

REPORT OF THE DIRECTORS FOR THE HALF YEAR ENDED DECEMBER 31, 2006

The Directors have pleasure in presenting the financial statements (unaudited) for the half year ended December 31, 2006 (the "Period").

The principle activities of the Company are to own, operate and maintain a multi-fuel combined cycle gas turbine power station of fifteen generating units with a nameplate capacity of 1,600 MWs.

Over the Period, the Power Plant generated 3823 GWh of electricity, resulting in a load factor of 64.5% with an overall availability of 76.9%, (92.4% excluding planned overhauls). The fuel mix for the dispatched output to the Company's customer, WAPDA was 71.2% gas, 28.4% fuel oil and 0.4% HSD. The level of output had no material impact on the Company's half year profit as electrical sales have no influence on the Capacity Purchase Payments made by WAPDA to the Company.

Turnover for the Period was Rs. 17,410 Million and operating costs were Rs. 13,393 Million. Profit after tax for the Period was Rs. 2,321 Million (compared to Rs. 4,017 Million in the corresponding period last year), delivering an EPS of Rs 2.64 (Rs. 4.56 July, 05 to December, 05). The Company's profits are now subject to tax at the corporate rate of 35%. The impact of tax has resulted in a reduction of the Company's profit after tax and EPS in comparison to the previous corresponding period.

In line with the Company's strategic engineering objective to operate and maintain the Plant at the highest international standards, during the Period, the Company carried out Major Overhauls of Two Gas Turbines and Combustion Inspection of Six Gas Turbines.

At the close of the Period, the Company achieved 1,783,508 man hours work without a Lost Time Accident.

The Company's position with respect to Workers Profit Participation Fund (WPPF) has been that since it did not employ any person who fell under the definition of Worker as defined in the Companies Profit (Workers' Participation) Act, 1968 (the "Act") the Company was not required to establish a Fund under the Act and consequently not required to make contributions to the Fund established pursuant to the Workers' Welfare Fund Ordinance, 1971. The Company, therefore, did not make any provision for Worker's Profit Participation Fund in its financial statements until June 30, 2006. However, after the amendments introduced in the Finance Act, 2006 relating to the Act, the Company sought legal advice on its applicability to the Company. The legal counsel has advised that with the change introduced by the Finance Act, 2006, the establishment of the Fund has become mandatory to be set-up within nine (9) months of the close of the current financial year (June 30, 2007), to which contributions based on future profits of the Company are to be made. Based on the legal advice received, the Company has accounted for the effect of the contribution payable in its accounts for the Period. In this respect, your attention is drawn to note 6.1(i) to the financial statements for details. Since the contributions to the Fund are a pass through to the off-taker under the Power Purchase Agreement, there will be no financial impact on the profits of the Company.


The accounts have been prepared under International Accounting Standard 34 - Interim Financial Reporting. Interpretation 4 "Determining whether an Arrangement Contains a Lease" released by The International Financial Reporting Interpretation Committee has been deferred by the Securities and Exchange Commission of Pakistan for another year and will become applicable on the Company from July 1, 2007.

The Private Power and Infrastructure Board, Ministry of Water and Power, Government of Pakistan (PIIB) conveyed approval of the Feasibility Study submitted by the Company for expanding its generation capacity by approximately 450 MWs. Following the approval of the Feasibility Study, the Company is in the process of approaching the National Electric Power Regulatory Authority ("NEPRA") for tariff determination. Approval of the Feasibility Study and approaching NEPRA for tariff determination is no assurance/guarantee at this stage that the Company will increase its generation capacity.

The final dividend of Rs. 4.10 per share recommended by the Board and approved by the Shareholders in October 2006 was paid in November/December 2006; resulting in a full year 2005/06 dividend per share of Rs. 8.10.

The Directors have pleasure in announcing an Interim Dividend of Rs. 3.00 per share. This will be paid to the shareholders who appear on the Company's Register of Members on the March 9, 2007.

On behalf of the Board


Syed Rizwan Ali Shah
Chief Executive

Lahore; February 16, 2007

REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of Kot Addu Power Company Limited as at December 31, 2006, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "financial statements"), for the half year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review. The figures of the profit and loss account for the quarters ended December 31, 2005 and 2006 and the notes forming part thereof have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2006.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our review report, we draw attention to note 6.1(i) to the financial statements. The company has not made any provision for Worker's Profit Participation Fund for the years upto June 30, 2006 based on a legal advice and in view of a constitutional petition pending adjudication in Sindh High Court on this matter. As more fully explained in the note, the ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements, including any penalties which may become payable in connection therewith.

Chartered Accountants

Lahore,

BALANCE SHEET AS AT DECEMBER 31, 2006 (UN-AUDITED)

| | December 31, 2006 | June 30, 2006 |
|--|----------------------|-------------------|
| Note | (Rupees in thousand) | |
| EQUITY AND LIABILITIES | | |
| CAPITAL AND RESERVES | | |
| Authorised capital 3,600,000,000 (June 2006: 3,600,000,000) ordinary shares of Rs. 10 each | 36,000,000 | 36,000,000 |
| Issued, subscribed and paid up capital 880,253,228 (June 2006: 880,253,228) ordinary shares of Rs. 10 each | 8,802,532 | 8,802,532 |
| Capital reserve | 444,451 | 444,451 |
| Unappropriated profit | 9,586,725 | 10,874,854 |
| | <u>18,833,708</u> | <u>20,121,837</u> |
| NON-CURRENT LIABILITIES | | |
| Long term loan-unsecured | 7,396,762 | 7,846,620 |
| Deferred liabilities | 3,483,217 | 3,418,353 |
| | 10,879,979 | 11,264,973 |
| CURRENT LIABILITIES | | |
| Current maturity of long term loan-unsecured | 953,466 | 1,007,216 |
| Finances under mark-up arrangements - secured | 458,000 | - |
| Creditors, accrued and other liabilities | 927,627 | 1,801,611 |
| Provision for taxation | 319,576 | 82,145 |
| | 2,658,669 | 2,890,972 |
| CONTINGENCIES AND COMMITMENTS 6 | | |
| | <u>32,372,356</u> | <u>34,277,782</u> |

The annexed notes 1 to 14 form an integral part of these financial statements.



Syed Rizwan Ali Shah
Chief Executive

| | Note | December 31, 2006 (Rupees in thousand) | June 30, 2006 |
|---|------|--|-------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant & equipment | 7 | 21,954,010 | 22,695,516 |
| Intangible assets | | 3,006 | 245 |
| Capital work-in-progress | | 63,548 | 60,420 |
| Long term loans and deposits | | <u>17,179</u> | <u>17,834</u> |
| | | 22,037,743 | 22,774,015 |
| CURRENT ASSETS | | | |
| Stores and spares | | 2,558,550 | 2,472,538 |
| Stock-in-trade | | 955,140 | 1,129,664 |
| Trade debts | | 5,622,170 | 3,115,000 |
| Loans, advances, deposits, prepayments and other receivables | | 977,922 | 420,511 |
| Cash and bank balances | | <u>220,831</u> | <u>4,366,054</u> |
| | | 10,334,613 | 11,503,767 |
| | | <u>32,372,356</u> | <u>34,277,782</u> |



Vince Richard Harris
Director

**PROFIT AND LOSS ACCOUNT FOR THE
HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)**

| | Note | October to December | | July to December | |
|-------------------------|--------|---------------------|-------------|------------------|-------------|
| | | 2006 | 2005 | 2006 | 2005 |
| (Rupees in thousand) | | | | | |
| Sales | | 8,624,447 | 7,853,442 | 17,409,703 | 14,615,373 |
| Cost of sales | 8 | (6,563,954) | (5,610,817) | (13,392,897) | (9,923,607) |
| Gross profit | | 2,060,493 | 2,242,625 | 4,016,806 | 4,691,766 |
| Administrative expenses | | (48,141) | (91,976) | (106,335) | (140,395) |
| Other operating income | | 105,819 | 210,306 | 192,529 | 284,438 |
| Profit from operations | | 2,118,171 | 2,360,955 | 4,103,000 | 4,835,809 |
| Finance costs | | (318,516) | (386,902) | (628,753) | (770,756) |
| Profit before tax | | 1,799,655 | 1,974,053 | 3,474,247 | 4,065,053 |
| Taxation | | (597,738) | (23,500) | (1,153,338) | (48,000) |
| Profit for the period | | 1,201,917 | 1,950,553 | 2,320,909 | 4,017,053 |
| Earnings per share | | | | | |
| - basic and diluted | Rupees | 1.37 | 2.22 | 2.64 | 4.56 |

The annexed notes 1 to 14 form an integral part of these financial statements.



Syed Rizwan Ali Shah
Chief Executive



Vince Richard Harris
Director

**CASH FLOW STATEMENT FOR THE HALF YEAR
ENDED DECEMBER 31, 2006 (UN-AUDITED)**

| | | July to December | |
|--|------|----------------------|-------------|
| | Note | 2006 | 2005 |
| | | (Rupees in thousand) | |
| Cash flows from operating activities | | | |
| Cash generated from operations | 10 | 851,050 | 4,300,034 |
| Finance costs paid | | (625,744) | (772,391) |
| Taxes (paid)/recovered | | (865,607) | 29,317 |
| Staff retirement benefits paid | | (71) | (412) |
| | | (640,372) | 3,556,548 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (65,989) | (336,777) |
| Income on bank deposits received | | 141,664 | 147,847 |
| Net decrease in long-term loans and deposits | | 655 | 664,840 |
| Sale proceeds of property, plant and equipment | | 4,220 | 67,274 |
| | | 80,550 | 543,184 |
| Cash flows from financing activities | | | |
| Repayment of long term loan | | (503,608) | (1,051,135) |
| Dividend paid | | (3,539,793) | (4,214,089) |
| | | (4,043,401) | (5,265,224) |
| Net (decrease) in cash and cash equivalents | | (4,603,223) | (1,165,492) |
| Cash and cash equivalents at beginning of the period | | 4,366,054 | 3,762,465 |
| Cash and cash equivalents at the end of the period | 11 | (237,169) | 2,596,973 |

The annexed notes 1 to 14 form an integral part of these financial statements.



Syed Rizwan Ali Shah
Chief Executive



Vince Richard Harris
Director

**STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR
ENDED DECEMBER 31, 2006 (UN-AUDITED)**

(Rupees in thousand)

| | Share capital | Capital reserve | Un-appro- priated profit | Total |
|--|------------------|--------------------|--------------------------------|-------------|
| Balance as on June 30, 2005 | 8,802,532 | 444,451 | 13,039,645 | 22,286,628 |
| Final dividend for the year ended June 30, 2005 - Rs. 4.50 per share | - | - | (3,961,140) | (3,961,140) |
| Profit for the period | - | - | 4,017,053 | 4,017,053 |
| Balance as on December 31, 2005 | 8,802,532 | 444,451 | 13,095,558 | 22,342,541 |
| Profit for the period | - | - | 1,300,309 | 1,300,309 |
| Interim dividend - Rs. 4.00 per share | - | - | (3,521,013) | (3,521,013) |
| Balance as on June 30, 2006 | 8,802,532 | 444,451 | 10,874,854 | 20,121,837 |
| Final dividend for the year ended June 30, 2006 - Rs. 4.10 per share | - | - | (3,609,038) | (3,609,038) |
| Profit for the period | - | - | 2,320,909 | 2,320,909 |
| Balance as on December 31, 2006 | 8,802,532 | 444,451 | 9,586,725 | 18,833,708 |

The annexed notes 1 to 14 form an integral part of these financial statements.

Syed Rizwan Ali Shah
Chief ExecutiveVince Richard Harris
Director

**SELECTED NOTES TO THE FINANCIAL STATEMENTS FOR
THE HALF YEAR ENDED DECEMBER 31, 2006 (UN-AUDITED)**

1. These financial statements are un-audited and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984.
2. The accounting policies adopted for the preparation of these half yearly financial statements are the same as those applied in the preparation of preceding published financial statements of the company for the year ended June 30, 2006.
3. These financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' and have been reviewed by the auditors as required by the Code of Corporate Governance.
4. The provision for taxation for the half year ended December 31, 2006 has been made on estimated basis.
5. The company has accounted for an amount of Rs 173.724 million as contribution payable to Workers' Profit Participation Fund under the Companies Profit (Workers' Participation) Act, 1968 (the Act), for the period ended December 31, 2006, in accordance with the amendments introduced in the Finance Act, 2006 relating to the Act. The company has also sought legal advice on its applicability. According to the legal council, with the change introduced by the Finance Act, 2006, the establishment of the fund has become mandatory and is to be set-up within nine (9) months of the close of the current financial year, to which contribution based on future profits of the company are to be made. As this is a pass through item under section 14.2(a) of Part III of Schedule 6 to the Power Purchase Agreement, the company has accounted for the above amount as receivable from WAPDA. Consequently, this contribution does not have any financial impact on the profit of the company.

As fully explained in note 6.1(i), 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.

6. Contingencies and commitments**6.1 Contingencies**

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

Furthermore, the question whether a company to which the Act of 1968 and its scheme applies but which does not employ any Worker is nevertheless obliged to establish and pay contributions into the Fund under the Act and thereafter transfer the same to the Fund established under the WWF Ordinance, 1971 is pending adjudication in Sindh High Court at Karachi on a constitutional petition filed by another company in December 2003.

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

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

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

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. However it is not certain presently whether or not any penalties payable in connection with this contribution would also be recoverable from WAPDA under the Power Purchase Agreement.

Certain amendments have been introduced in Finance Act 2006, to relax the conditions of payment of interest and penalty for companies defaulting in creating Fund under the Act. If it is established that Workers' Profit Participation Fund is applicable to the company and company makes the principal payment on or before the date which is to be decided by the Federal Government, no such penalty may be imposed and the company may not be liable to pay interest.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3.463 billion (June 2006: Rs 3.463 billion). Further, if it is established that interest is also applicable, in case of non compliance with the above said amendments in the Act, the liability for interest would amount to Rs 8.903 billion (June 2006: Rs 7.738 billion) as on the date of these financial statements.

(ii) Claims against the company not acknowledged as debts Rs 58.576 million (June 2006: Rs 58.576 million).

(iii) The company has provided following guarantees in favour of:

Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 1,248.618 million (June 2006: Rs 983.169 million).

Private Power Infrastructure Board as performance guarantee for the company's proposed expansion amounting to Rs 24.392 million (June 2006: 24.140 million).

Custom Authorities for import of professional equipment, tools etc., amounting to Rs 32.882 million (June 2006: Nil).

6.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 14.001 million (June 2006: Rs 37.161 million)

(ii) Letters of credit other than for capital expenditure Rs 158,655 million (June 2006: Rs 259,485 million).

December 31, June 30,
2006 2006
(Rupees in thousand)

7. Property, plant & equipment

| | | |
|--|-------------------|-------------------|
| Opening book value | 22,695,516 | 23,679,537 |
| Add: Additions during the period-note 7.1 | 59,968 | 659,154 |
| | 22,755,484 | 24,338,691 |
| Less: Disposals during the period (at book value) | 1,029 | 53,242 |
| Depreciation charged during the period | 800,445 | 1,589,933 |
| | 801,474 | 1,643,175 |
| | <u>21,954,010</u> | <u>22,695,516</u> |

7.1 Following is the detail of additions during the period

| | | |
|-------------------------------|---------------|----------------|
| Buildings on freehold land | 5,863 | 3,470 |
| Plant and machinery | 1,037 | 346,656 |
| Gas turbine blading | 40,899 | 269,816 |
| Auxiliary plant and machinery | 4,234 | 10,833 |
| Office equipment | 2,942 | 6,037 |
| Fixtures and fittings | 2,986 | 2,745 |
| Vehicles | 2,007 | 19,597 |
| | <u>59,968</u> | <u>659,154</u> |

October to December July to December
2006 2005 2006 2005
(Rupees in thousand)

8. Cost of sales

| | | | | |
|--|------------------|------------------|-------------------|------------------|
| Fuel cost | 5,841,754 | 4,726,580 | 11,799,616 | 8,451,072 |
| Salaries, wages and benefits | 81,018 | 96,119 | 208,340 | 208,889 |
| Plant maintenance | 43,017 | 44,549 | 72,814 | 74,518 |
| Gas turbines overhauls | 142,030 | 225,652 | 360,662 | 247,654 |
| Repair and renewals | 70,763 | 112,345 | 169,628 | 113,816 |
| Depreciation on property, plant and equipment | 385,261 | 405,551 | 781,705 | 827,616 |
| Amortisation of intangible assets | 111 | 21 | 132 | 42 |
| | <u>6,563,954</u> | <u>5,610,817</u> | <u>13,392,897</u> | <u>9,923,607</u> |

July to December
2006 2005
(Rupees in thousand)

9. Related party transactions

| | | |
|--|------------|------------|
| Purchase of services | 498 | 980 |
| Sale of goods and services | 17,409,708 | 14,615,373 |
| Sale of property, plant and equipment | 767 | - |
| Interest expense | 622,199 | 765,292 |
| Interest income on late payment | 39,535 | - |
| Key management personnel compensation and consultancy charges | 38,881 | 32,972 |
| Expense charged in respect of staff retirement benefit plans | 19,855 | 25,889 |

| | <u>December 31, June 30,</u> 2006 2006 (Rupees in thousand) | |
|---|---|--------------------|
| Period end balances | | |
| Receivable from related parties | 5,872,271 | 3,123,505 |
| Payable to related parties | 605 | 1,103 |
| | <u>July to December</u> 2006 2005 (Rupees in thousand) | |
| 10. Cash generated from operations | | |
| Profit before tax | 3,474,247 | 4,065,053 |
| Adjustments for: | | |
| - Depreciation on property, plant and equipment | 800,445 | 847,403 |
| - Amortisation on intangible assets | 132 | 42 |
| - Profit on disposal of property, plant and equipment | (3,191) | (13,261) |
| - Income on bank deposits | (137,929) | (133,782) |
| - Staff retirement benefits accrued | 14,635 | 20,628 |
| - Finance costs | 628,753 | 770,756 |
| Profit before working capital changes | 4,777,092 | 5,556,839 |
| Effect on cash flow due to working capital changes | | |
| - (Increase)/decrease in stores and spares | (86,012) | 22,929 |
| - Decrease in stock-in-trade | 174,524 | 840,794 |
| - Increase in trade debts | (2,507,170) | (958,955) |
| - (Increase)/decrease in loans, advances, deposits prepayments and other receivables | (561,146) | 203,157 |
| - Decrease in creditors, accrued and other liabilities | (946,238) | (1,364,730) |
| | <u>(3,926,042)</u> | <u>(1,256,805)</u> |
| | <u>851,050</u> | <u>4,300,034</u> |
| | <u>December 31, December 31,</u> 2006 2005 (Rupees in thousand) | |
| 11. Cash and cash equivalents | | |
| Cash and bank balances | 220,831 | 2,596,973 |
| Finances under mark-up arrangements | (458,000) | - |
| | <u>(237,169)</u> | <u>2,596,973</u> |

12. Dividend

The Board of Directors have declared an interim cash dividend of Rs. 3.00 per share (December 31, 2005: Rs. 4 per share), amounting to Rs. 2,641 million (December 31, 2005: Rs. 3,521 million) at their meeting held on February 16, 2007. These financial statements do not include the effect of the above interim cash dividend which will be accounted for in the period in which it is declared.

13. Date of authorisation

These financial statements were authorised for issue on February 16, 2007 by the Board of Directors of the company.

14. Corresponding figures

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



Syed Rizwan Ali Shah
Chief Executive



Vince Richard Harris
Director