

Southern Electric Power Company Limited

Annual Report 1999

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COMPANY INFORMATION

Board of Directors

Mrs. Sughra Mahmood
Mr. Klaus Triendl
Ms. Hermance Bernier
Mr. Sultan Kurji
Syed Akbar Kazim
Mr. Mumtaz H. Syed
Mr. Ejaz Akhtar Ansari

Chief Executive

Mr. Ali Mahmood

Secretary

Syed Akbar Kazim

Auditors

Taseer Hadi Khalid & Co.
Chartered Accountants

Bankers to the Company

ABN Amro Bank NV
Allied Bank of Pakistan
Al-Faysal Investment Bank Limited
ANZ Bank
Askari Commercial Bank Limited
Crescent Investment Bank Limited
Habib Bank AG Zurich
National Development Finance Corporation
Prime Commercial Bank Limited
Prudential Commercial Bank Limited
Sanwa Bank Limited
Standard Chartered Bank Limited
Trust Investment Bank Limited

Registered Office

Razia Sharif Plaza, 6th Floor, 90 West Jinnah Avenue, Blue Area, Islamabad - 44000, Pakistan
Tel. (92 51) 278 118, 279 230
Fax (92 51) 825 465

Shares Department

Razia Sharif Plaza, 6th Floor, 90 West Jinnah Avenue, Blue Area, Islamabad
Tel. (92 51) 278 118, 279 230

Fax. (92 51) 825 465

Plant: Raiwind near Lahore

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 5th Annual General Meeting of the shareholders of Southern Electric Power Company Limited (SEPCOL) is scheduled to be held on December 31st, 1999 at 11:00 a.m. at its Registered Office, 6th Floor, Razia Sharif Plaza, 90 West Jinnah Avenue, Blue Area, Islamabad - 44000, Pakistan to transact the following business;

- I. To confirm minutes of last meeting.
2. To receive and consider the accounts for the year ended June 30th, 1999 together with the report of the Auditors and the report of the Directors thereon.
- 3, To appoint auditors of the Company and to fix their remuneration.
4. To pass the following Special Resolutions.

(A) RESOLVED that Article 71 of the Articles of Association of the Company be and is hereby amended to read:

ARTICLE 71: RESOLUTION BY WRITING. "A resolution in writing circulated to the Directors of the Company and signed by them or affirmed by them through facsimile shall be as valid and effectual as if it had been passed at a meeting of the Directors duly convened and held at which they were present."

(B) RESOLVED that approval be and is hereby accorded to enhance the term finance capital to Rs. 300.0 Million on the same terms and conditions as approved at the Extra Ordinary General Meeting held on January 01, 1998.

(c) RESOLVED that the Board of Directors be and is hereby authorized to amend all or any of the documents and agreements mentioned in Article 7.8 of the Prospectus dated April 1996 for the issuance of capital to the public.

5. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD

Islamabad
December 10, 1999

Syed Akbar Kazim
Company Secretary

STATEMENT UNDER SECTION 160(I)(B) OF THE COMPANIES ORDINANCE, 1984

The Special Resolutions are required in order to facilitate the working of the Board of Directors as some of the Directors are based outside Pakistan, to meet some additional costs and expenses of the project arising out of delays in commencement of commercial operations, and to amend documents as required due to the revised circumstances of the Company. The Directors of the Company do not have or have had any special interest in the transaction other than as holders of ordinary shares in the Company and/or any benefit accruing on such shares.

NOTES:

1. The Share Transfer Books of the Company will remain closed from December 24th, 1999 to December 31st, 1999 (both days inclusive)
2. A member eligible to attend, speak and vote at this meeting may appoint another member his/her Proxy to attend, speak and vote instead of him/her. Proxies in order to be effective must reach the Company's Office at 6th Floor, Razia Sharif Plaza, 90 West Jinnah Avenue, Blue Area, Islamabad - 44000, Pakistan, not later than 48 hours before the time of the meeting

and must be in the prescribed form given herein.

3. Members are requested to immediately notify any change in address.

DIRECTORS REPORT

Your directors are pleased to present before you the fifth annual report of the Company and the annual audited accounts and annexed notes for the year ended June 30th, 1999.

The Company has incurred the following expenditure as of:

	<i>June 30, 1998</i>	<i>June 30, 1999</i>
	<i>Rupees</i>	<i>Rupees</i>
Capital Work in Progress	5,521,566,175	6,661,126,264
Operating Fixed Assets	63,133,293	63,724,306

The plant has been fully constructed and has completed operational testing successfully.

The Year in Review

Shortly after the commencement of the financial year, the Company received a Notice of Termination of the Implementation Agreement from the Government of Pakistan on the basis of unsubstantiated allegations of improper business practices. Consequently the Company initiated international arbitration proceedings under the auspices of the International Chamber of Commerce.

In January, an agreement was signed between the Government and the Company pursuant to which the GoP withdrew the Notice of Termination and the Company terminated arbitration proceedings.

Subsequently, the Company recommenced operational testing with WAPDA and successfully completed the tests in March and was certified by the international independent engineer as having achieved commercial operations. However, WAPDA refused to accept the independent engineer's certification and the disputes between WAPDA and the Company continued until July, when a formal Memorandum of Understanding was executed between WAPDA and the Company. Pursuant to this MoU, the Company agreed to lower its tariff from 5.57 cents/kwh on a 22 year project life basis to 5.19 cents/kwh on a 30 year project life basis. In return, WAPDA agreed to accept the commercial operations of the project.

The Directors wish to place on record their appreciation for the services rendered by the officers and staff of the Company and gratitude to their bankers and lenders who have provided support during a very difficult year.

Current Status

Since July 1999, the Company has been delivering energy to WAPDA and is receiving Energy and Capacity payments on the basis of the MoU which has been ratified by the Economic Coordination Committee (ECC) of the GoP.

The Company has completed a Restructuring Plan with its lenders which is now being legally documented.

Year 2000

The Company has completed its risk management and mitigation plan and is now fully compliant for the Year 2000 ("Y2K").

Auditors

The present auditors, Messrs. Taseer Hadi Khalid & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

Pattern of Shareholding

A statement showing the shareholding pattern as of June 30, 1999 is attached.

FOR AND ON BEHALF OF THE BOARD

Islamabad
December 2, 1999

Ali Mahmood
Chief Executive

AUDITORS REPORT TO THE MEMBERS

Taseer Hadi Khalid & Co,
Chartered Accountants

We have audited the annexed balance sheet of Southern Electric Power Company Limited as at 30th June, 1999 and the related statement of changes in financial position, 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, and after due verification thereof, 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 together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984 and is in agreement with the books of account and is 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 and the statement of changes in financial position, together with the notes forming part thereof, 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 30th June, 1999 and the changes in financial position for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.
- (e) Without qualifying our opinion, we draw attention to note I and note 6.1 which detail matters relating to commencement of commercial operations and debt restructuring.

Islamabad
December 02, 1999

Taseer Hadi Khalid & Co.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 1999

	<i>Note</i>	<i>1999</i> <i>Rupees</i>	<i>1998</i> <i>Rupees</i>
SHARE CAPITAL	4	931,880,130	931,880,130
SPONSORS' SUPPORT	5	129,199,222	102,288,247
LONG TERM LOANS - SECURED	6	3,857,515,415	3,546,305,323
DEFERRED LIABILITY			
Staff retirement gratuity		4,478,600	2,082,300

CURRENT LIABILITIES

Current portion of long term loans	6	792,411,070	406,776,585
Short term borrowings	7	238,967,119	227,752,923
Creditors, accrued and other liabilities	8	984,463,370	567,953,408
		-----	-----
		2,015,841,559	1,202,482,916
		-----	-----
		6,938,914,926	5,785,038,916
		=====	=====

FIXED CAPITAL EXPENDITURE

Operating fixed assets	9	48,763,754	53,065,045
Capital work in progress	10	6,661,126,264	5,521,566,175
		-----	-----
		6,709,890,018	5,574,631,220

PRELIMINARY EXPENSES

		141,650	141,650
--	--	---------	---------

CURRENT ASSETS

Stores, spares and tools	11	110,764,282	1,479,938
Stock in trade	12	31,800,795	67,981,749
Trade debtors	13	67,181,777	31,746,163
Advances, deposits, prepayments and other receivables	14	12,662,709	108,712,118
Cash and bank balances	15	6,473,695	346,078
		-----	-----
		228,883,258	210,266,046
		-----	-----
		6,938,914,926	5,785,038,916
		=====	=====

The annexed notes form an integral part of these accounts

Islamabad ,
December 2, 1999

Ali Mahmood
Chief Executive

Syed Akbar Kazim
Director

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED JUNE 30, 1999

	<i>1999</i>	<i>1998</i>
	<i>Rupees</i>	<i>Rupees</i>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of operating fixed assets	(610,327)	(3,728,228)
Proceeds from disposal of operating fixed assets	11,981	640,000
Increase in capital work in progress	(1,132,264,152)	(1,089,809,754)
	-----	-----
	(1,132,862,498)	(1,092,897,982)
(Increase)/decrease in:		
Advances, deposits, prepayments and other receivables	96,049,409	(84,432,157)
Stores, spares and tools	(109,284,344)	(1,479,938)
Stock in trade	36,180,954	(67,981,749)
Trade debtors	(35,435,614)	(31,746,163)
Increase/(decrease) in current liabilities	416,509,962	(411,241,796)
	-----	-----
	404,020,367	(596,881,803)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(728,842,131)	(1,689,779,785)

CASH FLOW FROM FINANCING ACTIVITIES

Proceeds from:		
Sponsors' support	26,910,975	102,288,247
Long term loans	696,844,577	1,090,266,030
Short term borrowings	11,214,196	271,752,923
	-----	-----
NET CASH FROM FINANCING ACTIVITIES	734,969,748	1,464,307,200
	-----	-----
Net increase/(decrease) in cash and cash equivalents	6,127,617	(225,472,585)
Cash and cash equivalents at the beginning of the year	346,078	225,818,663
	-----	-----
Cash and cash equivalents at the end of the year	6,473,695	346,078
	=====	=====

Islamabad
December 2, 1999

Ali Mahmood
Chief Executive

Syed Akbar Kazim
Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1999**1. STATUS AND OPERATIONS**

Southern Electric Power Company Limited (the "Company") was incorporated in Pakistan on December 20, 1994, The Company is listed on all the three stock exchanges of Pakistan, The Company is in the process of setting up a 117 Megawatt power generation station near Raiwind, Lahore,

During 1998, the Company was served a termination notice by the Government of Pakistan ("GoP") which was eventually withdrawn on 8 January 1999, The Company proceeded with commercial operational testing and the independent engineers certified the success of the tests on 9 March 1999. However, at this stage the Company had entered into negotiations with Water and Power Development Authority ("WAPDA") for revision of tariff.

A Memorandum of Understanding ("MoU") was executed between the Company and WAPDA subsequent to the balance sheet date on 12 July 1999. The MoU envisages extension of project life to 30 years, reduction in tariff and commencement of payments from 12 July 1999 when power from the complex is to be supplied, Accordingly capacity payments from Commercial Operation Date (COD) till 12 July 1999 of Rs. 247.5 Million have not been recognized in these accounts. The company's plant was inoperative from 9 March 1999 which has been accepted as the COD by WAPDA in accordance with the Power Purchase Agreement.

In view of the MoU, since payments are deemed to occur from 12 July 1999 when the power from the project was to be supplied, these accounts do not include a profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's accounts, These accounts have been prepared in accordance with the Companies Ordinance, 1984 and International Accounting Standards as applied in Pakistan,

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Taxation

The Company's profits and gains from power generation are exempt from tax under clause (176) of Part I of the Second Schedule to the Income Tax Ordinance, 1979, The Company is also exempt from minimum tax on turnover under clause (20) of Part IV of the Second Schedule to the Income Tax Ordinance, 1979.

2.3 Staff retirement benefits

The Company operates a non-funded gratuity scheme for all employees. Provision is made semi-annually to cover obligations under the scheme,

2.4 Fixed assets

Operating fixed assets except land are stated at cost less accumulated depreciation. Land and capital work in progress are stated at cost,

Depreciation on operating fixed assets is charged on the straight line method at the rates given in note 9, so as to write off the historical cost of assets over their estimated useful lives. Full year's depreciation is charged on additions during the year while no depreciation is charged on assets deleted during the year.

2.5 Capital work in progress

Capital work in progress is stated at cost.

Unallocated development expenditure represents expenditure incurred during the development phase until the Company commences commercial operations. These will be capitalized as cost of plant, machinery and building on commencement of commercial operations.

2.6 Inventories

Inventories are valued at lower of cost and market value, Cost has been calculated as follows:

Furnace oil	First in first out basis
High speed diesel	Average cost
Lubricating oil	Average cost
Stores and spares	Average cost

2.7 Foreign currency translations

Transactions in foreign currencies are converted to Pak Rupees at the rates ruling on the transaction date, Assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the exchange rates ruling on the balance sheet date. Exchange differences are capitalized prior to commencement of commercial operations.

2.8 Borrowing costs

Borrowing costs attributable to the acquisition and construction of fixed assets have been capitalized and included in capital work in progress,

3. PROFIT AND LOSS ACCOUNT

These accounts do not include a profit and loss account as the company has not commenced commercial operations. Refer note I.

4. SHARE CAPITAL

	1999	1998
	Rupees	Rupees
Authorized 100,000,000 ordinary shares of Rs. 10 each.	1,000,000,000 =====	1,000,000,000 =====
Issued, subscribed and paid up 93, 188,013 ordinary shares of Rs, 10 each issued for cash	931,880,130 =====	931,880,130 =====

There were no changes in equity during the year.

5. SPONSORS' SUPPORT

5.1 This represents contribution by the sponsors in accordance with the Sponsors' Support Agreement dated 25 October 1995 which required the sponsors to provide capital contributions against cost overruns. These contributions are by way of subordinated debt and are unsecured, In addition, the Sponsors have provided US\$ 542,969 in equivalent Pak Rupees in the form of equity which is included in the paid up capital of the Company.

5.2 This includes an amount of Rs. 44 million arranged from Crescent Investment Bank Limited at the rate of 21 percent per annum for which security has been provided by the sponsors

of the Company.

6. LONG TERM LOANS - SECURED THESE ARE ANALYSED AS FOLLOWS:

<i>Lender and facility</i>	<i>Note</i>	<i>Currency of loan</i>	<i>Sanctioned amount</i> <i>US\$</i>	<i>Disbursed amounts</i>			
				<i>1999</i> <i>US\$</i>	<i>1998</i> <i>US\$</i>	<i>1999</i> <i>Rupees</i>	<i>1998</i> <i>Rupees</i>
National Development Finance Corporation / World Bank / PSEDF Debt	6.2	US\$	35,000,000	32,992,561	32,992,561	1,705,715,396	1,532,504,452
ANZ Bank, Paris, France/ French Buyer's Credit	6.3	US\$	21,948,000	21,947,990	17,111,463	1,134,711,089	794,827,456
Sanwa Bank Limited, Japan/ Commercial Bank Credit	6.4	US\$	35,000,000	35,000,000	35,000,000	1,809,500,000	1,625,750,000
			91,948,000	89,940,551	85,104,024	4,649,926,485	3,953,081,908
		LESS CURRENT PORTION		15,327,100	8,757,300	792,411,070	406,776,585
				74,613,451	76,346,724	3,857,515,415	3,546,305,323
				74,613,451	76,346,724	3,857,515,415	3,546,305,323

6.1 Restructuring of debt

The company is in the process of financial restructuring arising from the delay in commercial operations as explained in note I. As a result of this restructuring, the overdues of the Company will be regularized. Subsequent to the year end, the company resolved with the lenders as follows:

- a) The sponsors shall provide balance sponsors' support contribution of upto US\$ 5.8 million
 - b) Nissho Iwai shall provide a Yen facility of approximately Yen 1.5 billion
 - c) NDFC shall provide additional PSEDF financing of US\$ 7.8 million
 - d) ANZ Paris shall reschedule their first principal repayment to 25 April 2000
 - e) Repayment dates shall be unified to 25 October and 25 April
- Askari Bank Limited shall provide working capital of Rs. 100 million

The company has also signed a restructuring agreement with Nissho Iwai Corporation (Refer note 6.4). The company is currently completing the legal documentation process for the restructuring close. Accordingly, the effect of restructuring has not been recognized in these financial statements.

6.2 World Bank/PSEDF Debt

Lender:	National Development Finance Corporation, Pakistan.
Amount:	US \$ 35,000,000
Repayable in currency:	Pak Rupee to be calculated based on rate of exchange ruling on the date of repayment of the loan.
Repayment terms:	Repayable in 20 equal semi-annual installments starting closest to 15 September, 2004,
Rate of interest	As per guidelines: <ol style="list-style-type: none"> i) During construction: Equal to the greater of the sum of the prevailing five years United States Treasury Bond rate and 2,0 percent, or the sum of the prevailing World Bank lending rate and 1.5 percent; ii) During operation for the first 10 years and until the termination

of the senior loan:

Equal to the greater of the sum of the prevailing one year United States Treasury Bond rate and 3.0 percent or the sum of the prevailing World Bank lending rate and 2.5 percent; and

iii) For the remaining loan period:

Equal to the greater of the sum of the prevailing one year United States Treasury Bond rate and 4.0 percent or the sum of the prevailing World Bank lending rate and 3.5 per cent.

Security: a) Second mortgage charge on the company's assets.
b) Pledge over 75 percent of the sponsors' shares for the term of loan.

6.3 French Buyer's Credit

Lender: Australia and New Zealand Banking Group Limited France,
Amount: US \$ 21,948,000
Rate of interest: 6.60 percent per annum.
Repayment terms: Repayable in 20 equal semi-annual installments starting 3 months after the Effective Date i.e., September 28, 1998.

Security: Repayment guarantee from National Bank of Pakistan which is counter guaranteed by a syndicate of underwriter banks. The counter guarantee issued by the syndicate is secured by first registered mortgage charge over the company's assets ranking pari passu with other similar charge holders referred to in note 6.4 and 7.1.

6.4 Commercial Bank Credit

Lender: Sanwa Bank Limited, Japan.
Amount: US \$ 35,000,000
Rate of interest: LIBOR plus 2.60 percent.
Repayment terms: Repayable in 16 equal semi-annual installments starting from April 25, 1998.

Security: First registered mortgage charge on the company's assets ranking pari passu with other similar charge holders referred to in note 6.3 and 7.1.

Subsequent to the year end, the company has entered into an agreement with Nissho Iwai Corporation (NIC) whereby NIC has provided a facility of Yen 1.5 billion to cover repayments to Sanwa Bank from 27 April 1998 to 9 November 1999 including all charges and interest. This facility carries interest at LTPR + 4 percent per annum and is repayable in 13 equal semi-annual installments commencing 25 October 2000.

<i>Sanctioned Limit Rupees</i>	<i>Disbursed amounts</i>	
	<i>1999 Rupees</i>	<i>1998 Rupees</i>

7. SHORT TERM BORROWINGS

These are as follows:

Prime Commercial Bank Limited	110,786,000	98,967,119	87,752,923
Standard Chartered Bank Limited	125,000,000	125,000,000	125,000,000
Trust Investment Bank Limited	15,000,000	15,000,000	15,000,000
	-----	-----	-----
	250,786,000	238,967,119	227,752,923
	=====	=====	=====

7.1 These borrowings are secured by way of first charge on current assets and a first registered mortgage charge on the company's assets ranking pari passu with other similar charge holders referred to in notes 6.3 and 6.4 and carry interest at rates ranging between 19 to 21 percent per annum.

8. CREDITORS, ACCRUED AND OTHER LIABILITIES

	1999 Rupees	1998 Rupees
Civil works contractors bills payable	863,372	1,715,362
Payable to foreign machinery suppliers and erectors	78,830,796	23,979,118
Payable to independent engineers	31,506,492	29,656,135
Creditors and accrued liabilities	29,660,099	26,352,128
Retention money	131,525,934	322,962,696
Financial charges payable	702,477,186	157,379,743
Amounts due to associated undertakings	5,770,700	182,921
Other payables	3,828,791	5,725,305
	-----	-----
	984,463,370	567,953,408
	=====	=====

9. OPERATING FIXED ASSETS

<i>Particulars</i>	<i>Cost as at 1 July 1998</i>	<i>Cost of additions/ (deletions)</i>	<i>Cost as at 30 June 1999</i>	<i>Accumulated depreciation as at 30 June 1999</i>	<i>Book value as at 30 June 1999</i>	<i>Rate %</i>	<i>Depreciation charge for the year/(on deletions)</i>
Freehold land	32,504,239	--	32,504,239	--	32,504,239	--	--
Building on freehold land	1,236,401	43,518	1,279,919	251,632	1,028,287	10	127,992
Leasehold improvements	7,247,432	--	7,247,432	2,164,663	5,082,769	10	724,743
Electric appliances	6,723,539	305,208 (19,314)	7,009,433	4,137,661	2,871,772	20	1,409,220 (7,333)
Computers and office equipment	2,975,955	116,200	3,092,155	1,824,196	1,267,959	20	618,431
Furniture and fixtures	4,771,011	145,401	4,916,412	1,510,511	3,405,901	10	491,641
Vehicles	7,674,716	--	7,674,716	5,071,889	2,602,827	20	1,534,943
	-----	-----	-----	-----	-----		-----
1999 Rupees	63,133,293	610,327 (19,314)	63,724,306	14,960,552	48,763,754		4,899,637
	=====	=====	=====	=====	=====		=====
1998 Rupees	60,205,065	3,728,228 (800,000)	63,133,293	10,068,248	53,065,045		4,800,326
	=====	=====	=====	=====	=====		=====

9.1 Depreciation for the year has been taken to unallocated capital expenditure.

	<i>Note</i>	1999 Rupees	1998 Rupees
10. CAPITAL WORK IN PROGRESS			
Cost of civil works		653,700,688	639,306,884
Cost of plant and machinery	10.1	2,959,206,416	2,994,058,708
Advance for plant and machinery and civil works		8,806,807	21,144,419
Pakistan Railways for rail sidings		35,328,103	35,328,103
Unallocated capital expenditure	10.2	3,004,084,250	1,831,728,061
		-----	-----
		6,661,126,264	5,521,566,175
		=====	=====

10.1 Cost of plant and machinery

Stores and spares previously included in plant and machinery cost have been reclassified in these accounts.

10.2 UNALLOCATED CAPITAL EXPENDITURE

Salaries, wages and benefits		77,140,427	57,295,267
Traveling and conveyance		61,153,902	56,571,385
Vehicle running expenses		10,509,740	7,661,803
Communication costs		23,121,971	16,804,256
Inventories consumed		260,557,969	202,726,749
Fuel decanting charges		1,188,371	1,120,508
Utilities		14,500,332	11,151,570
Printing and stationery		3,821,805	3,133,691
Repairs and maintenance		3,528,029	3,023,965
Rent, rates and taxes		9,359,915	11,943,250
Entertainment		3,174,512	2,370,871
Insurance		1,336,523	845,294
Guest house expenses		1,554,197	9,101,034
Public issue expenses		2,932,473	12,932,473
Engineering and technical consultancy fee and expenses		115,717,307	103,839,541
Financial charges	10.2.1	2,546,590,285	1,453,742,708
Fee for increase in share capital		1,380,000	1,380,000
Auditors' remuneration	10.2.2	3,730,296	3,025,296
Donations	10.2.3	892,700	886,700
Depreciation on operating assets		15,127,885	10,228,248
Others		19,374,799	16,061,212
		-----	-----
		3,206,693,438	1,985,845,821
Test trial income (energy purchase price)		(202,609,188)	(154, 117,760)
		-----	-----
		3,004,084,250	1,831,728,061
		=====	=====

1999 **1998**
Rupees **Rupees**

10.2. I Financial charges

Interest on long term loans		824,965,357	455,158,315
Interest on working capital facilities		83,728,263	26,716,483
Management and agency fee		70,808,301	66,180,301
Commitment charges		25,931,815	25,084,530
Fee and expenses of trustees		3,002,580	1,833,858
Guarantee commission		272,004,922	179,180,193
Legal consultancy fee and expenses		103,664,956	89,924,747
Mortgage registration and stamp duty		31,681,307	31,681,307
Letter of credit opening charges		31,203,338	31,203,338
Exchange loss net-off interest income		1,098,745,415	545,986,705
Bank charges		854,031	792,931
		-----	-----
		2,546,590,285	1,453,742,708
		=====	=====

10.2.2 Auditors' remuneration

Annual audit		1,096,800	891,800
Statutory audit		40,300	40,300
Tax advisory services		1,093,496	593,496
Consultancy for public issue		384,410	384,410
Other services and certifications		1,115,290	1,115,290
		-----	-----
		3,730,296	3,025,296
		=====	=====

10.2.3 Donations

Donations were not made to any institutions in which the directors or their spouses are interested.

10.3 The number of permanent employees was 79 as at 30 June 1999 (1998: 130).

11. STORES, SPARES AND TOOLS

Stores	2,065,785	1,479,938
Spares and tools	108,698,497	--
	-----	-----
	110,764,282	1,479,938
	=====	=====

12. STOCK IN TRADE

Furnace oil	27,944,287	61,885,286
High speed diesel	2,381,851	1,487,098
Lubricants	1,474,657	4,609,365
	-----	-----
	31,800,795	67,981,749
	=====	=====

13. TRADE DEBTORS

These are receivable from WAPDA against supply of energy during commissioning tests and are secured by way of guarantee issued by the Government of Pakistan in favour of the company and are currently being negotiated with WAPDA.

	<i>1999</i>	<i>1998</i>
	<i>Rupees</i>	<i>Rupees</i>
14. ADVANCES, DEPOSITS, REPAYMENTS AND OTHER RECEIVABLES		
Advances against expenses	1,218,962	1,206,171
Advances to staff	331,958	392,695
Advances to suppliers	242,937	20,341
Claims receivable from Pakistan State Oil	2,057,514	8,562,213
Margin against bank guarantee and security deposits	3,453,256	4,647,626
Advance tax	769,590	687,395
Prepayments	1,723,612	1,531,921
Liquidated damages receivable	--	88,770,645
Other receivables	2,864,880	2,893,111
	-----	-----
	12,662,709	108,712,118
	=====	=====

15. CASH AND BANK BALANCES

Balances at bank on:		
- Current accounts:		
Foreign currency	15.1	6,021,484
Local currency		20,680

		102,956
		245,628

		6,124,440
		266,308
- Saving accounts:		
Foreign currency		84,322
		63,271

Cash in hand		264,933
		16,499

		6,473,695
		346,078
		=====

15. I This includes compensation account of US\$ 116,000 (Rs. 6,000,804) (1998: NIL) with Sanwa Bank Limited which is in escrow.

16. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

	1999			1998		
	<i>Chief Executive</i>	<i>Director</i>	<i>Executives</i>	<i>Chief Executive</i>	<i>Director</i>	<i>Executives</i>
Number of persons	1	1	18	1	1	23
	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>	<i>Rupees</i>
Managerial remuneration and allowances	843,636	727,273	4,851,388	843,636	807,825	4,329,016
House rent	379,636	327,273	2,183,125	379,636	327,273	1,948,057
Recreation and entertainment	84,384	72,727	485,139	84,364	72,727	432,902
Gratuity	116,000	100,000	631,268	116,000	100,000	595,240
Others	84,364	72,727	485,139	84,364	72,727	432,902
	-----	-----	-----	-----	-----	-----
	1,508,000	1,300,000	8,636,059	1,508,000	1,380,552	7,738,117
	=====	=====	=====	=====	=====	=====

In addition, the Chief Executive, Director and 9 Executives were provided company maintained cars.

17. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

17.1 The aggregate value of goods and services purchased from associated undertakings during the year amounted to Rs. 29, 112,868/- (1998: Rs. 52,493,643).

17.2 Associated undertakings incurred expenses amounting to Rs. NIL (1998: Rs. 119,847) on behalf of the company. Also refer note 5.

18. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying value as at 30 June 1999.

19. INTEREST RATE RISK EXPOSURE

The information about company's exposures to interest rate risk based on contractual refinancing or maturity dates whichever is earlier on interest bearing assets and liabilities is as Follows:

	1999 (Rupees)		
	<i>Less than one year</i>	<i>Over one year</i>	<i>Total</i>
Cash and bank balances	84,322	--	84,322
	-----	-----	-----
	84,322	--	84,322
	=====	=====	=====
Sponsors' support	44,000,000	--	44,000,000
Long term loans	792,411,070	3,857,515,415	4,649,926,485
Short term borrowings	238,967,119	--	238,967,119
	-----	-----	-----
	1,075,378,189	3,857,515,415	4,932,893,604
	=====	=====	=====
Excess of financial liabilities over financial assets	1,075,293,867	3,857,515,415	4,932,809,282
	=====	=====	=====

1998 (Rupees)

<i>Less than one year</i>	<i>Over one year</i>	<i>Total</i>
---------------------------	----------------------	--------------

Financial Assets

Cash and bank balances	63,271	--	63,271
	-----	-----	-----
	63,271	--	63,271
	=====	=====	=====
Sponsors' support	44,000,000	--	44,000,000
Long term. loans	406,776,585	3,546,305,323	3,953,081,908
Short term borrowings	227,752,923	--	227,752,923
	-----	-----	-----
	678,529,508	3,546,305,323	4,224,834,831
	=====	=====	=====
Excess of financial liabilities over financial assets	678,466,237	3,546,305,323	4,224,771,560
	=====	=====	=====

The effective interest rates for financial assets and liabilities are as follows:

	1999	1998
	Effective interest rate %	
Assets		
Cash and bank balances	9.00	9.00
Liabilities		
Sponsors' support	21.00	21.00
Long term loans	7.85	7.85
Short term borrowings	20.00	19.00

20. CONTINGENCIES AND COMMITMENTS**20.1 Contingencies**

20.1.1 The company is contingently liable for a guarantee of US\$ 21.948 million issued by National Bank of Pakistan on behalf of the company to secure the French Buyer's Credit Facility. The guarantee is counter guaranteed by a syndicate of underwriter banks as referred to in note 6.3.

20.1.2 The company is also contingently liable for a letter of completion guarantee of US\$ 2.88 million issued to WAPDA by Prime Commercial Bank Limited on behalf of the company. The guarantee is secured by a first registered mortgage charge over the company's assets ranking pari passu with the lenders referred to in note 6.3, 6.4 and 7.1

20.2 Commitments

20.2.1 Commitments in respect of capital expenditure amounted to Rs. NIL (1998: Rs. 11,529,546).

20.3 Significant Contracts

20.3.1 The company has entered into an Implementation Agreement (IA) dated November 23, 1994 with the GoP, pursuant to which the GoP guaranteed the implementation, execution and operation of the project for a term of 22 years.

20.3.2 Under the 22 years Power Purchase Agreement (PPA) signed on November 17, 1994, the total electricity produced will be sold to WAPDA. The company has obtained guarantee from the GoP, guaranteeing payment obligations of WAPDA.

20.3.3 The company has entered into a Fuel Supply Agreement dated October 24, 1995 with Pakistan State Oil Limited (PSO) to supply furnace oil to the company for the term of 22 years. Obligation of PSO has also been guaranteed by GoP through a guarantee.

20.3.4 The company has entered into an Operation and Maintenance (O & M) contract dated July 28, 1995 with British Columbia Hydro International Power Development Corporation.

20.3.5 The company has entered into a Project Management Agreement (PMA) dated October 24, 1995 with BC Transpower for the management and supervision of project construction.

20.3.6 In accordance with the MoU signed with WAPDA dated 12 July 1999, the project life has been extended to 30 years. Accordingly, amendments in the relevant agreements are being considered.

21. TAXATION

The income tax authorities had raised a demand of Rs. 18 million treating the company as an assessee in default for not withholding tax on payments. No provision was made in these accounts since the management believes that the tax authorities have not considered the provisions of the Power Purchase Agreement, the Power Policy and relevant treaties for Avoidance of Double Taxation. The Commissioner of Income Tax (Appeals) has set aside the order of the Deputy Commissioner of Income Tax and the matter is now with the Appellate Tribunal.

22. GENERAL

22.1 Corresponding figures have been rearranged where necessary for the purpose of comparison.

22.2 Figures have been rounded off to the nearest rupee.

Islamabad
December 2, 1999

Ali Mahmood
Chief Executive

Syed Akbar Kazim
Director

PATTERN OF HOLDING OF SHARES HELD BY THE SHAREHOLDERS AS AT JUNE 30, 1999

<i>SHARES HOLDERS</i>	<i>HOLDING FROM</i>	<i>TO</i>	<i>SHARES HELD</i>	<i>%</i>
2	1	100	2	0.00
14,824	101	500	7,412,000	7.95
41	501	1,000	41,000	0.04
55	1,001	5,000	169,000	0.18
8	5,001	10,000	75,000	0.08
3	10,001	15,000	37,500	0.04
2	15,001	20,000	38,500	0.04
2	20,001	25,000	50,000	0.05
1	30,001	35,000	30,500	0.03
1	35,001	40,000	39,500	0.04
1	55,001	60,000	60,000	0.06
1	90,001	95,000	94,500	0.10
1	95,001	100,000	100,000	0.11
1	105,001	110,000	108,000	0.12
1	115,001	120,000	118,922	0.13
1	120,001	125,000	125,000	0.13
1	135,001	140,000	137,000	0.15
1	270,001	275,000	271,000	0.29
1	295,001	300,000	300,000	0.32
2	495,001	500,000	999,500	1.07
1	560,001	656,000	562,000	0.60
1	760,001	765,000	763,070	0.82
1	900,001	805,000	801,000	0.86
1	1,095,001	1,100,000	1,100,000	1.18
1	1,230,001	1,235,000	1,234,500	1.32
1	1,390,001	1,395,000	1,395,000	1.50
1	4,255,001	4,260,000	4,258,400	4.57
1	6,115,001	6,120,000	6,115,140	6.56

1	6,460,001	6,465,000	6,464,992	6.94
1	7,630,001	7,635,000	7,630,121	8.19
1	12,475,001	12,480,000	12,478,520	13.39
1	40,175,001	40,180,000	40,178,346	43.12
-----			-----	-----
	14,962		93,188,013	100.00
=====			=====	=====

CATEGORIES OF SHAREHOLDERS AS AT JUNE 30, 1999

<i>Shareholders</i>	<i>Particulars</i>	<i>Shareholding</i>	<i>%</i>
	4,938 Individuals	8,096,424	8.69
	9 Foreign Companies	59,224,607	6.355
	7 Joint Stock Companies	12,151,462	13.04
	4 Banks/Financial Institutions	13,165,520	14.13
	2 Modaraba Companies	113,000	0.12
	2 Insurance Companies	437,000	0.47
-----		-----	-----
	4,962	93,188,013	100.00
=====		=====	=====