

A N N U A L R E P O R T 2 0 1 1



SOUTHERN ELECTRIC POWER COMPANY LIMITED

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COMPANY INFORMATION

Board of Directors	Mr. Anthony Rustin Mr. Rashid Mirza Mr. S. M. Ghalib Ms. Carole Linda Idris Ms. Lynn Margaret Isobel Bell Mr. Florian Zenner Mr. Manuel Makki Mr. Salman Rahim
Chief Executive	Mr. Shamsul Aziz
Chief Financial Officer	Mr. Shamsul Aziz
Company Secretary	Mr. Salman Rahim
Audit Committee	Mr. S. M. Ghalib <i>Chairman</i> Mr. Manuel Makki Ms. Carole Linda Idris
Auditors	KPMG Taseer Hadi & Co., Chartered Accountants
Leading Bankers	Askaribank Limited Faysal Bank Limited National Bank of Pakistan United Bank Limited
Registered Office	No. 38, First Street, F-6/3, Islamabad - 44000, Pakistan. Tel: (92-51) 227 9230-1, 843 8550 Fax: (92 51) 282 5465 Website: www.sepcol.com
Share Registrar	Corplink (Pvt.) Ltd. Wings Arcade, 1-K, Commercial, Model Town, Lahore, Pakistan. Tel: (92-42) 3583 9182 Fax: (92-42) 3586 9037
Plant	Raiwind, District Lahore



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 17th Annual General Meeting of the Shareholders of Southern Electric Power Company Limited ("the Company") will be held on 31 October 2011 at 11:00 a.m. at the Registered Office of the Company, No. 38, First Street, F-6/3 Islamabad-44000, Pakistan to transact the following business:

1. To confirm the minutes of the last Annual General Meeting held on 29 October 2010.
2. To receive, consider and adopt the Annual Audited Accounts of the Company for the financial year ended June 30, 2011 together with the Report of Directors and Auditors thereon.
3. To appoint Auditors of the Company and to fix their remuneration.
4. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD

Salman Rahim
Company Secretary

Place: Islamabad

Dated: October 07, 2011

NOTES

1. The Share Transfer Books of the Company shall remain closed from 24 October 2011 to 31 October 2011 (both days inclusive). Transfers received at Shares Registrar Office of the Company' "Corplink (Pvt.) Limited" at Wings Arcade, 1-K, Commercial, Model Town, Lahore up to the close of business on 22 October 2011 will be treated in time for the purpose of attendance at the Annual General Meeting.
2. A member entitled to attend and vote at the meeting may appoint a proxy in writing to attend the meeting and vote on the member's behalf.
3. Duly completed forms of proxy must be deposited with the Company Secretary at the Registered Office of the Company not later than 48 hours before the time appointed for the meeting.
4. Members are requested to immediately notify the Share Registrar of the Company of any change in their addresses.
5. CDC account holders will, in addition to above, have to follow the under-mentioned guidelines.

A- For Attending the Meeting

- a. In case of individuals, the account holder or sub-account holder and / or the persons whose securities and their registration details are uploaded as per the Regulations, shall authenticate their identity by showing original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
- b. In case of a corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B- For Appointing Proxies

- a. In case of individuals, the account holder or sub-account holder and / or the persons whose securities and their registration details are uploaded as per the Regulations, shall submit the Proxy Form as per the above requirement.
- b. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the Proxy Form.
- c. The proxy shall produce his original CNIC or original passport at the time of the meeting.
- d. In case of a corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature shall be submitted (unless it has been provided earlier) along with Proxy Form to the Company.



DIRECTORS' REPORT

Your Directors are pleased to present before you the 17th Annual Report of the Company, and the audited Annual Financial Statements for the year ended 30 June 2011.

Plant Operations

In the wake of increasing gravity of power crisis in the country and as a result of concerted efforts of the management, the Complex operations have been revived and the plant continues to supply electricity to the national grid. Plant factor was 50% of the dependable capacity as compared to 37.60% for the last year indicating the Company progression towards normal operations since its resumption in January 2010.

However, due to the erratic pattern of fuel advance payments by WAPDA resulting in irregular supply of fuel to the Complex, the Company has been constrained to resort to load management from time to time, reducing the Complex despatch to as low as 17 – 30 MW in line with the availability of fuel at site during the year.

All pending disputes between the Company and WAPDA including those pertaining to Liquidated Damages (“LDs”) and withheld Capacity Purchase Price (“CPP”) payments continue to be held in abeyance. Accordingly, the suit filed by the Company in the International Court of Arbitration against WAPDA claiming damages to the tune of Rs. 5 billion remains suspended for the time being.

As detailed in note 1.2 to the annexed audited financial statements the Company had several rounds of negotiations with WAPDA to settle all of its lingering disputes relating to arbitration claim of the Company, settlement of disputed LDs, CPP relating to the closure period and interest thereon, installation of steam turbine and continuity of fuel advance facility from WAPDA. In the wake of stated developments, the Company has forwarded a draft third settlement agreement covering suggested resolutions of all disputes for a prudent settlement to ensure continuity of plant operations in the best mutual interest.

Depending on the outcome of the settlement with WAPDA, the Company intends to move ahead with its earlier plan of retrofitting a steam turbine to lead the project towards an increased level of profitability and meet its operational and financial obligations in time.

Annual Dependable Capacity ("ADC") Test

Annual Dependable Capacity ("ADC") Test of the Complex was conducted on 09 March 2011 in which the Dependable Capacity of the plant was reduced to 110.470 MW (30 June 2010: 119.458 MW).

Financial Results

The Company recorded a net loss of Rs. 3,922 million during the year under review as compared to net profit of Rs. 52.68 million during last year. Loss for the year is mainly attributable towards Liquidated damages aggregating Rs. 2,597 million that are provided for during the year by the Company resulting in negative equity in the current year financial statements. As disclosed in prior year's published financial statements, the Company had disputed these LDs on legal grounds supported by a legal opinion confirming validity of the dispute and accordingly same were not booked for the period from 15 February 2008 to 31 December 2009, the period of closure of normal plant operations due to cessation of payments by WAPDA. However, in the wake of the ongoing negotiations between the Company and WAPDA and the submission of the proposed settlement agreement by the Company, a set-off of the closure period LDs with the respective capacity payments and interest thereon is likely. Accordingly, the Company as per prudent practices has provided for these LDs and the reversal of the interest on closure period CPP which has resulted in an unusual profit and loss account for the year and the resultant erosion of the equity. In the event of a positive settlement with WAPDA, all or substantial portion of the LDs may be reversed in the subsequent year resulting in a positive change in the shareholders equity.



As a result of normal plant activity, the Company registered an increase of Rs. 1,184.599 million in Energy Purchase Price (“EPP”) revenue, net of sales tax, from Rs. 3,979.042 million during the year ended 30 June 2010 to Rs. 5,163.641 million during the year under review. Cost of sales was increased significantly by Rs. 1,733.973 million from Rs. 4,691.971 million during the year ended 30 June 2010 to Rs. 6,425.944 million during the year under review mainly due to a higher plant factor, efficiency losses and incurrance of exorbitant liquidated damages aggregating Rs. 484.858 million as a consequence of staggered fuel payments by WAPDA, intermittent engine breakdowns and output derating.

Administrative expenses marked an increase of 88.79% from 56.018 million during the year ended 30 June 2010 to Rs. 499.727 million during the year under review. This substantial variation is related to provisioning of CPP interest on withheld amounts of CPP by WAPDA as the same is likely to be settled against LDs imposed on the Company under suggested draft third settlement agreement.

Loan Defaults

Due to the meagre cash flows of the Company, high O&M costs coupled with reduction in dependable capacity and plant operations at restricted load due to inadequate fuel payments by WAPDA, the Company was unable to discharge its loan obligations towards various lenders, and consequently received notices of Event of Default from National Bank of Pakistan as mentioned in note 5.4 to the annexed audited financial statements. However, the Company was able to manage two payments to the lease syndicate as detailed in note 7.2 to the financial statements.

Comments on the Auditors' Report

- a) Although dependable capacity of the plant has been reduced during the year under review, the Company intends to divert most of its future cash flows to the required overhauling of its engines which would subsequently restore the dependable capacity in the future ADC tests of the Complex. Your Directors are pleased to report that despite all the odds facing the Company, the plant has been running without any major breakdown since its restart though a general derating of certain engines has been necessitated due to technical limits. As during the coming years the demand for electricity in the country is expected to increase considerably with a persistent shortfall in supply, the Company expects that with the planned maintenance of its plant and the continuity of fuel and capacity payments from WAPDA, there is no sufficient basis to believe that the carrying amount of property, plant and equipment would not be recoverable. As such, the management does not agree with the opinion of the auditors and has prepared the accounts on historical cost basis which, in its opinion, reflects the true and fair view of the state of the Company's affairs.
- b) According to the terms of the loan agreements, a lender has the right to call for repayment of the entire amount of the outstanding loan in case of a default in repayment of any instalment. However, the lenders have not called upon the Company to pay off these loans in entirety and have kept their rights reserved. The Company is currently in the process of discussing with the lenders a possible rescheduling of the outstanding loan amounts, including the overdue instalments, and is confident that the requested rescheduling will be agreed to by the lenders.

On the basis of the reasons cited in the preceding paragraph, and in the absence of any adverse action by the lenders under the Finance Documents, management does not see any grounds for classifying the entire outstanding loan as a current liability and, therefore, disagrees with the auditors' stance in this matter.

- c) As explained under the captions 'Plant Operations' and 'Financial Results' above, the Company had not provided for the LDs levied by WAPDA in prior years as these LDs were a direct consequence of cessation of payments by WAPDA to the Company that led to stoppage of plant



operations. The Company's stance on this issue was supported by a legal opinion, on the basis of which these LDs have been formally disputed under the Power Purchase Agreement and have not been provided for in the financial statements as its outcome was remote and a favourable decision from International Court of Arbitration (ICA) was expected in this regard.

The current year, however, envisaged certain changes in circumstances whereby in order to amicably resolve the long pending disputes with WAPDA on a give-and-take basis, it was considered inevitable by both parties to strike an out-of-court settlement by foregoing certain claims and counter claims particularly relating to the plant closure period. Accordingly, in line with the proposed third settlement agreement submitted to WAPDA, the Company has provided the closure period LDs in the current year's financial statements as repeatedly stated by the Company in the prior years when these LDs were being disclosed as a contingent liability.

The management believes that restating the prior year comparative amounts of profit and loss account, unappropriated profit and liabilities would be inappropriate in the light of the stance it has been taking in the previous year financial statements in line with approved accounting standards.

Going Concern

Because of the critical shortage of electricity in the country and the need to operate existing IPPs to their full capacity, evidenced by WAPDA's release of payments to the Company (slow and irregular due to WAPDA's own liquidity problems), management believes that the existing disputes between the Company and WAPDA will be settled in due course and the plant will continue to supply electricity to the national grid for the foreseeable future. Since plants established under the 1994 Power Policy are the most cost-effective in the country today, the management of the Company is confident of the continuity of fuel advance payments by WAPDA; as such, the annexed financial statements have been prepared on a going concern basis.

The loss per share worked out at Rs. (28.70) this year as compared to earning per share of Rs. 0.39 last year.

Financial Statements and Internal Control

The Directors are pleased to state that:

- a) the financial statements prepared by the management present fairly the Company's state of affairs, the result of its operations, cash flows and changes in equity;
- b) proper books of account have been maintained;
- c) appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed;
- e) the system of internal control is sound in design and has been effectively implemented and monitored;
- f) there has been no material departure from the best practices of the Code of Corporate Governance, as detailed in the listing regulations;
- g) key operating data for the last seven years is available in this report.

Appropriations

The Directors are not in a position to recommend a dividend this year.



Auditors

The present auditors Messer KPMG Taseer Hadi & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

Management

During the year, Mr. Amjad Awan resigned from the position of Chief Executive Officer of the Company and Mr. Shamsul Aziz was appointed by the Board in his place on 15 April 2011. Mr. Aziz has been associated with the Company for over 11 years and has experience of managing its day-to-day functions in his capacity as Director Finance and Chief Financial Officer. Mr. Aziz holds a Masters Degree in Business Administration and enjoys an overall work experience of 22 years with different national, multinational and federal government organizations. The Board is confident that with his dedication and expertise in the private power sector the Company shall be able to manage its affairs more effectively.

Changes in the Board of Directors

Mr. Taj ud Deen Kurji resigned from the Board on 13 October 2010 and Mr. Salman Rahim was appointed in his place.

Subsequent to the balance sheet date Mr. Anthony Rustin resigned from the Board on 15 August 2011 and Ms. Grasso Louisa was appointed in his place.

Board of Directors Meetings Held During the Year

Seven meetings of the Board of Directors were held during the year from 1 July 2010 to 30 June 2011. Following is the attendance of each Director in Board Meetings.

<u>Name</u>	<u>Meetings Attended</u>
Mr. Taj ud Deen Kurji	2
Mr. Anthony Rustin	7
Mr. S.M. Ghalib	7
Ms. Carole Linda Idris	7
Ms. Lynn Margaret Isobel Bell	7
Mr. Florian Zenner	7
Mr. Manuel Makki	7
Mr. Rashid Mirza (Nominee of NBP)	7
Mr. Salman Rahim	5

Pattern of Shareholding

A statement showing the pattern of shareholding as of 30 June 2011 is attached.

The Directors wish to thank the staff for their dedication and the shareholders and lenders for their continued support.

For and on behalf of the Board

**Islamabad
30 September 2011**

**Shamsul Aziz
Chief Executive**



KEY OPERATING AND FINANCIAL DATA

Year Ended on June 30,	2011	2010	2009	2008	2007	2006	2005
Despatch Level (%age)	50	37.6	4.6	32	53	49	41
Despatch (Mwh)	465,562	393,242	48,202	368,660	540,242	503,028	398,365
Total Revenue (Rs. '000)	6,579,822	5,842,332	1,911,237	3,627,586	4,000,450	3,863,767	2,591,542
(Loss)/Profit for the Year (Rs. '000)	(3,922,132)	52,682	146,762	(297,762)	(295,124)	37,519	62,542
Shareholders' Equity (Rs. '000)	(1,841,056)	2,081,076	2,028,394	1,881,632	2,179,393	2,474,518	2,436,999
Book Value Per Share (Rupees)	(13.47)	15.23	14.84	13.77	15.95	18.11	17.83
(Loss)/Earning per share - basic (Rupees)	(28.70)	0.39	1.07	(2.18)	(2.16)	0.27	0.46
Rate of Dividend (%age)	-	-	-	-	-	-	-



S STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the requirement of Code of Corporate Governance as per the listing Regulations of Karachi, Lahore & Islamabad Stock Exchanges for the purpose of establishing a framework of good governance.

The Company has applied the principles contained in the Code of Corporate Governance (the Code) in the following manner:

1. The Board of the Company (excluding the Chief Executive) comprises of eight directors. At present there are six non-executives, one executive and one independent non-executive director representing the lenders.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of the directors has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy occurred in the Board of Directors during the financial year ended 30 June 2011 which was dully filled up.
5. The Company has prepared a "Statement of Ethics and Business Practices" which has been signed by the directors and senior employees of the Company.
6. The Board has developed a vision statement and overall corporate strategy for the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions including appointment, determination of remuneration, terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The Meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board instructed the resident directors on the Code of Corporate Governance during the year to apprise them of their duties and responsibilities.
10. The Board has approved the appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for the year ended 30 June 2011 has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO / CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.



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14. The Company has complied with all the corporate and financial reporting requirements of the Code.
 15. The Board has formed an Audit Committee comprising of three members including a chairman of the Committee, and all the members of the Audit Committee are non-executive directors.
 16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Audit Committee have been formed and advised to the Audit Committee for compliance.
 17. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full-time basis.
 18. The statutory auditors of the Company have confirmed that they have been given satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan. The auditors have further confirmed that neither they nor any of the partners of the firm, their spouses and minor children hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.
 19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
 20. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with the requirements of listing regulation number 37 of the Karachi Stock Exchange (Guarantee) Limited.
 21. We confirm that all other material principles contained in the Code have been complied with.

Islamabad
30 September 2011

Shamsul Aziz
Chief Executive



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE 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 Southern Electric Power Company Limited (“the Company”) to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges 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 19 January 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 recording 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.

Islamabad
30 September 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Riaz Pesnani



AUDITORS' REPORT TO THE MEMBERS



KPMG TASEER HADI & CO.

Chartered Accountants

We have audited the annexed balance sheet of Southern Electric Power Company Limited (“the Company”) as at 30 June 2011 and the related profit and loss account, statement of comprehensive income, 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 financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) The Company has not been able to generate sufficient cash flows from plant operations. Further, during the year, the Dependable Capacity of the plant has reduced as disclosed in note 35 to the financial statements. The management has not carried out impairment analysis of the Company's property, plant and equipment under International Accounting Standard 36 “Impairment of Assets” in the absence of which we are unable to verify the recoverable amount of property, plant and equipment and the impact of any related impairment loss in these financial statements.
- (b) As disclosed in notes 5.4, 5.6, 5.7 and 7.2 to the financial statements, the Company has defaulted in repayments of instalments of long term loans and syndicated lease liability for the 6th engine. In view of these defaults, the entire outstanding long term financing and syndicated lease liability becomes payable immediately pursuant to terms of agreements entered into with the lenders. Consequently, the Company should have classified long term financing amounting to Rs. 1,534.234 million and syndicated lease liability of Rs. 323.769 million as current liability. Had the said liabilities been classified as current in the financial statements, total non-current liabilities would have been lower by Rs. 1,858.003 million with a corresponding increase in current liabilities.
- (c) As disclosed in note 26 to the financial statements the Company has made a provision of Rs. 2,597.825 million on account of Liquidated Damages (LDs) in current year's profit and loss account which relates to the period from 15 February 2008 to 31 December 2009. This provision should have been presented by restating the comparative amounts of profit and loss account, unappropriated profit and liabilities. Had the comparative amounts been



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- restated, loss for the year would have decreased by Rs. 2,597.825 million and the balance of unappropriated profit as at 30 June 2010 would have decreased by Rs. 2,597.825 million with corresponding increase in current liabilities as of the same date.
- (d) Except for the matters referred in paragraphs (a) to (c) above, in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (e) in our opinion-
- i. Except for the matters referred in paragraphs (a) to (c) above, the balance sheet and profit and loss account together with the notes thereon have been drawn 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.
- (f) Except for the effect on the financial statements of the matters referred to in paragraphs (a) to (c) above; 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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the 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 30 June 2011 and of the loss, its cash flows and changes in equity for the year then ended; and
- (g) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to note 1.2 to the financial statements which states that the Company's operation is dependant on continuance of fuel advance facility from WAPDA. Should WAPDA discontinue the fuel advance facility again and the Company fails to arrange the required additional working capital from any other sources, the Company may not be able to continue its operations in the foreseeable future.

However, on the basis that during the year the plant remained substantially operational with energy dispatch factor of 50%, continuance of fuel advance facility by WAPDA, payments of CPP invoices to the Company by WAPDA and commencement of negotiations between WAPDA and the Company to resolve various disputes, the Company has prepared these financial statements on the assumption that the Company would continue to be a going concern. Our opinion is not qualified in respect of this matter.

Islamabad
30 September 2011

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
Riaz Pesnani

KPMG Taseer Hadi & Co., a partnership firm registered in Pakistan, is the Pakistan member firm of KPMG International, a Swiss cooperative



BALANCE SHEET AS AT 30 JUNE 2011

	Note	2011 Rupees '000	2010 Rupees '000
SHARE CAPITAL AND RESERVES			
Share capital	4	1,366,758	1,366,758
(Accumulated loss) / unappropriated profit		<u>(3,207,814)</u>	<u>714,318</u>
		(1,841,056)	2,081,076
NON - CURRENT LIABILITIES			
Long term financing - secured	5	1,534,234	2,084,814
Deferred liabilities	6	23,131	27,875
Liabilities against assets subject to finance lease	7	263,720	246,507
		1,821,085	2,359,196
CURRENT LIABILITIES			
Trade and other payables	8	34,927	51,923
Liquidated damages payable	9	3,887,992	805,309
Advance from customer - unsecured	10	1,154,488	1,391,596
Accrued markup	11	1,901,729	1,433,770
Short term borrowings - secured	12	1,088,461	938,439
Current portion of long term financing - secured	5	2,635,445	2,216,097
Current portion of liabilities against assets subject to finance lease	7	62,673	120,452
Provision for taxation - net	13	-	59,869
		10,765,715	7,017,455
		<u>10,745,744</u>	<u>11,457,727</u>
CONTINGENCIES AND COMMITMENTS			
	14		

The annexed notes 1 to 39 form an integral part of these financial statements.



	Note	2011 Rupees '000	2010 Rupees '000
NON - CURRENT ASSETS			
Property, plant and equipment	15	6,899,154	7,206,036
CURRENT ASSETS			
Stores, spare parts and loose tools	16	203,513	223,151
Stock in trade	17	225,725	304,181
Trade debts - secured	18	2,834,594	3,465,551
Advances	19	249,341	134,592
Trade deposits, short term prepayments and balance with statutory authority	20	180,291	84,392
Advance income tax - net	21	2,451	-
Cash and bank balances	22	150,675	39,824
		<u>3,846,590</u>	<u>4,251,691</u>
		<u>10,745,744</u>	<u>11,457,727</u>

Islamabad
30 September 2011

Chief Executive

Director



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 Rupees '000	2010 Rupees '000
Turnover - net	23	6,579,822	5,842,332
Cost of sales	24	(6,425,944)	(4,691,971)
Gross profit		153,878	1,150,361
Administrative expenses	25	(499,727)	(56,018)
Liquidated damages	26	(2,597,825)	-
Finance cost	27	(1,048,433)	(987,884)
Other operating income	28	74,291	15,223
Net (loss)/ profit before taxation		(3,917,816)	121,682
Provision for taxation - prior year	29.1	(4,316)	(69,000)
Net (loss)/ profit after taxation		(3,922,132)	52,682
(Loss)/ Earning per share - basic and diluted (Rupees)	36	(28.70)	0.39

The annexed notes 1 to 39 form an integral part of these financial statements.

Islamabad
30 September 2011

Chief Executive

Director



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	2011 Rupees '000	2010 Rupees '000
Net (loss)/ profit after taxation	(3,922,132)	52,682
Other comprehensive income	-	-
Total comprehensive income for the year	<u><u>(3,922,132)</u></u>	<u><u>52,682</u></u>

The annexed notes 1 to 39 form an integral part of these financial statements.

Islamabad
30 September 2011

Chief Executive

Director



CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 Rupees '000	2010 Rupees '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss)/ profit before taxation		(3,917,816)	121,682
Adjustments for non cash items:			
Depreciation		330,400	327,961
Provision for gratuity		8,369	9,151
Provision for doubtful advances to other suppliers		10,005	-
Provision for doubtful interest on Capacity Purchase Price receivable		425,088	-
Old liabilities written back		(15,086)	-
Gain on disposal of property, plant and equipment		(1,687)	(3,988)
Amortization of deferred income on sale and lease back transaction		-	(67)
Finance cost		1,048,433	987,884
		<u>(2,112,294)</u>	<u>1,442,623</u>
Working capital changes:			
Decrease / (increase) in stores, spare parts and loose tools		19,638	(55,073)
Decrease / (increase) in stock in trade		78,456	(224,902)
Decrease / (increase) in trade debts		205,869	(1,848,249)
Increase in advances		(113,995)	(109,233)
Increase in trade deposits, short term prepayments and balance with statutory authority		(105,903)	(67,082)
(Decrease) / increase in advance from customer		(237,108)	1,391,596
Increase in liquidated damages payable		3,082,683	164,200
Decrease in trade and other payables		(1,910)	(18,061)
		<u>2,927,730</u>	<u>(766,804)</u>
Cash generated from operations		815,438	675,819
Gratuity paid		(13,113)	(2,520)
Income taxes paid		(67,390)	(98)
Net cash generated from operating activities		734,933	673,201
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(7,494)	(1,804)
Proceeds from disposal of property, plant and equipment		4,430	5,188
Net cash (used in) / generated from investing activities		(3,064)	3,384
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term financing		-	(10,000)
Change in short term borrowings		22	(1,288)
Finance cost paid		(580,474)	(562,668)
Lease rentals paid		(40,566)	(67,304)
Net cash used in financing activities		(621,018)	(641,260)
Net increase in cash and cash equivalents		110,851	35,325
Cash and cash equivalents at beginning of the year		39,824	4,499
Cash and cash equivalents at end of the year	22	<u>150,675</u>	<u>39,824</u>

The annexed notes 1 to 39 form an integral part of these financial statements.

Islamabad
30 September 2011

Chief Executive

Director



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Share Capital	(Accumulated loss)/ Un-appropriated profit	Total
	Rupees '000	Rupees '000	Rupees '000
Balance as at 01 July 2009	1,366,758	661,636	2,028,394
Total comprehensive income for the year	-	52,682	52,682
Balance as at 30 June 2010	1,366,758	714,318	2,081,076
Balance as at 01 July 2010	1,366,758	714,318	2,081,076
Total comprehensive income for the year	-	(3,922,132)	(3,922,132)
Balance as at 30 June 2011	1,366,758	(3,207,814)	(1,841,056)

The annexed notes 1 to 39 form an integral part of these financial statements.

Islamabad
30 September 2011

Chief Executive

Director



1 STATUS AND NATURE OF OPERATIONS

1.1 Southern Electric Power Company Limited ("the Company") was incorporated in Pakistan on 20 December 1994 as a public limited Company under the Companies Ordinance, 1984. The Company is listed on all three stock exchanges in Pakistan. The Company originally established a 117 Megawatt power generation capacity station near Raiwind, Lahore ("Complex / Plant") for supply of electricity. The capacity of the Plant was increased to 135.9 Megawatt through the installation of sixth engine in September 2007. The Company's registered office is situated at No. 38, First Street, Sector F-6/3, Islamabad, Pakistan.

1.2 Material uncertainty

The Plant remained substantially operational with energy despatch factor of 50% during the year as compared to 37.6% for the last year. The staggered fuel payments from Water and Power Development Authority (WAPDA), intermittent engine breakdowns and output de-rating forced the Company to operate the Complex at partial load.

Disputes between the Company and WAPDA pertaining to Liquidated Damages (LDs) for the period from 15 February 2008 to 31 December 2009 (closure period) and withheld Capacity Purchase Price (CPP) amounts and interest thereon for the period from 01 June 2008 till 31 December 2009 continue to be held in abeyance. Also the suit filed by the Company in the International Court of Arbitration (ICA) against WAPDA claiming damages to the tune of Rs. 5 billion remains in abeyance for the time being.

However, during the last quarter and subsequent to the year ended 30 June 2011, management of the Company had productive but challenging negotiations with WAPDA officials for an out of court settlement of all existing disputes in the best interest of both parties. Accordingly, the Company has forwarded a draft third settlement agreement to WAPDA on 29 August 2011 that mainly includes suggested resolutions of disputed LDs, withheld CPP and interest thereon as stated above, arbitration claim of the Company, installation of heat recovery steam turbine and formal commitment of fuel advance facility from WAPDA.

The management of the Company expects a balanced resolution of the existing disputes with WAPDA as both parties have serious claims and counter claims against each other and realize the necessity of a judicious settlement to carry on the Project with a clean slate and in the best national interest.

Based on best estimates and in light of a possible settlement, the Company has provided for disputed LDs pertaining to the closure period aggregating Rs. 2,597.825 million (refer to note 26) in its profit and loss account for the year that has resulted in negative equity in the financial statements of the Company.

Due to cash flow constraints, high O&M costs and reduction in dependable capacity of the Plant, the Company was unable to meet the repayment of loans and lease obligations to its lenders except for two installments of the syndicate lease facility for the sixth engine amounting to Rs. 38.731 million and 27.085 million respectively (refer to note 7.2).

The Company's operation is dependent on continuance of fuel advance facility from WAPDA. Should WAPDA discontinue the fuel advance facility again and the Company fails to arrange additional working capital from any other sources, the Company may not be able to continue its operations in the foreseeable future.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the



provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except that obligation under employees' benefit referred to in note 6.1 which has been recognized at present value on the basis of actuarial valuation.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupee (PKR), which is the Company's functional currency.

2.4 Significant estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

(a) Employee retirement plans

Defined benefit plans of gratuity are provided for all eligible employees of the Company. Calculations in this respect require assumptions to be made of future outcomes, the principal ones being in respect of increase in remuneration and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

(b) Property, plant and equipment

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

(c) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. Any change in estimates in future years might affect the carrying amounts of the respective assets with a corresponding effect on the impairment.

(d) Provision for liquidated damages

At each balance sheet date, the Company reviews the provisions for Liquidated Damages from WAPDA. The Company provides the amounts of Liquidated Damages in the financial statements on the basis of legal or constructive obligation as a result of past event and it is probable that an outflow of economic resources will be required to settle the obligation.

(e) Taxation

Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences and carry forwards. The Company takes into account the current income tax law and 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 view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Taxation

(a) Current

The profits and gains of the Company derived from electric power generation are exempt from tax subject to the conditions and limitations provided for in terms of clause (132) of Part I of the Second Schedule to the Income Tax Ordinance, 2001. However, full provision is made in the profit and loss account on income from sources not covered under the above clause at current rates of taxation after taking into account, tax credits and rebates available, if any and any adjustment to tax payable in respect of previous years. Further, the Company is also exempt from minimum tax on turnover under clause (15) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

(b) Deferred

Deferred tax has not been provided in these financial statements as the Company's management believes that the temporary differences will not reverse in the foreseeable future due to the fact that the profits and gains of the Company derived from electric power generation are exempt from tax subject to the conditions and limitations provided for in terms of clause (132) of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

3.2 Staff retirement benefits

(a) Defined benefit plan

The Company is operating an unfunded gratuity scheme for its employees according to the terms of employment subject to a minimum qualifying period of service. The liability is provided on the basis of actuarial valuation using Projected Unit Credit Method. The Company has a policy of carrying out actuarial valuations after every two years. Latest valuation was conducted as of 30 June 2011. The details of actuarial valuation are given in note 6.1 to the financial statements.

The amount recognized in the balance sheet represents the present value of defined benefits as is adjusted for unrecognized actuarial gains and losses. Unrecognized actuarial gains and losses, exceeding corridor limits defined in International Accounting Standard - 19 "Employee benefits" are amortized over the expected average remaining working lives of the employees participating in the plan.

(b) Compensated absences

The Company also provides for compensated absences according to the Company's policy. Related expected cost and liability has been included in the financial statements.

3.3 Stock in trade

These are valued at lower of cost and net realizable value. Cost is determined as follows:

Heavy Furnace Oil ("HFO")	First in first out basis
High Speed Diesel ("HSD")	Moving average cost
Lubricants	Moving average cost

Cost of inventory comprises of the purchase price and other direct costs incurred in bringing the inventory items to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

3.4 Stores, spare parts and loose tools

These are valued at lower of moving average cost and net realizable value.



Cost comprises of the purchase price and other direct costs incurred in bringing the stores, spare parts and loose tools to their present location and condition.

3.5 Property, plant and equipment

(a) Owned

Property, plant and equipment, owned by the Company are stated at cost less accumulated depreciation and impairment loss, if any, except freehold land and capital work in progress, which are stated at cost less impairment loss, if any. Cost also includes exchange gains and losses on loans obtained for acquisition of property, plant and equipment.

Depreciation is charged on straight line method at the rates given in note 15, after taking into account their respective residual values if any, so as to write off the cost of assets over their estimated useful lives. Depreciation is charged from the month asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

Exchange differences related to foreign currency loans obtained for financing of the plant are capitalized by the Company as allowed by Securities and Exchange Commission of Pakistan (SECP) through its circular number 11 dated 13 June 2008. Exchange differences on the loans utilized for acquisition of plant, building and machinery are being depreciated over the remaining useful life of the plant.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposals of assets are taken to the profit and loss account.

(b) Leased

Assets subject to finance lease are stated at lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses, if any. Related obligations under the agreement are accounted for as liabilities and financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability. Depreciation is charged on leased assets on the basis similar to that of owned assets at the rates given in note 15.

3.6 Revenue recognition

Revenue on account of energy is recognized on despatch of electricity, whereas revenue on account of capacity is recognized when due.

3.7 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value plus directly attributable transaction cost, if any, and subsequently measured at amortized cost using the effective interest method, less provision for doubtful debts, if any.

3.8 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Only those short term borrowings that are repayable on demand and that often fluctuates from being positive to overdrawn form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of cash flow statement.

3.9 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between originally recognized amount and redemption value being recognized in profit and loss account over the period of borrowing on an effective interest rate basis.

3.10 Trade and other payables

Trade and other payables are carried at amortized cost.



3.11 Provisions

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

3.12 Dividend recognition

Dividend is recognized as a liability in the period in which it is declared.

3.13 Borrowing costs

Borrowing costs on loans are capitalized up to the date of commissioning of the related qualifying asset. Subsequent borrowing costs are charged to profit and loss account. All other borrowing costs are charged to profit and loss account.

3.14 Foreign currencies

As mentioned in note 2.3, PKR is the functional currency of the Company. Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into PKR at the rate of exchange ruling on the balance sheet date. Non monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Exchange differences are accounted for as follows:

- (a) Exchange differences related to foreign currency loans obtained for financing of the plant are capitalized and depreciated over the remaining useful life of the related assets.
- (b) All other exchange differences are dealt with through the profit and loss account.

3.15 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to contractual provisions of the instrument. These are initially measured at fair value. Subsequent to initial recognition, these financial assets and liabilities are measured at fair value or amortized cost as the case may be. The Company de-recognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instrument.

3.16 Finance income and finance cost

- Finance income comprises interest income on bank deposits. Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.
- Finance cost comprises interest expense on borrowings and bank charges. Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

3.17 Provisions for Workers Profit Participation Fund and Workers Welfare Fund

The Company does not account for Provision for Workers Profit Participation Fund (WPPF) and Workers Welfare Fund (WWF) in its financial statements as they are pass through items to WAPDA under the Power Purchase Agreement (PPA). In case the liability arises, it is recovered from WAPDA.

3.18 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are set off in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.19 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to



determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of such assets is estimated in order to determine the extent of impairment loss, if any. Impairment losses, if any, are recognized in the profit and loss account.

– **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit and loss account. An impairment loss is reversed in the profit and loss account if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

– **Non financial assets**

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset.

3.20 New accounting standards and IFRIC interpretations that are not yet effective

The following approved accounting standards, interpretations and amendments to approved accounting standards are effective for accounting periods beginning from the dates specified below.

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.



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- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment has no impact on Company's financial statements.
 - Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 1 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements, add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
 - IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.
 - IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.
 - IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.
 - Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.
 - Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.



4 SHARE CAPITAL

4.1 Authorized share capital

This represents 150 million (2010: 150 million) ordinary shares of Rs. 10 each.

4.2 Issued, subscribed and paid up capital

2011	2010		2011	2010
Number of shares			(Rupees '000)	(Rupees '000)
124,250,684	124,250,684	Ordinary shares of Rs. 10 each issued for cash	1,242,507	1,242,507
12,425,068	12,425,068	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	124,251	124,251
<u>136,675,752</u>	<u>136,675,752</u>		<u>1,366,758</u>	<u>1,366,758</u>

4.3 BCHIL Southern Company Limited holds 40.178 million ordinary shares (2010: 40.178 million ordinary shares) of Rs. 10 each at the balance sheet date.

5 LONG TERM FINANCING - SECURED

Lender and facility	Note	Sanctioned amounts		Outstanding amounts			
		USD '000	Rupees '000	2011	2010	2011	2010
		USD '000	Rupees '000	USD '000		Rupees '000	
<i>From banking companies</i>							
National Bank of Pakistan/ World Bank / Private Sector Energy Development Fund (PSEDF) - 1st Facility	5.1	35,002	-	22,751	22,751	1,956,589	1,947,488
National Bank of Pakistan/ World Bank / Private Sector Energy Development Fund (PSEDF) - 2nd Facility	5.2	7,456	-	4,846	4,846	416,788	414,850
National Bank of Pakistan/ World Bank / Private Sector Energy Development Fund (PSEDF) - 3rd Facility	5.3	10,614	-	10,614	10,614	912,811	908,565
ANZ Bank, Paris, France - 2nd Facility	5.6	8,706	-	8,706	8,706	748,710	745,227
United Bank Limited	5.7	-	134,781	-	-	134,781	134,781
Faysal Bank Limited	5.8	-	150,000	-	-	-	150,000
				<u>46,917</u>	<u>46,917</u>	<u>4,169,679</u>	<u>4,300,911</u>
Less: Installments due over the next twelve months shown under current liabilities							
Overdue / defaulted installments				(23,050)	(16,616)	(1,997,317)	(1,492,824)
Current maturity				(6,513)	(6,434)	638,128	(723,273)
				<u>(29,563)</u>	<u>(23,050)</u>	<u>(2,635,445)</u>	<u>(2,216,097)</u>
				<u>17,354</u>	<u>23,867</u>	<u>1,534,234</u>	<u>2,084,814</u>



5.1 PSEDF Debt - 1st Facility

Lender	National Bank of Pakistan (NBP)
Outstanding amount :	USD 22,751,031
Repayable currency	Pak Rupee to be calculated based on exchange rate of USD prevailing on the date of repayment of the loan.
Repayment terms	Repayable in 13 equal semi-annual installments effective from 25 April 2008.
Rate of interest per annum	Greater of one year US Treasury + 4% or World Bank lending rate + 3.5%.
Security	(a) First registered mortgage charge on the Company's assets but on a subordinated basis to the Senior Loans. (b) Pledge over 36,012,702 sponsors' shares for the term of the loan.

5.2 PSEDF Debt - 2nd Facility

Lender	National Bank of Pakistan
Outstanding amount :	USD 4,846,374
Repayable currency	Pak Rupee to be calculated based on exchange rate of USD prevailing on the date of repayment of the loan.
Repayment terms	Repayable in 13 equal semi-annual installments effective from 25 April 2008.
Rate of interest per annum	Greater of one year US Treasury + 4% or World Bank lending rate + 3.5%.
Security	Same as mentioned in note 5.1(a) and 5.1 (b) above.

5.3 PSEDF Debt - 3rd Facility

Lender	National Bank of Pakistan
Outstanding amount :	USD 10,614,078
Repayable currency	Pak Rupee to be calculated based on exchange rate of USD prevailing on the date of repayment of the loan.
Repayment terms	Repayable in 13 equal semi-annual installments effective from 25 April 2008.
Rate of interest per annum	Greater of one year US Treasury + 4% or World Bank lending rate + 3.5%.
Security	Same as mentioned in note 5.1(a) and 5.1 (b) above.

5.4 The Company has defaulted in repayment of one to seven installments each of the restructured PSEDF 1st, 2nd and 3rd facilities and received formal notices from NBP of Event of Default of these installments. The Company intends to apply to NBP for a further rescheduling of the PSEDF facilities on the appropriate terms. An extension in the tenor of the loan shall also be required. The Company remains confident that the restructuring into PSEDF - 4th facility will be agreed to by NBP.

5.5 Though the Company has defaulted in repayment of the 1st, 2nd and 3rd PSEDF facilities, NBP has not called upon the Company to pay-off the entire outstanding loan amounts immediately nor have they exercised their stepping-in rights under the Finance Documents.



5.6 ANZ Bank, Paris, France - 2nd Facility

This represents the facility created by payment of five installments to ANZ Bank, France by COFACE. The liability of the Company stands towards the Government of Pakistan through its Economic Affairs Division (EAD). The Company has held discussions and exchanged correspondence with EAD to finalize the terms and conditions relating to the repayment of this facility. Until the repayment terms are finalized, interest is being accrued on this debt at six months' LIBOR + 0.6% per annum as approved by Private Power and Infrastructure Board (PPIB), Government of Pakistan at the time of financial restructuring of the Company. No payment of principal loan amount is being made by the Company.

5.7 United Bank Limited

Lender	United Bank Limited ("UBL")
Outstanding amount:	Pak Rupees 134,780,615
Repayment terms	This facility was created by conversion of the existing short-term working capital facility of Rs. 144.781 million by UBL into a medium-term demand finance facility in 2009. In 2010, the Company repaid first two installments of principal of Rs. 5 million each, and defaulted in repayment of the third installment of principal amounting to Rs.15 million that fell due on 17 May 2010. During the current year, upon Company's request, UBL has further rescheduled the remaining amount of Rs. 134.781 million to be repaid in seven stepped-up quarterly installments starting 17 May 2011. However, due to cash flow constraints, the Company has not been able to pay principal portion of the first installment that fell due on 17 May 2011.
Rate of interest	1 month KIBOR plus 1% per annum (KIBOR rate to be re-set on 1st of each month)
Security	This borrowing is secured by way of first charge of Rs. 182 million on current assets and a first registered mortgage charge on the Company's assets ranking pari passu with other similar charge holders.

5.8 Faysal Bank Limited

Lender	Faysal Bank Limited ("FBL")
Outstanding amount:	Pak Rupees 150,000,000
Repayment terms	This facility was created by conversion of the existing short-term working capital facility of Rs. 150 million by FBL into a medium-term demand finance facility in 2009, with repayment in twelve equal monthly installments commencing from 01 April 2010. However, due to the cash flow constraints the Company has not been able to make any principal repayment to FBL under this facility. During the current year, the facility has been cancelled and merged with working capital facility of Royal Bank of Scotland after its acquisition by Faysal Bank Limited. - Also refer note 12.2
Rate of interest	3 months KIBOR plus 3.5 % per annum (KIBOR to be re-set on 1st of each quarter)
Security	This borrowing was secured by way of first charge of Rs. 215 million on current assets and a first registered mortgage charge on the Company's assets ranking pari passu with other similar charge holders.



5.9 The Company is also in breach of certain financial covenants of the loan agreements (including amendment agreement). Due to default in repayments of loans and breach of certain financial covenants, the lenders have the right to demand accelerated payments from the Company.

6	DEFERRED LIABILITY	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Staff retirement benefit - gratuity	6.1	<u>23,131</u>	<u>27,875</u>
6.1	Staff retirement benefit - gratuity			
(a)	Reconciliation of payable to defined benefit plan			
	Present value of defined benefit obligation		25,310	32,941
	Unrecognized actuarial losses		<u>(2,179)</u>	<u>(5,066)</u>
			<u>23,131</u>	<u>27,875</u>
(b)	Movement in the present value of defined benefit obligation is as follows:			
	Present value of defined benefit obligation at beginning of the year		32,941	26,551
	Current service cost		4,762	5,458
	Interest cost		3,430	3,452
	Benefit paid		<u>(13,113)</u>	<u>(2,520)</u>
	Actuarial gain on obligation		<u>(2,710)</u>	-
	Present value of defined benefit obligation at end of the year		<u>25,310</u>	<u>32,941</u>
(c)	Movement in net liability recognized			
	Opening net liability		27,875	21,244
	Expense for the year		8,369	9,151
	Benefit paid during the year		<u>(13,113)</u>	<u>(2,520)</u>
	Closing net liability		<u>23,131</u>	<u>27,875</u>
(d)	Expense recognized in profit and loss account is as follows:			
	Current service cost		4,762	5,458
	Interest cost		3,430	3,452
	Actuarial losses recognized		177	241
			<u>8,369</u>	<u>9,151</u>
(e)	Expense is recognized in the following line items in profit and loss account:			
	Cost of sales	24.2	2,938	5,566
	Administrative expenses	25.1	5,431	3,585
			<u>8,369</u>	<u>9,151</u>
(f)	Key actuarial assumptions		2011	2010
	Discount rate		14.00%	13.00%
	Salary increase rate		14.00%	13.00%
	Mortality rate		EFU 61-66	EFU 61-66



(g) Comparison of present values of defined benefit obligation for five years is as follows:

	2011	2010	2009	2008	2007
	(Rupees '000)				
Present value of defined benefit obligation	25,310	32,941	26,551	28,515	22,636

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011 (Rupees '000)			2010 (Rupees '000)		
	Minimum lease payments	Finance cost allocated to future periods	Principal outstanding	Minimum lease payments	Finance cost allocated to future periods	Principal outstanding
Not later than one year	112,160	49,487	62,673	195,298	74,846	120,452
Later than one year but not later than five years	395,776	132,056	263,720	309,540	63,033	246,507
	<u>507,936</u>	<u>181,543</u>	<u>326,393</u>	<u>504,838</u>	<u>137,879</u>	<u>366,959</u>

7.1 Rentals are payable in equal monthly installments (quarterly for the lease of sixth engine). The Company has a right to exercise purchase option at the end of the lease term. Implicit rate of 16.42% to 18% per annum (2010: 16.56% to 18.81% per annum) has been used as a discounting factor.

7.2 During the year, the fourth installment of the rescheduled syndicated lease for the sixth engine amounting to Rs. 38.731 million (principal and interest) that fell due on 26 April 2010 was paid by the Company on 16 September 2010. The Company has defaulted and applied to the syndicate for a further rescheduling of remaining lease installments that fell due on 26 July 2010, 26 October 2010 and 26 January 2011 respectively with an extension in tenor of two years. The Company has received the draft third supplemental lease agreement from the syndicate and has paid its installment under the draft agreement amounting to Rs. 27.085 million that fell due on 26 April 2011. Overdue amount of principal in respect of lease liability of 6th engine as on 30 June 2011 is Rs. 323.769 million (2010: Rs. 360.159 million).

8. TRADE AND OTHER PAYABLES

	Note	2011 (Rupees '000)	2010 (Rupees '000)
Creditors		22,045	17,122
Accrued liabilities		9,325	17,151
Unclaimed dividend		3,557	3,574
Other payables		-	14,076
		<u>34,927</u>	<u>51,923</u>

9. LIQUIDATED DAMAGES PAYABLE

Pertaining to closure period	26	2,597,825	-
Others	9.1	1,290,167	805,309
		<u>3,887,992</u>	<u>805,309</u>

9.1 These liquidated damages (LDs) have been levied by WAPDA under the Power Purchase Agreement and disputed by the Company on various legal and technical grounds. The major reason of dispute is staggered fuel advance payments from WAPDA forcing the Company to operate the Plant at partial load that results in incurrance of exorbitant LDs. As per past practice, the Company intends to initiate a reconciliation exercise and expects to agree an installment plan with WAPDA to pay the reconciled and agreed portion of these LDs.



10 ADVANCE FROM CUSTOMER - UNSECURED

	Note	2011 (Rupees '000)	2010 (Rupees '000)
Advance against fuel purchase		1,154,488	991,596
Advance against CPP		-	400,000
	10.1	<u>1,154,488</u>	<u>1,391,596</u>

10.1 This unsecured advances from WAPDA carries markup ranging from 16.5% to 18% per annum (2010: 16.5% to 17% per annum).

11. ACCRUED MARKUP

	Note	2011 (Rupees '000)	2010 (Rupees '000)
Markup on long term financing - secured	11.1	1,774,791	1,300,989
Markup on short term borrowings - secured	11.2	50,758	70,851
Markup on liabilities against assets subject to finance lease	11.3	73,728	54,927
Markup on advance from customer - unsecured		2,452	7,003
		<u>1,901,729</u>	<u>1,433,770</u>

11.1 This includes overdue mark-up amounting to Rs. 1,664.398 million (2010: Rs. 1,187.180 million) equivalent to USD 19.353 million (2010: USD 13.869 million).

11.2 This includes overdue mark-up amounting to Rs. 9.4 million (2010: nil) which was paid by the Company in July 2011.

11.3 This includes Rs. 65.06 million (2010: Rs. 44.637 million) which represents overdue markup of lease syndicate for which the Company has received the draft third supplemental lease agreement from the syndicate and has paid 1st installment under the draft agreement on 26 April 2011. After execution of the third supplemental agreement, overdue markup shall be spread over remaining lease installments under the agreement on equivalent basis commencing April 2012 till end of the lease term.

12. SHORT TERM BORROWINGS - SECURED

	Note	Expiry dates of facilities	Sanctioned Limit		Outstanding Balance	
			2011	2010	2011	2010
<i>Running finance facilities from banking companies:</i>			(Rupees '000)			
Faysal Bank Limited	12.2	27 June 2012	260,000	110,000	258,619	108,619
Askari Bank Limited	12.3	Expired	325,000	325,000	324,857	324,857
National Bank of Pakistan		30 September 2011	250,000	250,000	249,988	249,966
Silkbank Limited		30 September 2011	145,000	145,000	144,997	144,997
<i>Term finance facility from financial institution:</i>						
Saudi Pak Industrial and Agricultural Investment Company Limited		16 November 2011	110,000	110,000	110,000	110,000
			<u>1,090,000</u>	<u>940,000</u>	<u>1,088,461</u>	<u>938,439</u>



- 12.1** The above borrowings are secured by way of first charge of Rs. 1,547 million (2010: Rs. 1,332 million), second charge of USD 2.5 million (2010: USD 2.5 million) 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 note 5 above. These carry mark-up ranging between 14.41% to 17.56% per annum (2010: 14.83% to 17.45% per annum.).
- 12.2** After acquisition of Royal Bank of Scotland (RBS) by Faysal Bank Limited (FBL), Faysal Bank Limited cancelled its medium term demand finance facility amounting to Rs. 150 million and merged it with the existing working capital facility availed by the Company from RBS amounting to Rs. 110 million (2010: Rs. 110 million) - Also refer note 5.8.
- 12.3** Short term borrowing from Askari Bank Limited expired as of the balance sheet date and management is in the process of getting renewal of the facility.

13	PROVISION FOR TAXATION - NET	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Opening balance		59,869	-
	Transferred from advance tax - net	21	-	(9,033)
	Income tax paid during the year		(67,390)	(98)
	Provision for tax - prior years	29	4,316	69,000
			<u>(3,205)</u>	<u>59,869</u>
	Transferred to advance tax - net	21	3,205	-
	Closing balance		<u>-</u>	<u>59,869</u>

14 CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

There were no contingencies of the Company as on the balance sheet date. For contingencies related to tax matters - refer note 29.3 (c).

14.2 Commitments

Letter of credit other than capital expenditure of Euros 686,335.89 (2010: Euros 106,505.61) equivalent to Rs. 85.654 million (2010: Rs. 11.138 million).

14.3 Significant contracts as at balance sheet date

(a) Implementation Agreement

The Company has entered into an Implementation Agreement ("IA") dated 23 November 1994 with the Government of Pakistan (GoP), pursuant to which the GoP guaranteed implementation, execution and operation of the Company's project for the term of 22 years extended to 30 years through amendment dated 11 March 2002.

(b) Power Purchase Agreement

Under the Power Purchase Agreement (PPA) signed on 17 November 1994, the total electricity produced will be sold to WAPDA. The Company has obtained a guarantee from the GoP, guaranteeing payment obligations of WAPDA for the term of 22 years extended to 30 years through amendment dated 14 February 2002 under the IA.

(c) Fuel Supply Agreement

The Company has entered into a Fuel Supply Agreement dated 24 October 1995 with Pakistan State Oil Company Limited (PSO) to supply furnace oil to the Company for the term of 22 years extended to 30 years through amendment dated 12 December 2001. Obligation of PSO has also been guaranteed by GoP under the IA.



15 PROPERTY, PLANT AND EQUIPMENT

	OWNED										LEASED				
	Freehold land	Office building on freehold land	Plant building on freehold land	Plant, machinery and equipment	Rail sidings	Leasehold improvement	Electric equipment	Computers and Office equipment	Furniture and fittings	Vehicles	Sub-Total	Vehicles and equipment-Sixth engine	Plant, machinery and equipment-	Sub-Total	Grand Total
Rupees '000															
Cost															
Balance as at 01 July 2009	32,504	20,684	1,664,155	7,313,833	38,332	7,255	16,571	9,820	9,105	9,001	7,027	9,128,287	21,670	688,616	9,838,573
Additions during the year	-	-	-	-	-	-	99	193	-	11	1,501	1,804	3,966	-	3,966
Exchange loss	-	-	36,839	164,906	-	-	-	-	-	-	-	201,745	-	-	201,745
Transfers	-	-	-	-	-	-	-	-	-	-	9,000	9,000	(9,000)	-	(9,000)
Disposals	-	-	-	-	-	-	-	(330)	-	-	(11,699)	(12,029)	-	-	(12,029)
Balance as at 30 June 2010	32,504	20,684	1,700,994	7,478,739	38,332	7,255	16,670	9,683	9,105	9,012	5,829	9,328,807	16,636	688,616	10,034,059
Balance as at 01 July 2010	32,504	20,684	1,700,994	7,478,739	38,332	7,255	16,670	9,683	9,105	9,012	5,829	9,328,807	16,636	688,616	10,034,059
Additions during the year	-	-	-	-	-	-	87	245	-	30	7,132	7,494	-	-	7,494
Exchange loss	-	-	3,427	15,340	-	-	-	-	-	-	-	18,767	-	-	18,767
Transfers	-	-	-	-	-	-	-	-	-	-	8,795	8,795	(8,795)	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	(10,335)	(10,335)	-	-	(10,335)
Balance as at 30 June 2011	32,504	20,684	1,704,421	7,490,079	38,332	7,255	16,757	9,928	9,105	9,042	11,421	9,353,528	7,841	688,616	10,049,985
Depreciation															
Balance as at 01 July 2009	-	12,957	434,064	1,928,658	12,724	7,255	15,879	9,163	7,445	8,491	6,801	2,443,437	15,414	52,040	2,510,891
Depreciation for the year	-	1,885	54,337	237,697	1,276	-	273	296	704	248	524	297,240	2,335	28,386	327,961
Transfers	-	-	-	-	-	-	-	-	-	-	7,800	7,800	(7,800)	-	-
Disposals	-	-	-	-	-	-	-	(330)	-	-	(10,499)	(10,829)	-	-	(10,829)
Balance as at 30 June 2010	-	14,842	488,401	2,166,355	14,000	7,255	16,152	9,129	8,149	8,739	4,626	2,737,648	9,949	80,426	2,828,023
Balance as at 01 July 2010	-	14,842	488,401	2,166,355	14,000	7,255	16,152	9,129	8,149	8,739	4,626	2,737,648	9,949	80,426	2,828,023
Depreciation for the year	-	1,521	54,936	240,371	1,276	-	213	281	540	169	646	299,953	2,061	28,386	330,400
Transfers	-	-	-	-	-	-	-	-	-	-	7,566	7,566	(7,566)	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	(7,592)	(7,592)	-	-	(7,592)
Balance as at 30 June 2011	-	16,363	543,337	2,406,726	15,276	7,255	16,365	9,410	8,689	8,908	5,246	3,037,575	4,444	108,812	3,150,831
Carrying amounts - 2010	32,504	5,842	1,212,593	5,312,384	24,332	-	518	554	956	273	1,203	6,591,159	6,687	608,190	7,206,036
Carrying amounts - 2011	32,504	4,321	1,161,084	5,087,353	23,056	-	392	518	416	134	6,175	6,315,953	3,397	579,804	6,899,154
Rates of depreciation per annum	10%	3.33%	3.33%	3.33%	3.33%	10%	20%	20%	20%	10%	20%	20%	20%	4.76%	5.56%

15.1 Exchange loss

Exchange loss included in the carrying amount of assets at the year end amounts to Rs. 1,681 million (2010: Rs. 1,742 million).

15.2 Depreciation charge for the year has been allocated as follows:

	Note	2011 (Rupees '000)	2010 (Rupees '000)
Cost of sales	24	324,969	321,697
Administration expenses	25	5,431	6,264
		<u>330,400</u>	<u>327,961</u>

15.3 Detail of property, plant and equipment disposed off during the year

Assets description	Cost	Book value	Sale Proceeds	Gain/loss	Sold To	Mode of Sale
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)		
Honda City	1,321	925	1,295	370	Khawar Fayyaz	By negotiation
Mercedes Car	5,350	-	1,293	1,293	Amjad Awan	Company policy
Toyota Corolla 2.0 D	1,279	192	196	4	Amjad Awan	Company policy
Honda City	845	112	112	-	Amjad Awan	Company policy
Toyota Corolla GLI	1,540	1,514	1,534	20	Noorul Amin	By negotiation
30 June 2011	10,335	2,743	4,430	1,687	Also refer note 28	
30 June 2010	12,029	1,200	5,188	3,988	Also refer note 28	

16 STORES, SPARE PARTS AND LOOSE TOOLS

	Note	2011 (Rupees '000)	2010 (Rupees '000)
Stores		166,507	185,158
Spare parts and loose tools		37,006	37,993
		<u>203,513</u>	<u>223,151</u>

17 STOCK IN TRADE

Heavy furnace oil ("HFO")		197,951	282,543
High speed diesel ("HSD")		10,241	9,130
Lubricants		17,533	12,508
	24.1	<u>225,725</u>	<u>304,181</u>

18 TRADE DEBTS - SECURED

Capacity Purchase Price receivable - considered good		2,351,916	2,454,205
Interest on Capacity Purchase Price receivable - considered good		4,669	427,703
Interest on Capacity Purchase Price receivable - considered doubtful	18.1	425,088	-
		<u>2,781,673</u>	<u>2,881,908</u>
Less: Provision for interest on Capacity Purchase Price receivable	25	(425,088)	-
	18.2	<u>2,356,585</u>	<u>2,881,908</u>
Energy Purchase Price receivable - considered good		478,009	583,643
	18.3	<u>2,834,594</u>	<u>3,465,551</u>

18.1 This represents interest amount calculated at the rates ranging from 14.5% to 16% per annum (2010: 14.5% to 16% per annum) on delayed Capacity Purchase Price (CPP) payments by WAPDA as admissible under article 9.7 (e) of the Power Purchase Agreement (PPA).

18.2 This includes overdue CPP receivable from WAPDA amounting to Rs. 2,260.221 million (2010: Rs. 2,260.221 million) pertaining to the period from 01 June 2008 till 31 December 2009 ("the closure period"). The recoverability of this amount is associated with eventual outcome of settlement of the Company's dispute with WAPDA (also refer note 26).

18.3 These are secured by way of guarantee issued by the Government of Pakistan under the Implementation Agreement (IA).



19	ADVANCES	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Advances to employees against expenses		312	204
	Advances to staff	19.1	11,595	10,448
	Advance to supplier for the purchase of fuel		194,857	112,245
	Advances to other suppliers		42,577	11,695
	<i>Advances - considered good</i>		<u>249,341</u>	<u>134,592</u>
	<i>Advances - considered doubtful</i>		<u>13,016</u>	<u>3,011</u>
			<u>262,357</u>	<u>137,603</u>
	Less: Provision for doubtful advances		<u>(13,016)</u>	<u>(3,011)</u>
			<u>249,341</u>	<u>134,592</u>
19.1	Included in advances to staff are amounts due from executives aggregating to Rs. 8.54 million (2010: Rs. 7.38 million).			
20	TRADE DEPOSITS, SHORT TERM PREPAYMENTS AND BALANCE WITH STATUTORY AUTHORITY	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Security deposits		1,756	2,471
	Margin against letters of credit		93,406	17,547
	Short term prepayments		21,251	20,836
	Sales tax receivable		190,801	215,241
	Less: Provision for doubtful sales tax receivable		(126,923)	(171,703)
			<u>63,878</u>	<u>43,538</u>
			<u>180,291</u>	<u>84,392</u>
21	ADVANCE INCOME TAX - net			
	Advance tax as on 01 July		-	9,033
	Transferred from / (to) provision for taxation - net	13	3,205	(9,033)
	Advance tax adjusted against WWF		(754)	-
	Advance tax as at 30 June		<u>2,451</u>	<u>-</u>
22	CASH AND BANK BALANCES			
	Cash at banks in-			
	- Current accounts:			
	Foreign currency	22.1	250	248
	Local currency		117,864	37,905
	- Saving accounts:		118,114	38,153
	Local currency	22.2	32,232	1,550
			<u>150,346</u>	<u>39,703</u>
	Cash in hand		329	121
			<u>150,675</u>	<u>39,824</u>
22.1	This includes compensation accounts aggregating USD 1,264 equivalent Rs. 108,451 (2010: USD 1,264 equivalent Rs. 108,198) and insurance proceeds account USD 1,645 equivalent Rs. 141,141 (2010: USD 1,645 equivalent Rs. 140,812) with United National Bank London which are escrow accounts.			
22.2	These carry mark-up at the rate of 4% to 5% per annum (2010: 4% to 4.5% per annum).			
23	TURNOVER - NET	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Capacity billing	23.1	1,416,181	1,863,290
	Gross energy billing		6,041,460	4,615,689
	Less: sales tax		(877,819)	(636,647)
			<u>5,163,641</u>	<u>3,979,042</u>
			<u>6,579,822</u>	<u>5,842,332</u>



23.1 The Company has not recognized interest on withheld amounts of CPP pertaining to closure period in these financial statements that amounts to Rs. 353.001 million for the year.

24	COST OF SALES		2011 (Rupees '000)	2010 (Rupees '000)
	Raw materials consumed	24.1	5,291,990	3,982,199
	Salaries, wages and other benefits	24.2	54,843	43,858
	Insurance		41,682	36,285
	Electricity charges		4,951	10,209
	Stores and spare parts consumed		193,350	104,082
	Liquidated Damages		484,858	164,200
	Depreciation	15.2	324,969	321,697
	Vehicle running expenses		7,068	2,433
	Communication charges		1,731	1,286
	Repairs and maintenance		13,101	17,285
	Staff welfare		4,536	2,921
	Operations and maintenance		625	-
	Traveling and conveyance		252	2,908
	Printing and stationery		444	323
	Others		1,544	2,285
			<u>6,425,944</u>	<u>4,691,971</u>

24.1 **Raw materials consumed**

	(Rupees '000)				
	HFO	HSD	Lubricants	2011 Total	2010 Total
Opening balance - also refer note 17	282,543	9,130	12,508	304,181	79,279
Add: Purchases	5,037,750	41,234	134,550	5,213,534	4,207,101
Available for consumption	5,320,293	50,364	147,058	5,517,715	4,286,380
Less: Closing balance - also refer note 17	197,951	10,241	17,533	225,725	304,181
Consumption during the year 2011	5,122,342	40,123	129,525	5,291,990	-
Consumption during the year 2010	3,875,769	28,814	77,616	-	3,982,199

24.2 These include Rs. 2.938 million (2010: Rs. 5.566 million) charged in respect of staff retirement benefits.

25	ADMINISTRATIVE EXPENSES	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Salaries, wages and benefits	25.1	35,726	30,799
	Depreciation	15.2	5,431	6,264
	Traveling and conveyance		1,569	1,129
	Rent, rates and taxes		2,460	3,588
	Vehicle running expenses		3,570	3,247
	Guest house expenses		4,417	3,784
	Insurance		657	678
	Legal consultancy fee and related expenses		2,267	1,285
	Communication costs		1,054	1,129
	Provision for doubtful advances to other suppliers		10,005	-
	Provision for doubtful interest on Capacity Purchase Price receivable	18	425,088	-
	Auditors' remuneration	25.2	1,666	1,113
	Utilities		598	549
	Printing and stationery		872	640
	Repairs and maintenance		632	248
	Entertainment		794	410
	Others		2,921	1,155
			<u>499,727</u>	<u>56,018</u>



25.1 These include Rs. 5.431 million (2010: Rs. 3.585 million) charged in respect of staff retirement benefits.

25.2	Auditors' remuneration	2011 (Rupees '000)	2010 (Rupees '000)
	Annual audit	700	600
	Six monthly review	300	300
	Tax services	515	120
	Other certifications	25	25
	Out of pocket expenses	126	68
		<u>1,666</u>	<u>1,113</u>

26 LIQUIDATED DAMAGES

These Liquidated Damages (LDs) have been levied by WAPDA under the Power Purchase Agreement (PPA) and pertain to the period from 15 February 2008 to 31 December 2009 (closure period) during which the plant remained substantially non-operational due to lack of working capital facility and suspension of fuel advance facility from WAPDA. The Company has disputed these LDs on valid legal and technical grounds. Discharge of this liability is associated with eventual outcome of settlement of the Company's dispute with WAPDA including recoverability of CPP payments for the closure period. After deliberated efforts and meetings with WAPDA, the Company has forwarded a draft third settlement agreement for an out of court settlement of disputed matters including closure period LDs which have been provided for in these financial statements. Management expects an amicable resolution of all disputes with WAPDA (also refer notes 9 and 18.2).

27	FINANCE COST	Note	2011 (Rupees '000)	2010 (Rupees '000)
	Mark-up on long term financing - secured		569,187	539,507
	Mark-up on short term borrowings - secured		170,676	147,990
	Mark-up on advance from customer - unsecured		242,107	171,257
	Exchange loss		8,474	55,946
	Commitment charges, management and agency fee		6,561	5,744
	Fee and expenses of trustee		1,936	4,657
	Mark-up on finance lease		49,111	62,080
	Letter of credit charges		237	391
	Bank charges		144	312
			<u>1,048,433</u>	<u>987,884</u>

28 OTHER OPERATING INCOME

From financial assets

Interest income		168	179
		<u>168</u>	<u>179</u>

From other than financial assets

Gain on disposal of property, plant and equipment	15.3	1,687	3,988
Reversal of sales tax provision		44,781	-
Income on sale and leaseback transaction		-	67
Gain on sale of scrap		12,324	10,953
Old liabilities written back		15,086	-
Others		245	36
		<u>74,123</u>	<u>15,044</u>
		<u>74,291</u>	<u>15,223</u>

29 TAXATION

29.1 Provision for taxation - prior year

The tax authorities have charged default surcharge amounting to Rs. 4.3 million for late payment of tax for the Assessment Year 1996-97 which was due but paid after the due date during the year. Provision of the whole amount has now been accounted for in the financial statements.

29.2 No numeric tax reconciliation is given as the Company's income derived from electric power generation is exempt from tax under clause (132) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 as stated in note 3.1 (a).



29.3 Tax matters and status

- (a) Tax assessments of the Company up to and including the Assessment Year 2002-2003 (year ended 30 June 2002) stand finalized under section 62 of the repealed Income Tax Ordinance 1979.
- (b) Assessments for the Tax Years 2003 to 2010 (years ended 30 June 2003 to 2010) were finalized under provisions of the Income Tax Ordinance 2001 [the Ordinance]. The main issue of setting off interest income against business losses has been decided in Company's favour at the level of Income Tax Appellate Tribunal upto the Tax Year 2004. The departmental reference filed before the Honorable High Court for the Assessment Years 1996-1997 to 2000-2001 on this issue is pending adjudication to date whereas the departmental reference for the Assessment Years 2001-2002 and 2002-2003 was rejected by the Honourable High Court being barred by time. Being aggrieved the department has filed review application with the Honorable Supreme Court of Pakistan, which is pending adjudication to date.
- (c) For Tax Years 2005 to 2010, the Company's assessments were amended by raising a tax demand of Rs. 159 million on the issue of depreciation claim on the premise that the fixed assets are not depreciable as these are employed in deriving exempt income and taxability of income from other source (mainly comprising of interest income on delayed payments from WAPDA). Against these decisions, the Company has filed appeals with Commissioner Inland Revenue (Appeals) [CIR (A)] which are pending adjudication till to date. Considering the favorable decisions of superior courts on these issues, the management is hopeful of a favorable outcome of the appeal and accordingly no provision for tax has been provided in these financial statements.
- (d) For the Assessment Year 1996-1997, the tax authorities raised tax demand of Rs. 69 million, inclusive of additional tax of Rs. 47 million, by treating the Company as assessee in default for not deducting tax on various payments made to its vendors. Certain relief was allowed by the CIR (A) as a result of which the tax demand is reduced to approximately Rs. 40 million. The Company has preferred appeal against the appellate order with the Appellate Tribunal Inland Revenue on the issues decided against the Company, which is pending adjudication till to date. Provision on the whole amount stands accounted for in the last year financial statements of the Company.

30 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Chief Executive Executives		Chief Executive Executives	
	2011		2010	
	Rupees '000		Rupees '000	
Managerial remuneration and allowances	12,389	14,722	10,927	15,462
Staff retirement benefits	3,131	3,074	781	1,295
Others	-	1,055	-	1,055
	<u>15,520</u>	<u>18,851</u>	<u>11,708</u>	<u>17,812</u>
Number of persons	1	9	1	8

- In addition, the Chief Executive, an Executive Director and all executives were provided with Company maintained cars for business purposes.
- Directors of the Company were not paid any remuneration during the year except for an Executive Director who was paid remuneration of Rs. 3.138 million and Rs. 1.848 million were accrued as his retirement benefits for his services as Company Secretary and Director Legal.

31 RELATED PARTY TRANSACTIONS

Related parties comprise of entities over which the directors are able to exercise significant influence, entities with common directors, major shareholders, directors and key management employees. Transactions with key management personnel are as follows:

	2011 (Rupees '000)	2010 (Rupees '000)
Remuneration of key management personnel	<u>28,096</u>	<u>22,055</u>



32 FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. The primary activity of the Company is power generation and sale of total output to WAPDA as mentioned in note 14.3 (b). The Company is exposed to credit risk from its operations.

Exposure to credit risk

- (i) The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011 (Rupees '000)	2010 (Rupees '000)
Trade debts - Also refer note 18.2	2,834,594	3,465,551
Bank balances	150,346	39,703
Others	106,757	30,466
	<u>3,091,697</u>	<u>3,535,720</u>

Credit risk of the Company arises principally from the trade debts and bank balances.

- (ii) The maximum exposure to credit risk for trade debts, bank balances and others at the reporting date by geographic region was:

	2011 (Rupees '000)	2010 (Rupees '000)
Domestic	3,091,447	3,535,472
United Kingdom	250	248
	<u>3,091,697</u>	<u>3,535,720</u>



The Company's only customer is WAPDA. The credit risk on trade debts from WAPDA is managed by a guarantee from the Government of Pakistan (GoP) under the Implementation Agreement (IA) and by continuous follow-ups for release of payments from WAPDA. The bank accounts are maintained with reputable banks with good credit ratings. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade debts. When no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off by the Company.

(iii) **Aging analysis and impairment losses**

The aging of trade debts at the reporting date was.

	2011		2010	
	Gross Rs. (000)	Impairment Rs. (000)	Gross Rs. (000)	Impairment Rs. (000)
Not past due	481,721	-	1,011,347	-
Past due 0-30 days	91,695	-	127,617	-
Past due 31-120 days	-	-	66,366	-
Past due 121-365 days	957	-	918,429	-
Above 365 days	2,685,309	425,088	1,341,792	-
	<u>3,259,682</u>	<u>425,088</u>	<u>3,465,551</u>	<u>-</u>

The recoverability of amounts due over 365 or more is associated with eventual outcome of settlement of the Company's dispute with WAPDA (also refer note 18.2).

(b) **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	2011 Rs. (000)				
	Carrying amount	Contractual cashflows	Maturity upto one year	Maturity from one to two years	Maturity more than two years
Long term financing - secured	4,169,679	4,745,414	2,949,421	801,916	994,077
Finance lease liabilities	326,393	507,936	112,160	112,190	283,586
Short term borrowing	1,088,461	1,202,443	1,202,443	-	-
Accrued markup	1,901,729	1,901,729	1,901,729	-	-
Advance from customer - unsecured	1,154,488	1,169,881	1,169,881	-	-
Liquidated damages payable	3,887,992	3,887,992	3,887,992	-	-
Trade and other payables	34,927	34,927	34,927	-	-
	<u>12,563,669</u>	<u>13,450,322</u>	<u>11,258,553</u>	<u>914,106</u>	<u>1,277,663</u>

	2010 Rs. (000)				
	Carrying amount	Contractual cashflows	Maturity upto one year	Maturity from one to two years	Maturity more than two years
Long term financing - secured	4,300,911	5,117,684	2,470,949	904,747	1,741,988
Finance lease liabilities	366,959	504,838	195,298	155,233	154,307
Short term borrowing	938,439	1,018,245	1,018,245	-	-
Accrued markup	1,433,770	1,433,770	1,433,770	-	-
Advance from customer - unsecured	1,391,596	1,398,599	1,398,599	-	-
Liquidated damages payable	805,309	805,309	805,309	-	-
Trade and other payables	51,923	51,923	51,923	-	-
	<u>9,288,907</u>	<u>10,330,368</u>	<u>7,374,093</u>	<u>1,059,980</u>	<u>1,896,295</u>



The Company closely monitors its liquidity and cash flow position. The liquidity risk is managed by a continuous follow-up for collecting receivables and restoring the fuel advance facility from WAPDA. Due to the adverse operating conditions, the Company was unable to meet the repayment of loans and lease obligations to its lenders except for the two installments of the rescheduled syndicate lease facility for the sixth engine amounting to Rs. 38.731 million and 27.086 million respectively (also refer notes 1.2 and 7.2).

As disclosed in note 1.2, the Company's ability to continue as a going concern is substantially dependent on its ability to successfully manage the liquidity risk.

(c) **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) **Interest rate risk management**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on long term loans, short term borrowings and finance leases. The Company receives interest on overdue balances from WAPDA at variable rate provided under the PPA. The interest rate profile of the Company's interest-bearing financial instruments at the balance sheet date was as under:

	Interest rate		Carrying amounts	
	2011 %	2010 %	2011 Rs. (000)	2010 Rs. (000)
- Fixed rate instruments				
Financial assets	-	-	-	-
- Variable rate instruments				
<u>Financial assets</u>				
Trade debts	14.5 - 16	14.5 - 16	2,834,594	3,465,551
Bank balances	4 - 5	4 - 4.5	32,232	1,550
			<u>2,866,826</u>	<u>3,467,101</u>
<u>Financial liabilities</u>				
Long term loans	11.30	10.93	4,169,679	4,300,911
Liability against assets subject to finance lease	16.42 - 18.00	16.56 - 18.81	326,393	366,959
Advance from customer - unsecured	16.5 - 18.00	16.5 - 17.00	1,154,488	1,391,596
Short term borrowing	14.41 - 17.56	14.83 - 17.45	1,088,461	938,439
			<u>6,739,021</u>	<u>6,997,905</u>
			<u>9,605,847</u>	<u>10,465,006</u>

(ii) **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 and loss. Therefore a change in interest rates at the reporting date would not effect profit and loss account for the year.

(iii) **Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates would have increased or decreased unappropriated profit by Rs. 84.944 million (2010: Rs. 83.852 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The Company receives interest on overdue balances from WAPDA at variable rates in accordance with the PPA, however, due to insignificant portion of this amount in proportion to total debts, management believes that any change in the variable interest rate does not significantly affect profit and loss account for the year.

(iv) **Currency risk management**

PKR is the functional currency of the Company and exposure arises from transactions and balances in currencies other than PKR as foreign exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. The Company's potential currency exposure comprise:



- Transactional exposure in respect of non functional currency monetary items.
- Transactional exposure in respect of non functional currency expenditure and revenues.

The potential currency exposures are discussed below:

(v) **Transactional exposure in respect of non functional currency monetary items**

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit and loss account. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

(vi) **Transactional exposure in respect of non functional currency expenditure and revenues**

There is no transactional exposure in respect of non functional currency expenditure and revenues.

(vii) **Exposure to foreign currency risk**

The Company's exposure to foreign currency risk was as follows based on following amounts:

	2011 (000's)		
	USD	GBP	Euro
Advances and bank balances	13	-	8
Secured bank loans	(46,917)	-	-
Financial charges payable	(20,747)	(20)	-
Trade and other payables	-	(35)	(130)
Gross balance sheet exposure	(67,651)	(55)	(122)
	2010 (000's)		
	USD	GBP	Euro
Advances and bank balances	13	-	8
Secured bank loans	(46,917)	-	-
Financial charges payable	(15,143)	-	-
Trade and other payables	-	(1)	(90)
Gross balance sheet exposure	(62,047)	(1)	(82)

(viii) Following significant exchange rates were used:

	Balance sheet date rate		Average rate	
	2011 Rupees	2010 Rupees	2011 Rupees	2010 Rupees
United States Dollars ("USD")	86.00	85.60	85.84	84.35
Great Britain Pounds ("GBP")	138.54	128.96	136.21	131.12
Euros	124.80	104.58	119.17	115.10

(ix) **Sensitivity analysis**

A 10 percent weakening of the PKR against the foreign currencies at 30 June would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit and loss account	
	2011 (Rupees '000)	2010 (Rupees '000)
USD	(200,726)	(150,653)
GBP	281	-
Euros	(1,533)	860

A 10 percent strengthening of the PKR against the foreign currencies at 30 June would have had the equal but opposite effect on USD to the amounts shown above, on the basis that all other variables remain constant.



(d) **Fair values**

Fair value versus carrying amounts

All financial assets and financial liabilities are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortized cost, as indicated in the tables below. The financial assets and liabilities are presented by class in the tables below at their carrying values, which generally approximate to the fair values.

	Loans and receivables	Held at fair value through profit or loss	Other financial assets and liabilities at amortized cost	Total
2011 (Rupees '000)				
Financial assets				
Trade debts	2,834,594	-	-	2,834,594
Bank balances	150,346	-	-	150,346
Others	106,757	-	-	106,757
Total financial assets	3,091,697	-	-	3,091,697
Non financial assets				7,654,047
TOTAL ASSETS				10,745,744
Financial liabilities				
Long term financing - secured	-	-	4,169,679	4,169,679
Finance lease liabilities	-	-	326,393	326,393
Short term borrowings	-	-	1,088,461	1,088,461
Accrued markup	-	-	1,901,729	1,901,729
Liquidated damages payable	-	-	3,887,992	3,887,992
Trade and other payables	-	-	34,927	34,927
Advance from customer - unsecured	-	-	1,154,488	1,154,488
Total financial liabilities			12,563,669	12,563,669
Non financial liabilities				23,131
TOTAL LIABILITIES				12,586,800
2010 (Rupees '000)				
Financial assets				
Trade debts	3,465,551	-	-	3,465,551
Bank balances	39,703	-	-	39,703
Others	30,466	-	-	30,466
Total financial assets	3,535,720	-	-	3,535,720
Non financial assets				7,922,007
TOTAL ASSETS				11,457,727
Financial liabilities				
Long term financing - secured	-	-	4,300,911	4,300,911
Finance lease liabilities	-	-	366,959	366,959
Short term borrowings	-	-	938,439	938,439
Accrued markup	-	-	1,433,770	1,433,770
Liquidated damages payable	-	-	805,309	805,309
Trade and other payables	-	-	51,923	51,923
Advance from customer - unsecured	-	-	1,391,596	1,391,596
Total financial liabilities			9,288,907	9,288,907
Non financial liabilities				87,744
TOTAL LIABILITIES				9,376,651



(e) **Determination of fair values**

The basis for determining fair values is as follows:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Non - derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

33 **CAPITAL RISK MANAGEMENT**

The Company defines the capital that it manages as the Company's total equity. The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its business.

The Company is a non-recourse funded project and is not subject to externally imposed capital requirements. There were no changes in the Company's capital management policy during the year. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. However, the Company is subject to terms of certain financing agreements whereby dividend will be paid only after repayment of such loans.

34 **EXEMPTION FROM APPLICABILITY OF IFRIC 4 - "DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE"**

International Accounting Standards Board (IASB) has issued International Financial Reporting Interpretation Committee (IFRIC) - 4 "Determining whether an Arrangement contains a Lease", which became effective for financial periods beginning on or after 01 January 2006. Under IFRIC 4, the consideration required to be made by lessee for the right to use the asset is accounted for as finance lease under IAS 17 - "Leases". The Company's plant's control due to purchase of total output by WAPDA appears to fall under the scope of IFRIC 4.

On 22 June 2009, the Securities and Exchange Commission of Pakistan (SECP) exempted the application of IFRIC 4 for power sector companies where Letter of Intent (LoI) is issued by Government of Pakistan (GoP) on or before 30 June 2010. However, the SECP made it mandatory to disclose the impact on the results of the application of IFRIC 4. Had this interpretation been applied the effects on the results and equity of the Company would have been as follows:

	2011 (Rupees '000)	2010 (Rupees '000)
Increase in unappropriated profit as at 01 July	1,800,527	1,823,601
Increase in loss / decrease in profit for the year	(316,057)	(23,074)
Decrease in accumulated loss as at 30 June	<u>1,484,470</u>	<u>1,800,527</u>

35 **CAPACITY AND PRODUCTION**

	2011	2010
Original installed capacity - MW	135.9	135.9
Annual Dependable Capacity - MW	110.470	119.458
Actual energy delivered - MWh	465,562	393,242

Actual output produced by the plant is determined on the load demand and advance payments by WAPDA to PSO for supply of furnace oil to the Company. Annual Dependable Capacity (ADC) Test of the Complex was conducted on 09 March 2011 in which the Dependable Capacity of the plant was reduced to 110.470 MW (2010: 119.458 MW) - also refer note 1.2.



36	(LOSS) / EARNING PER SHARE - BASIC AND DILUTED	2011	2010
	Net (loss) / profit after taxation - Rupees (000)	<u>(3,922,132)</u>	<u>52,682</u>
	Weighted average number of shares outstanding during the year - Numbers	<u>136,675,752</u>	<u>136,675,752</u>
	(Loss) / earning per share - basic and diluted - Rupees	<u>(28.70)</u>	<u>0.39</u>

37 RECLASSIFICATION OF COMPARATIVE FIGURES

Comparative figures have been re-classified where necessary, to reflect more appropriate presentation of events and transactions and better comparison. The rearrangement / reclassification made during the year are as under:

Reclassification from	Reclassification to	Rupees '000
Other operating income	Turnover	300,375
Trade and other payables	Liquidated damages payable	805,309

Short term borrowings have been excluded from cash and cash equivalents.

38 GENERAL

Figures have been rounded off to the nearest thousand of Rupees.

39 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors in their meeting held on 30 September 2011.

Islamabad
30 September 2011

Chief Executive

Director



PATTERN OF SHAREHOLDING AS AT 30 JUNE 2011

No. of Shareholders	Shareholding		Number of Shares Held	Percentage %
	From	To		
283	1	100	15,145	0.01
407	101	500	150,191	0.11
717	501	1,000	560,051	0.41
1,282	1,001	5,000	3,754,521	2.75
613	5,001	10,000	4,914,486	3.60
255	10,001	15,000	3,223,480	2.36
155	15,001	20,000	2,830,447	2.07
144	20,001	25,000	3,348,880	2.45
68	25,001	30,000	1,916,385	1.40
54	30,001	35,000	1,790,070	1.31
42	35,001	40,000	1,603,208	1.17
24	40,001	45,000	1,042,918	0.76
65	45,001	50,000	3,192,124	2.34
22	50,001	55,000	1,167,598	0.85
27	55,001	60,000	1,582,455	1.16
14	60,001	65,000	880,408	0.64
13	65,001	70,000	891,286	0.65
12	70,001	75,000	882,866	0.65
10	75,001	80,000	783,672	0.57
9	80,001	85,000	748,533	0.55
9	85,001	90,000	801,673	0.59
7	90,001	95,000	653,427	0.48
36	95,001	100,000	3,588,224	2.63
6	100,001	105,000	621,495	0.45
9	105,001	110,000	981,056	0.72
4	110,001	115,000	451,933	0.33
9	115,001	120,000	1,064,020	0.78
8	120,001	125,000	991,965	0.73
4	125,001	130,000	512,259	0.37
3	130,001	135,000	398,474	0.29
4	135,001	140,000	555,555	0.41
1	140,001	145,000	144,048	0.11
7	145,001	150,000	1,048,000	0.77
5	150,001	155,000	766,866	0.56
3	155,001	160,000	475,750	0.35
3	160,001	165,000	488,053	0.36
2	165,001	170,000	335,132	0.25
2	175,001	180,000	355,056	0.26
1	180,001	185,000	183,000	0.13
5	195,001	200,000	995,200	0.73
4	200,001	205,000	806,211	0.59
4	205,001	210,000	827,032	0.61
3	210,001	215,000	642,300	0.47
2	215,001	220,000	435,050	0.32
5	220,001	225,000	1,118,428	0.82
3	225,001	230,000	685,284	0.50
2	235,001	240,000	476,000	0.35
2	245,001	250,000	495,697	0.36
1	260,001	265,000	260,187	0.19
2	270,001	275,000	545,500	0.40
2	285,001	290,000	576,902	0.42
1	295,001	300,000	300,000	0.22
2	310,001	315,000	622,590	0.46
2	335,001	340,000	673,495	0.49
1	345,001	350,000	350,000	0.26
1	365,001	370,000	365,714	0.27
3	395,001	400,000	1,200,000	0.88
2	415,001	420,000	832,498	0.61
2	455,001	460,000	916,292	0.67
2	495,001	500,000	1,000,000	0.73
1	500,001	505,000	504,231	0.37
1	515,001	520,000	516,293	0.38
1	520,001	525,000	525,000	0.38
1	550,001	555,000	550,998	0.40
1	595,001	600,000	600,000	0.44
1	660,001	665,000	661,000	0.48
1	665,001	670,000	670,000	0.49
1	680,001	685,000	680,340	0.50
1	790,001	795,000	794,000	0.58
2	800,001	805,000	1,606,900	1.18
1	1,065,001	1,070,000	1,070,000	0.78
1	1,495,001	1,500,000	1,500,000	1.10
1	2,225,001	2,230,000	2,228,010	1.63
1	3,620,001	3,625,000	3,622,900	2.65
1	5,055,001	5,060,000	5,058,749	3.70
1	5,795,001	5,800,000	5,800,000	4.24
1	6,285,001	6,290,000	6,289,895	4.60
1	40,175,001	40,180,000	40,178,346	29.40
4,369			136,675,752	100.00



CATEGORIES OF SHAREHOLDERS AS AT 30 JUNE 2011

Particulars	No. of Shareholders	Shares Held	Percentage %
Directors, Chief Executive Officer and their spouse and minor children			
Mr. Salman Rahim (Director)		550	
Mr. Shamsul Aziz (CEO)		550	
	2	<u>1,100</u>	0.00
Associated Companies, undertakings and Related Parties			
BCHIL- Southern Company Limited (Sponsor)		40,178,346	
Southern Electric Limited (Sponsor)		2,228,062	
	2	<u>42,406,408</u>	31.03
National Investment Trust and Investment Corporation of Pakistan			
		-	
Banks, Development Financial Institutions, Non Banking Financial Institutions			
Bank Alfalah Limited		6,289,895	
Habib Bank AG Zurich, Deira Dubai		794,000	
Allied Bank Limited		680,340	
Crescent Investment Bank Limited		47,772	
Escorts Investment Bank Limited		33,300	
Industrial Development Bank of Pakistan		11,171	
Saudi Pak Industrial and Agricultural Investment Company Limited		4,000	
	7	<u>7,860,478</u>	5.75
Insurance Companies			
The Crescent Star Insurance Company Limited		670,000	
State Life Insurance Corporation of Pakistan		504,231	
Pakistan Reinsurance Company Limited		13,963	
Habib Insurance Company Limited		550	
	4	<u>1,188,744</u>	0.87
Modarabas and Mutual Funds			
First UDL Modaraba		100,000	
First Alnoor Modaraba		64,866	
Prudential Stocks Fund Limited		14,366	
First Fidelity Leasing Modaraba		4,100	
	4	<u>183,332</u>	0.13
Shareholder(s) Holding Ten Percent or More Voting Interest			
BCHIL- Southern Company Limited (see above as sponsor)		-	
General Public			
A- Local	4289	73,113,765	
B- Foreigner	1	337,263	
		<u>73,451,028</u>	53.74



Particulars	No. of Shareholders	Shares Held	Percentage %
Others (To Be Specified)			
Joint Stock Companies			
Dawood Hercules Chemicals Limited		3,622,900	
Dawood Lawrencepur Limited		801,900	
Capital Vision Securities (Pvt.) Limited		395,591	
Dr. Arslan Razaque Securities (Smc-Pvt.) Limited		224,150	
First National Equities Limited		204,000	
Dada Enterprises (Pvt.) Limited		150,000	
CMA Securities (Pvt.) Limited		125,000	
First Capital Securities Corporation Limited		106,390	
Mohammad Munir Mohammad Ahmed Khanani Securities (Pvt.) Limited		70,000	
Ismail Abdul Shakoor Securities (Pvt.) Limited		64,850	
A.I. Securities (Pvt.) Limited		50,000	
Darson Securities (Pvt.) Limited		28,621	
Y.S. Securities & Services (Pvt.) Limited		28,326	
Fair Deal Securities (Pvt.) Limited		25,000	
Mohammad Salim Kasmani Securities (Pvt.) Limited		20,000	
B & B Securities (Pvt.) Limited		15,000	
Time Securities (Pvt.) Limited		12,900	
Bulk Management Pakistan (Pvt.) Limited		12,500	
Excel Securities (Pvt.) Limited		12,000	
Multiple Investment Management Limited		10,000	
Stock Street (Pvt.) Limited		10,000	
S.H. Bukhari Securities (Pvt.) Limited		9,900	
Imperial Investments (Pvt.) Limited		7,900	
Pearl Capital Management (Pvt.) Limited		7,836	
NH Securities (Pvt.) Limited		5,500	
Al-Haq Securities (Pvt.) Limited		5,500	
Mam Securities (Pvt.) Limited		5,000	
Sardar Mohammad Ashraf D Baluch (Pvt.) Limited		4,500	
Axis Global Limited		3,650	
Bandenawaz (Pvt.) Limited		3,000	
Highlink Capital (Pvt.) Limited		2,700	
Stock Master Securities (Pvt.) Limited		1,774	
H.S.Z. Securities (Pvt.) Limited		1,500	
Invest Capital Securities (Pvt.) Limited		1,100	
Fairtrade Capital Securities (Pvt.) Limited		1,050	
AWI Securities (Smc-Pvt.) Limited.		950	
Msmaniar Financials (Pvt.) Limited		734	
Vohrah Engineering (Pvt.) Limited		732	
Al-Mal Securities & Services Limited		550	
Prudential Securities Limited		482	
Oriental Securities (Pvt.) Limited		350	
Rafeh (Pvt.) Limited		300	
Millennium Securities & Invest. (Pvt.) Limited		300	
Adeel & Hasan Securities (Pvt.) Limited		250	
Jamshaid & Hasan Securities (Pvt.) Limited		200	
Freedom Enterprises (Pvt.) Limited		182	
M.R. Securities (Smc-Pvt.) Limited		150	
Southern Electric Limited (See Above as Sponsor)		-	
	47	6,055,218	4.43



Particulars	No. of Shareholders	Shares Held	Percentage %
Foreign Companies			
SEP Holdings Corporation		5,058,749	
RO Limited		169,400	
Brown Brothers Harriman & Co		115,750	
ASEA Brown Boveri Kraftwerke A .G.		27,904	
Citibank N.A. Hong Kong		5,500	
Somers Nominees (Far East) Limited		5,050	
Bankers Trust Co.		3,850	
HSBC International Trustee Limited		2,200	
The Northern Trust Company		1,100	
State Street Bank and Trust Company		275	
BCHIL- Southern Company Limited (as above)		-	
	10	5,389,778	3.94
Cooperative Societies, Charitable Trusts			
Managing Committee of Ahmed Garib Foundation		100,000	
The Okhai Memon Anjuman		14,666	
	2	114,666	0.08
Provident Fund Schemes			
1295 Trustee Avari Hotel Lahore Staff Provident Fund	1	25,000	0.02
Total Number of Shareholders and Paid up Capital	4,369	136,675,752	100.00

3,916 shareholders hold 93,283,326 Shares in the name of Central Depository Company of Pakistan Limited.



PROXY FORM

I/We
of (full address)
being a member(s) of **Southern Electric Power Company Limited** hold
Ordinary Shares hereby appoint Mr/Mrs/Miss
of (full address)
as my /our proxy to attend and vote for me/us and on my/our behalf at the 17th Annual General Meeting of the Company to be held on 31 October 2011 at 11:00 am and or any adjournment thereof.

Signed by
in the presence of following witnesses

Signed this day of.....2011

Registered Folio No./CDC A/C No.

Signature on
Five Rupee
Revenue
Stamp

(The signature should agree with the specimen registered with the Company)

WITNESS:

1.
Signature _____
Name _____
Address _____

CNIC or _____
Passport No. _____

2.
Signature _____
Name _____
Address _____

CNIC or _____
Passport No. _____

NOTE:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, No. 38, First Street, F-6/3, Islamabad not later than 48 hours before the time of holding the meeting.
2. It must be signed by the appointer or his/her attorney duly authorised in writing, or if the appointer is a body corporate, be under its seal or be signed by an officer or an attorney duly authorised by it.
3. If a member appoints more than one proxy and more than one instrument of proxy is deposited by a member with the Company, all such instruments of proxy shall be rendered invalid

For CDC Account Holders/Corporate Entities

In addition to the above the following requirements have to be met.

- 1) The proxy form shall be witnessed by two persons whose names, addresses and CNIC/Passport numbers shall be stated on the form.
- 2) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- 3) The proxy shall produce his/her original CNIC or original passport at the time of meeting.
- 4) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signatures shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

