Workers' Welfare Fund and Workers' Profit Participation Fund receivable from WAPDA is mitigated by guarantee from the Government of Pakistan under the Facilitation Agreement.

The credit quality of cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating Short term	Rating Long term	Rating Agency	2009	2008
				(Rupees in thousand)	
National Bank of Pakistan	A-1+	AAA	JCR-VIS	4,875	148
Faysal Bank Limited	A1+	AA	PACRA	4	4
Habib Bank Limited	A-1+	AA+	JCR-VIS	390,946	164,582
Royal Bank of Scotland	A1+	AA	PACRA	466	233
Standard Chartered Bank	A1+	AAA	PACRA	38	36
NIB	A1+	AA-	PACRA	6	146
Duetche Bank	A-1	A+	Standard & Poors	486	2,606
Citibank	A-1	A+	Standard & Poors	3,362	11,531
				400,183	179,286

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At June 30, 2009, the Company had borrowing limits available from financial institutions at Rs 17,950 million and Rs 400.353 million in cash and bank balances. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The following are the contractual maturities of financial liabilities as at June 30, 2009:

	(Rupees in thousand)			
	Carrying amount	Less than one year	One to five years	More than five years
Long term loan - unsecured	6,047,191	899,715	3,140,658	2,006,816
Liabilities against assets subject to finance lease	55,067	8,853	46,214	-
Finances under mark-up arrangements - secured	8,617,641	8,617,641	-	-
Trade and other payables	19,036,356	19,036,356	-	-
	33,756,255	28,562,565	3,186,872	2,006,816

The following are the contractual maturities of financial liabilities as at June 30, 2008:

	(Rupees in thousand)			
	Carrying amount	Less than one year	One to five years	More than five years
Long term loans - unsecured	6,946,906	899,715	3,338,967	2,708,224
Liabilities against assets subject to finance lease	37,551	6,627	30,924	-
Finances under mark-up arrangements- secured	23,637,028	23,637,028	-	-
Trade and other payables	2,117,673	2,117,673	-	-
	32,739,158	26,661,043	3,369,891	2,708,224

38.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

38.3 Financial instruments by categories

	Loans and receivables	
	2009	2008
	(Rupees in thousand)	
Financial assets as per balance sheet		
Long term loans and deposits	35,425	30,281
Trade debts	32,721,969	29,303,453
Loans, advances, deposits, prepayments and other receivables		
- Profit receivable on bank deposits	-	600
- Workers' Welfare Fund receivable from WAPDA	174,458	319,480
- Workers' Profit Participation Fund receivable from WAPDA	436,144	759,407
- Security deposits	2,216	1,416
- Workers' Profit Participation Fund - refundable	3,856	-
- Others receivables	1,618	1,973
Cash and bank balances	400,353	179,439
	33,776,039	30,596,049

	Financial liabilities at amortised cost	
	2009	2008
	(Rupees in thousand)	
Financial liabilities as per balance sheet		
Long term loan - unsecured	6,047,191	6,946,906
Liabilities against assets subject to finance lease	55,067	37,551
Finances under mark up arrangements - secured	8,617,641	23,637,028
Trade and other payables	19,036,229	2,117,673
	33,756,128	32,739,158

38.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings, as disclosed in note 7, less cash and cash equivalents as disclosed in note 23. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. The Company's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at year ended June 30, 2009 and June 30, 2008 are as follows:

		2009	2008
		(Rupees in thousand)	
Borrowings - note 7		6,047,191	6,946,906
Less: Cash and cash equivalents - note 23		400,353	179,439
Net debt		5,646,838	6,767,467
Total equity		23,083,236	21,328,008
Total capital		28,730,074	28,095,475
Gearing ratio	Percentage	20	24

39. Date of authorisation for issue

These financial statements were authorised for issue on September 03, 2009 by the Board of Directors of the Company.

40. Corresponding figures

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)

Proxy Form

I/We ______________________________ of ______________________________ being a

Member of Kot Addu Power Company Limited (the “Company”) holding ______________________

shares hereby appoint ______________________ of ______________________, who is also

a Member of the Company, as my/our proxy to vote for me/us, and on my/our behalf at the 13th Annual General Metting of the Company to be held on October 26, 2009 and at any adjourment thereof.

Signed this ______________ day of ____________ 2009.

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Witnesses:

1 Signature ______________________
Name ______________________
CNIC ______________________
Address ______________________

Revenue Stamp
Rs. 5/-

2 Signature ______________________
Name ______________________
CNIC ______________________
Address ______________________

____
The signature should agree with the specimen signature registered with the Company.

Note

1. This Proxy, duly completed, signed and witnessed, must be deposited at the offices of the Company's Registrar, THK Associates (Private) Limited, Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi, 75530 not later than forty-eight (48) hours before the time appointed for the Meeting.

2. No person shall act as proxy who is not a Member of the Company (except that a corporation may appoint a person who is not a Member).

3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a Member with Company's Registrar, all such instruments or proxies shall be rendered invalid.

4. The Proxy shall produce his/her original CNIC or original passport at the time of the Meeting.

5. Incase of individual CDC Account holders, attested copy of CNIC or passport (as the case may be) of the beneficial owner will have to be provided with this Proxy.

6. In case of a corporate entity, the Board of Directors Resolution/ Power of Attorney with specimen signature of the nominee shall be submitted alongwith the Proxy (unless it has been provided earlier).

KAPCO

AFFIX
CORRECT
POSTAGE

THK Associates (Private) Limited
Registrar for
Kot Addu Power Company Limited
Ground Floor, State Life Building No. 3
Dr. Ziauddin Ahmed Road
Karachi 75530, Pakistan