

BALANCE SHEET

As at June 30, 2016

	Note	2016 (Rupees in thousand)	2015
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital 3,600,000,000 (2015: 3,600,000,000) ordinary shares of Rs 10 each		<u>36,000,000</u>	<u>36,000,000</u>
Issued, subscribed and paid up capital 880,253,228 (2015: 880,253,228) ordinary shares of Rs 10 each	5	8,802,532	8,802,532
Capital reserve	6	444,451	444,451
Unappropriated profit		21,708,105	20,481,626
		30,955,088	29,728,609
NON-CURRENT LIABILITIES			
Long term finances	7	386,195	926,402
Liabilities against assets subject to finance lease	8	47,982	58,561
Deferred liabilities	9	2,508,136	3,075,197
		2,942,313	4,060,160
CURRENT LIABILITIES			
Current portion of long term liabilities	10	569,057	567,241
Finances under mark-up arrangements - secured	11	41,346,145	32,871,918
Trade and other payables	12	16,397,140	29,034,166
		58,312,342	62,473,325
CONTINGENCIES AND COMMITMENTS			
	13		
		<u>92,209,743</u>	<u>96,262,094</u>

The annexed notes 1 to 42 form an integral part of these financial statements.



Aftab Mahmood Butt
(Chief Executive)



	Note	2016 (Rupees in thousand)	2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	12,632,019	14,038,572
Intangible assets	15	9,527	13,193
Assets subject to finance lease	16	53,140	79,146
Capital work-in-progress	17	29,226	726,221
Long term loans and deposits	18	31,859	36,385
		12,755,771	14,893,517
CURRENT ASSETS			
Stores and spares	19	4,361,205	4,481,508
Stock-in-trade	20	3,134,827	3,539,023
Trade debts	21	69,376,790	71,069,093
Loans, advances, deposits, prepayments and other receivables	22	1,983,500	1,603,641
Cash and bank balances	23	597,650	675,312
		79,453,972	81,368,577
		<u>92,209,743</u>	<u>96,262,094</u>


Anwar ul Haq
(Director)



PROFIT AND LOSS ACCOUNT

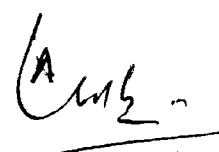
For the year ended June 30, 2016

	Note	2016 (Rupees in thousand)	2015
Sales	24	64,178,389	101,480,570
Cost of sales	25	<u>(50,770,461)</u>	<u>(86,334,572)</u>
Gross profit		13,407,928	15,145,998
Administrative expenses	26	(528,603)	(417,718)
Other operating expenses	27	(25)	(13,734)
Other income	28	<u>4,040,713</u>	<u>6,321,217</u>
Profit from operations		16,920,013	21,035,763
Finance cost	29	<u>(3,236,733)</u>	<u>(6,248,083)</u>
Profit before tax		13,683,280	14,787,680
Taxation	30	(4,612,229)	(4,988,971)
Profit for the year		<u>9,071,051</u>	<u>9,798,709</u>
Earnings per share	Rupees 38	<u>10.31</u>	<u>11.13</u>

The annexed notes 1 to 42 form an integral part of these financial statements.



Aftab Mahmood Butt
(Chief Executive)



Anwar ul Haq
(Director)



STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2016

	2016 (Rupees in thousand)	2015
Profit for the year	9,071,051	9,798,709
Items that will not be reclassified to profit or loss		
- Re-measurement of net defined benefit obligation - net of tax	77,707	(35,984)
Items that may be reclassified subsequently to profit or loss	-	-
Other comprehensive gain / (loss) for the year - net of tax	77,707	(35,984)
Total comprehensive income for the year	<u>9,148,758</u>	<u>9,762,725</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Anwar ul Haq
(Director)



CASH FLOW STATEMENT

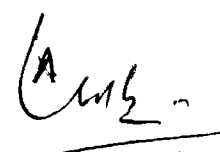
For the year ended June 30, 2016

	Note	2016 (Rupees in thousand)	2015
Cash flows from operating activities			
Cash generated from operations	36	9,597,369	24,487,028
Finance cost paid		(3,035,379)	(9,252,265)
Taxes paid		(6,179,704)	(4,917,654)
Staff retirement benefits paid		(251,297)	(342,228)
Net cash generated from operating activities		130,989	9,974,881
Cash flows from investing activities			
Fixed capital expenditure including intangible assets		(118,485)	(1,039,971)
Income on bank deposits received		22,816	23,870
Net decrease in long term loans and deposits		4,526	16,735
Proceeds from sale of property, plant and equipment		7,190	2,964
Net cash used in investing activities		(83,953)	(996,402)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(17,559)	(27,608)
Repayment of long term loan - unsecured		(540,207)	(540,207)
Repayment of long term loans - secured		-	(304,530)
Dividend paid		(8,041,159)	(6,579,057)
Net cash used in financing activities		(8,598,925)	(7,451,402)
Net (decrease) / increase in cash and cash equivalents		(8,551,889)	1,527,077
Cash and cash equivalents at beginning of the year		(32,196,606)	(33,723,683)
Cash and cash equivalents at the end of the year	37	(40,748,495)	(32,196,606)

The annexed notes 1 to 42 form an integral part of these financial statements.



Aftab Mahmood Butt
(Chief Executive)



Anwar ul Haq
(Director)

STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2016



	Share capital	Capital reserve	Un-appropriated profit	Total
	(Rupees in thousand)			
Balance as at June 30, 2014	8,802,532	444,451	17,540,864	26,787,847
Final dividend for the year ended June 30, 2014 - Rs 3.75 per share	-	-	(3,300,950)	(3,300,950)
Profit for the year	-	-	9,798,709	9,798,709
Other comprehensive loss:				
- Re-measurement of net defined benefit obligation - net of tax	-	-	(35,984)	(35,984)
Total comprehensive income for the year	-	-	9,762,725	9,762,725
Interim dividend for the year ended June 30, 2015 - Rs 4.00 per share	-	-	(3,521,013)	(3,521,013)
Balance as at June 30, 2015	8,802,532	444,451	20,481,626	29,728,609
Final dividend for the year ended June 30, 2015 - Rs 4.75 per share	-	-	(4,181,203)	(4,181,203)
Profit for the year	-	-	9,071,051	9,071,051
Other comprehensive gain:				
- Re-measurement of net defined benefit obligation - net of tax	-	-	77,707	77,707
Total comprehensive income for the year	-	-	9,148,758	9,148,758
Interim dividend for the year ended June 30, 2016 - Rs 4.25 per share	-	-	(3,741,076)	(3,741,076)
Balance as at June 30, 2016	8,802,532	444,451	21,708,105	30,955,088

The annexed notes 1 to 42 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Anwar ul Haq
(Director)



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

1. Legal status and nature of business

Kot Addu Power Company Limited ('the Company'), was incorporated in Pakistan on April 25, 1996 as a public limited company under the Companies Ordinance, 1984. The Company was listed on April 18, 2005 on the Karachi, Islamabad and Lahore Stock Exchanges (now merged as Pakistan Stock Exchange Limited). The principal activities of the Company are to own, operate and maintain a multi-fuel fired power station with fifteen generating units with a nameplate capacity of 1,600 MW in Kot Addu, District Muzaffargarh, Punjab, Pakistan and to sell the electricity produced therefrom to a single customer, the Pakistan Water and Power Development Authority (WAPDA) under a Power Purchase Agreement (PPA). This agreement is for a term of 25 years which commenced from June 1996.

2. Basis of preparation

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

2.2 Standards, amendments and interpretations to published approved accounting standards

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

2.2.1 Standards, amendments and interpretations to existing standards effective in current year and applicable / relevant to the Company's operations

Standards or Interpretation

There are no standards, amendments and interpretations to existing standards that are becoming effective in current year and applicable / relevant to the Company's operations.

2.2.2 Standards, amendments and interpretations to existing standards effective in current year but not applicable / relevant to the Company's operations

Standards or Interpretation

Effective date (annual periods beginning on or after)

IFRS 10, 'Consolidated financial statements'	January 1, 2015
IFRS 11, 'Joint arrangements'	January 1, 2015
IFRS 12, 'Disclosure of interests in other entities'	January 1, 2015
IFRS 13 (Amendment), 'Fair Value measurement' on scope of portfolio exception	January 1, 2015

2.2.3 Standards, amendments and interpretations to existing standards that are not yet effective but applicable / relevant to the Company's operations

- IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' is applicable for annual periods beginning on or after January 1, 2006, however, Securities and Exchange Commission of Pakistan (SECP) granted waiver from the application of IFRIC 4 to all companies including power sector companies. This interpretation



provides guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for as a lease in accordance with IAS 17, 'Leases'.

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

	2016 (Rupees in thousand)	2015
De-recognition of property, plant and equipment	(12,618,138)	(14,020,075)
Recognition of lease debtor	5,909,946	6,746,129
Decrease in deferred tax liability	2,313,059	2,489,189
Decrease in un-appropriated profit at the beginning of the year	(4,784,757)	(5,348,092)
Increase in profit for the year	389,624	563,335
Decrease in un-appropriated profit at the end of the year	(4,395,133)	(4,784,757)

- IFRS 2 (Amendment), 'Share-based Payment – Group Cash-settled Share-based Payment Transactions' effective for annual periods beginning on or after January 1, 2010.

The International Accounting Standards Board (IASB) amended IFRS 2 whereby an entity receiving goods or services is to apply this IFRS in accounting for group cash-settled share-based payment transactions in its financial statements when that entity has no obligation to settle the share-based payment transaction.

On August 14, 2009, the Government of Pakistan (GOP) launched Benazir Employees' Stock Option Scheme ("the Scheme") for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises where GOP holds significant investment (non-SOEs). The Scheme is applicable to permanent and contractual employees who were in employment of these entities, on the date of launch of the scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GOP transferred 12% of its investment in such SOEs and non-SOEs to a Trust Fund created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service. On retirement or termination such employees would be entitled to receive such amounts from Trust Fund in exchange for the surrendered units as would be determined based on market price for listed entities or breakup value for non-listed entities. The shares relating to the surrendered units would be transferred back to GOP.

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to Central Revolving Fund Managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Fund to meet the re-purchase commitments would be met by GOP.

The Scheme, developed in compliance with stated GOP Policy of empowerment of employees of SOEs need to be accounted for by the covered entities, including the Company, under the provisions of amended IFRS 2. However, keeping in the view the difficulties that may be faced by entities covered under the scheme, the SECP on receiving representations from some of entities covered under the Scheme and after having consulted the ICAP, has granted exemption to such entities from the application of IFRS 2 to the Scheme.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

Had the exemption not been granted, the staff costs of the Company for the year would have been higher by Rs 2,737 million (2015: Rs 3,129 million), profit after taxation would have been lower by Rs 1,769 million (2015: Rs 2,024 million), retained earnings would have been lower by Rs 1,769 million (2015: Rs 2,024 million), earning per share would have been lower by Rs 2.01 per share (2015: Rs 2.30 per share) and reserves would have been higher by Rs 2,737 million (2015: Rs 3,129 million).

- IAS 1 (Amendment), 'Presentation of financial statements' on disclosure initiative. The application of these amendments have no material impact on the Company's financial statements. The amendment is effective for annual periods beginning on or after January 1, 2016.

- IAS 16 and 38 (Amendment), 'Property, plant and equipment' and 'Intangibles' on acceptable methods of depreciation and amortization. The application of these amendments have no material impact on the Company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016.

2.2.4 Standards, amendments and interpretations to existing standards that are not yet effective and not applicable / relevant to the Company's operations

Standards or Interpretations	Effective date (annual periods beginning on or after)
IAS 27 (Amendment), 'Separate financial statements' on application of equity method in separate financial statements	January 1, 2016
IAS 41 (Amendment), 'Agriculture' on bearer plants	January 1, 2016
IFRS 10, 12 and IAS 28 (Amendment), on exception to consolidation for investment entities	January 1, 2016
IFRS 10 and IAS 28 (Amendment), on sale or contribution of assets between an Investor and its associate or joint venture	January 1, 2016
IFRS 11 (Amendment), 'Joint arrangements' on acquisition of interest in joint operations	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Annual improvements 2014; IFRS 5, 'Non-current assets held for sale and discontinued operations'. IFRS 7, 'Financial instruments: disclosures'. IAS 19, 'Employee benefits'. IAS 34, 'Interim financial reporting'	January 1, 2016
IAS 7 (Amendment), 'Statement of cash flows' disclosure initiative	January 1, 2017
IAS 12 (Amendments), 'Income taxes' on recognition of deferred tax assets for unrealized losses	January 1, 2017
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts'	January 1, 2018
IFRS 2 (Amendments), 'Shared-based payment' classification and measurement	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019

3. Basis of measurement

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



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

a) Staff retirement benefits

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

b) Provision for taxation

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

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

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

4. Significant accounting policies

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

4.1 Taxation

Current

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

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

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

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

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

4.2 Staff retirement benefits

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

(a) The Company operates an approved funded defined benefit pension scheme for all employees with a qualifying service period of ten years. Monthly contribution is made to the fund on the basis of actuarial recommendation. The latest actuarial valuation was carried out as at June 30, 2016. The actual return on plan assets during the year is Rs 274 million (2015: Rs 264 million). The actual return on plan assets represents the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the Company as reduced by benefits paid during the year.

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

- Discount rate: 9.00 percent per annum (2015: 10.50 percent per annum).
- Expected rate of increase in salary level: 8.50 percent per annum (2015: 10.00 percent per annum).
- Expected rate of increase in pension: 5.50 percent per annum (2015: 5.50 percent per annum).

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

The Company is expected to contribute Rs 62 million to the pension fund in the next year ending June 30, 2017.

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

(c) The Company provides medical facilities to its retired employees and eligible dependent family members along with free electricity. Provisions are made annually to cover the obligation on the basis of actuarial valuation and are charged to income. The latest actuarial valuation was carried out as at June 30, 2016.

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

- Discount rate: 9.00 percent per annum (2015: 10.50 percent per annum).
- Expected rate of increase in medical cost: 7.00 percent per annum (2015: 8.50 percent per annum).
- Expected rate of increase in electricity benefit: 9.00 percent per annum (2015: 10.50 percent per annum).

The Company's policy with regard to remeasurement gains/losses is to immediately recognise all remeasurement losses and gains in other comprehensive income under IAS 19, 'Employee benefits'.



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

4.3 Property, plant and equipment

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

Depreciation on all property, plant and equipment is charged to profit and loss account on the straight line method so as to write off the depreciable amount of an asset over the economic useful life or the remaining term of PPA, whichever is lower using the annual rates mentioned in note 14 after taking their residual values into account.

The assets' residual values and estimated useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its property, plant and equipment as at June 30, 2016 has not required any adjustment.

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

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

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

Blades for Gas Turbines are considered a separate category of assets. All blades are depreciated at the annual rate as mentioned in note 14 regardless of whether they are in use or not. Refurbishment costs are accrued and charged to profit and loss account.

4.4 Intangible assets

Expenditure incurred to acquire computer software are capitalised as intangible assets and stated at cost less accumulated amortization and any identified impairment loss. Intangible assets are amortized using the straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates mentioned in note 15.

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

The Company assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.5 Capital work-in-progress

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

4.6 Leases

The Company is the lessee:

Finance leases

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

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

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates mentioned in note 16. Depreciation of leased assets is charged to profit and loss account.

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

Operating leases

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

4.7 Stores and spares

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

Refurbishable items are valued at the lower of cost and net realisable value. Cost of refurbishment is charged to the profit and loss account as it is incurred. The item is charged to the profit and loss account when, upon inspection, it cannot be refurbished. Certain items are identified by the management for provisioning purposes and specific provision is recognized based on management's best estimate.

4.8 Stock-in-trade

Stock-in-trade except for those in transit are valued at lower of cost based on First In First Out (FIFO) and net realisable value.

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

Net realisable value signifies the estimated selling price in the ordinary course of business less costs



necessarily to be incurred in order to make a sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management's best estimate.

4.9 Financial instruments

4.9.1 Financial assets

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Held to maturity

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

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

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



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For the year ended June 30, 2016

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

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Company determines the fair value of financial assets using valuation techniques based on assumptions that are dependent on market conditions existing at balance sheet date.

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

4.9.2 Financial liabilities

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

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

4.10 Offsetting of financial assets and liabilities

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

4.11 Long term loans and deposits

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

4.12 Trade debts

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

4.13 Cash and cash equivalents

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



4.14 Borrowings

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

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

4.15 Trade and other payables

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

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

4.16 Derivative financial instruments

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

4.17 Foreign currencies

a) Functional and presentation currency

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

b) Transactions and balances

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

4.18 Borrowing costs

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

4.19 Revenue recognition

Revenue on account of energy is recognised on transmission of electricity to WAPDA, whereas on account of capacity is recognised when due.



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For the year ended June 30, 2016

4.20 Dividend

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

5. Issued, subscribed and paid up capital

2016 (Number of shares)	2015		2016 (Rupees in thousand)	2015
253,000	253,000	Ordinary shares of Rs 10 each fully paid in cash	2,530	2,530
<u>880,000,228</u>	<u>880,000,228</u>	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	<u>8,800,002</u>	<u>8,800,002</u>
<u>880,253,228</u>	<u>880,253,228</u>		<u>8,802,532</u>	<u>8,802,532</u>

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

	2016 (Number of shares)	2015
Pakistan Water and Power Development Authority (WAPDA)	354,311,133	354,311,133
KAPCO Employees Empowerment Trust [Formed under Benazir Employees' Stock Option Scheme (BESOS)]	<u>48,252,429</u>	<u>48,252,429</u>
	<u>402,563,562</u>	<u>402,563,562</u>

6. Capital reserve

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

2016
(Rupees in thousand)

7. Long term finances

Loan from related parties - unsecured	- note 7.1	926,402	1,466,609
Less: Current maturity		<u>540,207</u>	<u>540,207</u>
		<u>386,195</u>	<u>926,402</u>



7.1 Loan from related parties - unsecured

Lender	Currency	Amount of loan outstanding (Rs in thousand)	Rate of interest / mark-up per annum	Remaining number of installments	Interest / Mark-up payable
					<u>2016</u>
WAPDA	PKR	<u>926,402</u>	14%	4 equal semi annual installments ending June 2018	Semi annually
					<u>2015</u>
WAPDA	PKR	<u>1,466,609</u>	14%	6 equal semi annual installments ending June 2018	Semi annually

8. Liabilities against assets subject to finance lease

2016 2015
(Rupees in thousand)

Present value of minimum lease payments	76,832	85,595
Less: Current portion shown under current liabilities	<u>28,850</u>	<u>27,034</u>
	<u>47,982</u>	<u>58,561</u>

Minimum lease payments have been discounted at an implicit interest rate ranging from 8.62 percent to 9.55 percent (2015: 9.48 percent to 12.68 percent) per annum to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

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



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

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

	2016 (Rupees in thousand)		
	Minimum lease payment	Future finance charge	Present value of lease liability
Not later than one year	33,689	4,839	28,850
Later than one year and not later than five years	53,671	5,689	47,982
	<u>87,360</u>	<u>10,528</u>	<u>76,832</u>
	2015		
Not later than one year	34,376	7,342	27,034
Later than one year and not later than five years	65,522	6,961	58,561
	<u>99,898</u>	<u>14,303</u>	<u>85,595</u>

		2016 (Rupees in thousand)	2015
9. Deferred Liabilities			
Deferred taxation	- note 9.1	1,841,329	2,217,369
Staff retirement benefits	- note 9.2	666,807	857,828
		<u>2,508,136</u>	<u>3,075,197</u>
9.1 Deferred taxation			
The liability for deferred taxation comprises of timing differences relating to:			
Accelerated tax depreciation		2,049,100	2,382,677
Provision for store obsolescence		(37,505)	(34,371)
Provision for doubtful debts		(95,105)	(53,070)
Write back of unpaid liabilities		(51,743)	(51,436)
Liabilities against assets subject to finance lease		(23,418)	(26,431)
		<u>1,841,329</u>	<u>2,217,369</u>
9.2 Staff retirement benefits			
These are composed of:			
Pension	- note 9.2.1	(3,467)	154,029
Medical	- note 9.2.2	139,060	157,628
Free electricity	- note 9.2.2	495,210	508,307
Other long term employee benefits		36,004	37,864
		<u>666,807</u>	<u>857,828</u>



2016
(Rupees in thousand)

2015

9.2.1 Pension

The amounts recognised in the balance sheet are as follows:

Present value of defined benefit obligation	2,621,615	2,350,904
Fair value of plan assets	(2,625,082)	(2,196,875)
(Asset) / liability as at June 30	<u>(3,467)</u>	<u>154,029</u>
Liability as at July 1	154,029	288,402
Charge to profit and loss account	91,431	99,968
Contribution paid by the Company	(245,410)	(336,469)
Remeasurement (gains) / losses recognised in other comprehensive income	(3,517)	102,128
(Asset) / liability as at June 30	<u>(3,467)</u>	<u>154,029</u>

The movement in the present value of defined benefit obligation is as follows:

Present value of defined benefit obligation as at July 1	2,350,904	1,932,096
Current service cost	72,508	63,422
Interest cost for the year	245,916	259,765
Benefits paid during the year	(90,971)	(47,074)
Remeasurement losses on obligation	43,258	142,695
Present value of defined benefit obligation as at June 30	<u>2,621,615</u>	<u>2,350,904</u>

The movement in fair value of plan assets is as follows:

Fair value as at July 1	2,196,875	1,643,694
Expected return on plan assets	226,993	223,219
Contribution paid by the Company	245,410	336,469
Benefits paid during the year	(90,971)	(47,074)
Remeasurement gains on plan assets	46,775	40,567
Fair value as at June 30	<u>2,625,082</u>	<u>2,196,875</u>

Plan assets are comprised as follows:

	2016	2015
Mutual funds	41%	41%
Interest bearing instruments	46%	55%
Other	13%	4%
	<u>100%</u>	<u>100%</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

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

	2016	2015	2014	2013	2012
	(Rupees in thousand)				
As at June 30					
Present value of defined benefit obligations	2,621,615	2,350,904	1,932,096	1,749,201	1,400,795
Fair value of plan assets	(2,625,082)	(2,196,875)	(1,643,694)	(1,481,381)	(1,192,195)
(Surplus) / deficit	(3,467)	154,029	288,402	267,820	208,600
Experience adjustment on obligation	43,258	142,695	(6,660)	198,474	(172,322)
Experience adjustment on plan assets	46,775	40,567	24,222	(520)	(3,352)

Year end sensitivity analysis on present value of defined benefit obligation:

	2016	2015
	(Rupees in thousand)	
Discount rate + 0.50%	2,475,546	2,226,810
Discount rate - 0.50%	2,782,792	2,485,971
Increase in salary level + 0.50%	2,649,960	2,379,553
Increase in salary level - 0.50%	2,594,097	2,322,181
Increase in pension + 0.50%	2,716,456	2,422,098
Increase in pension - 0.50%	2,534,511	2,284,262

9.2.2

	Post retirement Medical		Post retirement Free electricity	
	2016	2015	2016	2015
	(Rupees in thousand)			

The amounts recognised in the balance sheet are as follows:

Present value of defined benefit obligation as at June 30	139,060	157,628	495,210	508,307
Liability as at July 1	157,628	136,820	508,307	479,337
Charge to profit and loss account	21,410	22,983	68,844	80,974
Benefits paid during the year	(1,227)	(1,490)	(4,660)	(4,269)
Remeasurement gains recognised in other comprehensive income	(38,751)	(685)	(77,281)	(47,735)
Liability as at June 30	139,060	157,628	495,210	508,307

The movement in the present value of defined benefit obligation is as follows:

Present value of defined benefit obligation as at July 1	157,628	136,820	508,307	479,337
Current service cost	4,695	4,335	14,858	15,561
Interest cost for the year	16,715	18,648	53,986	65,413
Benefits paid during the year	(1,227)	(1,490)	(4,660)	(4,269)
Remeasurement gains on obligation	(38,751)	(685)	(77,281)	(47,735)
Present value of defined benefit obligation as at June 30	139,060	157,628	495,210	508,307



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

	Post Retirement Medical				
	2016	2015	2014	2013	2012
	(Rupees in thousand)				
As at June 30					
Present value of defined benefit obligations	139,060	157,628	136,820	104,953	90,731
Fair value of plan assets	-	-	-	-	-
Deficit	<u>139,060</u>	<u>157,628</u>	<u>136,820</u>	<u>104,953</u>	<u>90,731</u>
Experience adjustment on obligation (gain) / loss	(38,751)	(685)	18,241	618	(9,799)

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

	Post Retirement Free Electricity				
	2016	2015	2014	2013	2012
	(Rupees in thousand)				
As at June 30					
Present value of defined benefit obligations	495,210	508,307	479,337	363,794	296,546
Fair value of plan assets	-	-	-	-	-
Deficit	<u>495,210</u>	<u>508,307</u>	<u>479,337</u>	<u>363,794</u>	<u>296,546</u>
Experience adjustment on obligation (gain) / loss	(77,281)	(47,735)	65,972	18,997	(32,456)

Year end sensitivity analysis on present value of defined benefit obligation:

	Post retirement Medical		Post retirement Free electricity	
	2016	2015	2016	2015
	(Rupees in thousand)		(Rupees in thousand)	
Discount rate + 0.50%	126,797	143,297	449,526	460,665
Discount rate - 0.50%	153,016	173,393	547,467	562,857
Increase in medical cost / electricity benefit + 0.50%	142,276	161,270	506,023	520,374
Increase in medical cost / electricity benefit - 0.50%	135,975	153,632	484,843	496,758

10. Current portion of long term liabilities

		2016	2015
		(Rupees in thousand)	
Long term finances	- note 7	540,207	540,207
Liabilities against assets subject to finance lease	- note 8	28,850	27,034
		<u>569,057</u>	<u>567,241</u>

11. Finances under mark-up arrangements - secured

		2016	2015
		(Rupees in thousand)	
Short term finances - secured			
- Under Conventional finances	- note 11.1	20,918,048	14,819,695
- Under Islamic finances	- note 11.1	20,428,097	18,052,223
		<u>41,346,145</u>	<u>32,871,918</u>



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For the year ended June 30, 2016

- 11.1** Short term finances available from various commercial banks under mark-up arrangements amount to Rs 30,950 million (2015: Rs 26,950 million) and finances available under musharika and murabaha arrangements amount to Rs 25,450 million (2015: Rs 19,720 million). The rate of mark-up ranges from 6.57 percent to 9.49 percent (2015: 7.66 percent to 12.31 percent) per annum on the balances outstanding. In the event, the Company fails to pay the balances on the expiry of the quarter, year or earlier demand, mark-up is to be computed at the rate of 20 percent to 24 percent (2015: 20 percent to 24 percent) per annum on the balances unpaid.
- 11.2** Of the aggregate facility of Rs 3,400 million (2015: Rs 3,688 million) for opening letters of credit and Rs 4,569 million (2015: Rs 113 million) for guarantees, the amounts utilised as at June 30, 2016 were Rs 392 million (2015: Rs 490 million) and Rs 4,569 million (2015: Rs 113 million) respectively.
- 11.3** The aggregate running finances, short term finances and letters of credit and guarantees are secured by joint pari passu charge on stores, spares, stock-in-trade and trade debts up to a limit of Rs 82,800 million (2015: Rs 62,712 million), joint pari passu charge on property, plant and equipment up to a limit of Rs 68,045 million (2015: Rs 60,912 million) and ranking charge up to a limit of Rs 10,667 million (2015: Rs 2,667 million).

		2016	2015
		(Rupees in thousand)	
12. Trade and other payables			
Trade creditors	- note 12.1	700,079	11,037,932
Accrued liabilities		477,518	2,176,712
Liquidated damages		224,275	229,004
Markup accrued on:			
- Long term loan - unsecured		1,421	2,250
- Finances under mark-up arrangements - secured		288,190	310,806
- Liabilities against assets subject to finance lease		549	763
- Credit supplies of raw material		13,392,902	13,167,889
		13,683,062	13,481,708
Deposits - interest free repayable on demand		166	167
Workers' Welfare Fund		296,849	312,660
Workers' Profit Participation Fund	- note 22.4	-	44,384
Income tax payable		258,579	1,096,703
Differential payable to WAPDA	- note 12.2	228,345	-
Unclaimed dividends		506,174	625,054
Others		22,093	29,842
		<u>16,397,140</u>	<u>29,034,166</u>

- 12.1** Trade creditors include payable to Pakistan State Oil (PSO) amounting to Rs 671 million (2015: Rs 6,409 million) and Sui Northern Gas Pipelines Limited (SNGPL) amounting to Rs 82 million (2015: Rs 4,605 million) including disputed amounts of Nil (2015: Rs 3,026 million) on account of provisional price of Regasified Liquefied Natural Gas (RLNG) and Rs 8 million (2015: Rs 648 million) on account of Gas Infrastructure Development Cess (GIDC) .
- 12.2** This represents income tax differential payable to WAPDA in accordance with clause 6.7 and 6.15(a) of Part I of Schedule 6 of Power Purchase Agreement (PPA) on account of difference in income tax rate as provided for in the PPA and the current tax rate as applicable to the Company.



13. Contingencies and commitments

13.1 Contingencies

- (i) Income tax returns of the Company for Tax Years 2003 to 2007 were filed, wherein, only normal tax depreciation was claimed. However, the aforesaid returns were revised thereby depreciation and initial allowance earlier claimed in respect of assets in the original income tax returns for tax periods upto June 27, 2006 were not claimed being the date upto which Company was exempt from levy of income tax.

Tax depreciation in income tax return for Tax Year 2008 was also claimed with resultant written down value carried forward from tax year 2007, as computed in the revised return of income in accordance with position explained above. Aggregate exposure amounts to Rs 1,611 million. Such return and revised returns for Tax Years 2003 to 2008 were amended by Tax Authorities by restoring the earlier position and were also endorsed by Commissioner Inland Revenue (Appeals) [CIR(A)]. The Company preferred appeal before Income Tax Appellate Tribunal (ITAT) [now Appellate Tribunal Inland Revenue (ATIR)] against the decision of CIR(A) which was decided in Company's favor in April 2012. No appeal was filed by the Tax Department before High Court within the time stipulated under law.

Tax Department had filed miscellaneous application for rectification before ATIR which was decided against the Company. Being aggrieved, the Company filed reference with Lahore High Court (LHC) against this order. LHC granted interim relief to the Company and restrained Tax Department from passing any order on the basis of aforementioned ATIR order.

The management is of the view that there are meritorious grounds available to defend the foregoing demands. Consequently no provision for such demands has been made in these financial statements.

- (ii) Company's appeals with Appellate Tribunal Inland Revenue (ATIR) for Tax Years 2011, 2012 & 2013 against orders of Commissioner Inland Revenue Appeals [CIR(A)] are pending for hearing. Aggregate demand for these years amounts to Rs 116 million.

For Tax Year 2014, Additional DCIR issued demand notice amounting to Rs 98 million. Company filed an appeal before CIR(A) who decided some of the issues in favor of the Company whereas others were upheld. Being aggrieved, both the Company and Tax Department have filed appeal with ATIR in respect of issues decided against them. The Additional Commissioner Inland Revenue (ACIR) further amended the assessment order by disallowing certain repair and maintenance expenses by treating them as a capital expenditure and issued a combined appeal effect order of Rs 284 million. Company filed an appeal with CIR(A) against the appeal effect order. The CIR(A) reduced the demand to Rs 116 million. Being aggrieved, the Company has filed appeal with ATIR which is pending for fixation.

The management is of the view that there are meritorious grounds available to defend the foregoing demands. Consequently no provision for such demands has been made in these financial statements.

- (iii) On the strength of an unfavorable decision by ATIR in the case of other Independent Power Producers, the Tax Department issued a sales tax order against the Company for the financial period from June 2008 to June 2013 and created a demand of Rs 10,102 million by apportioning input sales tax between



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For the year ended June 30, 2016

Capacity invoices and Energy invoices and allowed input sales tax allocated to Energy invoices only. The refund claims of the Company during the period falling between the aforementioned period were also rejected by the Tax Authorities. Against the foregoing order, the Company filed an appeal before CIR(A) which was decided against the Company. However, CIR(A) instructed the Tax Department to rectify the demand by deleting the sales tax liability in respect of tax periods beyond 5 years, resulting in reduction of demand to the tune of Rs 1,481 million. Being aggrieved, the Company filed an appeal before ATIR against the CIR(A) order which was also decided against the Company. The Company has filed petition with Lahore High Court (LHC) against ATIR decision. Further, in response to the writ petition filed by the Company, LHC has stayed the recovery of tax demand till adjudication of the case.

During the year, Tax Department conducted sales tax audit for the financial period July 2013 to June 2014 and created demand which included Rs 2,933 million pertaining to aforementioned issue of apportionment of input tax. The Company filed an appeal before CIR(A) who remanded back the demand of Rs 2,933 million till adjudication of petition from LHC on inadmissibility of input tax on Capacity invoices.

The management is of the view that there are meritorious grounds available to defend the foregoing demands. Consequently no provision for such demands has been made in these financial statements.

- (iv) Before introduction of amendments in Finance Act 2006, the Company had not established Workers' Profit Participation Fund under the Companies Profit (Workers' Participation) Act, 1968 (the Act) based on the opinion of the legal advisor that it did not employ any person who fell under the definition of Worker as defined in the Act.

Further, the question whether a company to which the Act and its scheme applies but which does not employ any worker is nevertheless obliged to establish and pay contributions into the Fund under the Act and thereafter transfer the same to the Fund established under the WWF Ordinance, 1971 is subjudice before the Sindh High Court as the Supreme Court of Pakistan accepted the petition of another company and remanded the case to the Sindh High Court for fresh decision in accordance with its order.

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

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3,463 million (2015: Rs 3,463 million). However, it is not certain at the moment that any penalties will be levied on non-payment of WPPF as the relaxation provided under the Finance Act 2006 is still applicable. If it is established that the scheme is applicable to the Company and the Company is liable to pay contribution to the Workers' Welfare Fund, then these amounts would be recoverable from WAPDA as a pass through item under the provisions of Power Purchase Agreement.



In view of the foregoing, the Company did not make any provision for Workers' Profit Participation Fund and interest thereon in the financial statements up to June 30, 2006.

However, subsequent to the amendments in Finance Act 2006, the Company has established the KAPCO Workers' Participation Fund in March 2008 to allocate the amount of annual profits stipulated by the Act for distribution amongst workers eligible to receive such benefits under the Act.

- (v) WAPDA has raised invoices for liquidated damages to the Company for the years ended June 30, 2009 through 2015 (after taking into account forced outage allowance stipulated under the terms of Power Purchase Agreement) on account of short supply of electricity by the Company, which was due to cash flow constraints of the Company as a result of default by WAPDA in making timely payments. Liquidated damages invoiced to the Company amount to Rs 27,872 million (2015: Rs 22,939 million). Estimated amount of liquidated damages (including un-invoiced liquidated damages till June 30, 2016) are not expected to exceed Rs 27,681 million as at June 30, 2016 (2015: Rs 25,958 million) based on the best estimate of the management of the Company.

The Company disputes and rejects any claim on account of liquidated damages that may be raised by WAPDA on the premise that its failure to dispatch electricity was due to WAPDA's non-payment of dues on timely basis to the Company and consequential inability of the Company to make timely payments to its fuel supplier (PSO) that resulted in inadequate level of electricity production owing to shortage of fuel. In this regard, the Company has initiated the dispute resolution procedures specified in the Power Purchase Agreement.

According to legal advice available with the Company, there are adequate grounds to defend any claim by WAPDA for such liquidated damages since these conditions were imposed on the Company due to circumstances beyond its control. The ultimate outcome of the matter cannot presently be determined, and consequently no provision for such liquidated damages has been made in these financial statements.

- (vi) The Company has provided bank guarantees in favor of following;
- Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 4,504 million (2015: Rs 47 million);
 - Punjab Power Development Board on account of Coal Project as explained in note 22.5, amounting to Rs 65 million (2015: Rs 65 million); and
 - Collector of Customs on account of temporary import of rental tools, amounting to Nil (2015: Rs 1 million).

13.2 Commitments

- (i) Contracts for capital expenditure are Rs 428 million (2015: Rs 82 million).
- (ii) Letters of credit other than for capital expenditure are Rs 392 million (2015: Rs 490 million).



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14. Property, plant and equipment

	Freehold Land	Buildings on freehold land	Plant and machinery	Gas turbine blading	Auxiliary plant and machinery	Office equipment	Fixtures and fittings	Vehicles	Total
(Rupees in thousand)									
Net carrying value basis									
Year ended June 30, 2016									
Opening net book value (NBV)	100,773	202,065	9,755,181	3,859,315	63,202	45,723	220	12,093	14,038,572
Additions (at cost)	-	22,036	750,986	-	18,489	18,960	-	1,716	812,187
Transfers from leased assets at NBV	-	-	-	-	-	-	-	9,534	9,534
Disposals (at NBV)	-	-	-	(23)	-	(2)	-	(5,629)	(5,654)
Depreciation charge	-	(35,350)	(1,446,899)	(702,999)	(21,490)	(14,982)	(75)	(825)	(2,222,620)
Closing net book value (NBV)	<u>100,773</u>	<u>188,751</u>	<u>9,059,268</u>	<u>3,156,293</u>	<u>60,201</u>	<u>49,699</u>	<u>145</u>	<u>16,889</u>	<u>12,632,019</u>
Gross carrying value basis									
As at June 30, 2016									
Cost	100,773	740,905	35,490,380	8,908,014	366,724	158,172	17,831	80,965	45,863,764
Accumulated depreciation	-	(552,154)	(26,431,112)	(5,751,721)	(306,523)	(108,473)	(17,686)	(64,076)	(33,231,745)
Net book value (NBV)	<u>100,773</u>	<u>188,751</u>	<u>9,059,268</u>	<u>3,156,293</u>	<u>60,201</u>	<u>49,699</u>	<u>145</u>	<u>16,889</u>	<u>12,632,019</u>
Depreciation rate % per annum	-	4 - 19.67	4 - 16.90	10 - 15.79	20	20	20	25	
Net carrying value basis									
Year ended June 30, 2015									
Opening net book value (NBV)	100,773	230,694	10,896,362	4,404,001	77,728	36,223	153	9,531	15,755,465
Additions (at cost)	-	4,588	170,909	179,089	12,893	21,910	185	2,641	392,215
Transfers from leased assets at NBV	-	-	-	-	-	-	-	2,043	2,043
Disposals (at NBV)	-	-	-	(3,714)	-	(248)	-	(2,053)	(6,015)
Depreciation charge	-	(33,217)	(1,312,090)	(720,061)	(27,419)	(12,162)	(118)	(69)	(2,105,136)
Closing net book value (NBV)	<u>100,773</u>	<u>202,065</u>	<u>9,755,181</u>	<u>3,859,315</u>	<u>63,202</u>	<u>45,723</u>	<u>220</u>	<u>12,093</u>	<u>14,038,572</u>
Gross carrying value basis									
As at June 30, 2015									
Cost	100,773	718,869	34,739,394	8,910,718	348,235	139,293	17,831	59,726	45,034,839
Accumulated depreciation	-	(516,804)	(24,984,213)	(5,051,403)	(285,033)	(93,570)	(17,611)	(47,633)	(30,996,267)
Net book value (NBV)	<u>100,773</u>	<u>202,065</u>	<u>9,755,181</u>	<u>3,859,315</u>	<u>63,202</u>	<u>45,723</u>	<u>220</u>	<u>12,093</u>	<u>14,038,572</u>
Depreciation rate % per annum	-	4 - 16.22	4 - 16.44	10 - 15.79	20	20	20	25	

The cost of fully depreciated assets which are still in use as at June 30, 2016 is Rs 3,082 million (2015: Rs 2,789 million).

14.1 The depreciation charge for the year has been allocated as follows:

		2016	2015
Cost of sales	- note 25	2,186,370	2,071,732
Administration expenses	- note 26	36,250	33,404
		<u>2,222,620</u>	<u>2,105,136</u>



14.2 Disposal of Property, plant and equipment of book value exceeding Rs 50,000

2016

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
(Rupees in thousand)						
Vehicles	Executives					
Toyota Corolla XLi	Mr. Amjad Hayee	1,342	(1,075)	267	267	Company Policy
Toyota Corolla XLi	Mr. Mushtaq Ahmed	1,735	(896)	839	839	Company Policy
Honda City MT	Mr. Mehmood Rahim	1,545	(721)	824	824	Company Policy
Nissan Sunny	Mr. Aamir Chishti	1,546	(1,237)	309	309	Company Policy
Toyota Corolla XLi	Mr. Muhammad Bilal	1,730	(1,211)	519	954	Company Policy
Toyota Corolla Altis	Mr. Muhammad Asif	2,062	(1,477)	585	997	Company Policy
	Outsiders					
Toyota Hilux Vigo	TPL Direct Insurance	3,609	(1,323)	2,286	3,000	Insurance claim

2015

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
(Rupees in thousand)						
Vehicles	Executives					
Honda Civic	Mr. Jamil Ahmad Shah	1,736	(1,389)	347	347	Company Policy
Honda Civic	Mr. Muhammad Khan	1,696	(1,357)	339	339	Company Policy
Toyota Corolla - XLi	Mr. Aurangzeb Alamgir	1,295	(1,036)	259	259	Company Policy
Toyota Corolla - GLi	Mr. Nazir Ahmad Ch.	1,414	(1,131)	283	283	Company Policy
Toyota Corolla - XLi	Mr. Muhammad Jamil	1,295	(1,036)	259	259	Company Policy
Toyota Corolla - GLi	Mr. Azhar Baig	1,414	(1,131)	283	283	Company Policy
Toyota Corolla - GLi	Mr. Muhammad Amin	1,413	(1,130)	283	283	Company Policy
Office equipment	Executives					
Iphone 5s	Mr. Azfar Saeed Baig	92	(9)	83	83	Negotiaion
	Outsiders					
Iphone 5s	IGI Insurance Limited	80	(16)	64	50	Insurance Claim

2016 2015
(Rupees in thousand)

15. Intangible assets - computer software

Net carrying value basis

Year ended June 30

Opening net book value (NBV)	13,193	14,648
Additions (at cost)	1,191	3,248
Amortization charge	<u>(4,857)</u>	<u>(4,703)</u>
Closing net book value	<u>9,527</u>	<u>13,193</u>

Gross carrying value basis

Cost	53,855	52,664
Accumulated amortization	<u>(44,328)</u>	<u>(39,471)</u>
Net book value	<u>9,527</u>	<u>13,193</u>

Amortization rate % per annum	<u>20</u>	<u>20</u>
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

15.1 Amortization charge for the year has been allocated to cost of sales.

2016
(Rupees in thousand)

2015

16. Assets subject to finance lease

Net carrying value basis

Year ended June 30

Opening net book value (NBV)	79,146	90,934
Additions (at cost)	10,897	18,892
Disposals (at NBV)	(9,533)	(2,225)
Depreciation charge	(27,370)	(28,455)
Closing net book value	<u>53,140</u>	<u>79,146</u>

Gross carrying value basis

Cost	138,313	160,507
Accumulated depreciation	(85,173)	(81,361)
Net book value	<u>53,140</u>	<u>79,146</u>

Depreciation rate % per annum

<u>25</u>	<u>25</u>
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16.1 Depreciation charge for the year has been allocated to administrative expenses.

2016
(Rupees in thousand)

2015

17. Capital work-in-progress

Civil works	6,596	5,950
Plant and machinery	1,604	717,727
Others	21,026	2,544
	<u>29,226</u>	<u>726,221</u>

18. Long term loans and deposits

Loans to employees - considered good	- note 18.1	29,662	31,569
Security deposits		14,367	14,834
		<u>44,029</u>	<u>46,403</u>
Less: Receivable within one year		12,170	10,018
		<u>31,859</u>	<u>36,385</u>

18.1 Loans to employees - considered good

Loans to employees - unsecured	- note 18.1.1	<u>29,662</u>	<u>31,569</u>
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18.1.1 These represent unsecured loans to non-executive employees for the purchase of plot, car, construction of house etc. and are repayable in monthly installments over a maximum period of 120 months. These loans carry interest of 9 percent per annum (2015: 9 percent per annum). Included in loans to employees are loans amounting to Rs 0.442 million (2015: Rs 1 million) given to employees who were victims of flood. These are interest free and repayable up to 10 years.



		2016	2015
		(Rupees in thousand)	
19. Stores and spares			
Stores and spares including in transit Rs 93 million (2015: Rs 389 million)	- note 19.1	4,486,223	4,596,078
Less: Provision for store obsolescence	- note 19.2	<u>125,018</u>	<u>114,570</u>
		<u>4,361,205</u>	<u>4,481,508</u>

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

19.1 Included in stores are items valuing Rs 5 million (2015: Rs 26 million) which are being held by the following suppliers:

		2016	2015
		(Rupees in thousand)	
Siemens, Germany		4,640	3,113
Gulf Turbine Services LLC, UAE		-	23,275
		<u>4,640</u>	<u>26,388</u>

These stores and spares comprise of bearings and shrouds sent to suppliers for inspection / refurbishment purposes.

		2016	2015
		(Rupees in thousand)	
19.2 Provision for store obsolescence			
Opening balance as at July 1		114,570	174,700
Add: Provision / (reversal of provision) for the year		<u>15,409</u>	<u>(37,911)</u>
		129,979	136,789
Less: Stores written off against provision		<u>4,961</u>	<u>22,219</u>
Closing balance as at June 30		<u>125,018</u>	<u>114,570</u>

20. Stock-in-trade

Furnace oil	- note 20.1	2,692,820	2,979,423
Diesel		<u>442,007</u>	<u>559,600</u>
		<u>3,134,827</u>	<u>3,539,023</u>

20.1 Stock-in-trade include Nil (2015: Rs 2 million) being carried at net realisable value.

21. Trade debts

Trade debts	- note 21.1	69,599,531	71,245,994
Less: Provision for doubtful debts	- note 21.2	<u>222,741</u>	<u>176,901</u>
		<u>69,376,790</u>	<u>71,069,093</u>

21.1 These are considered good except Rs 223 million (2015: Rs 177 million) which are considered doubtful. Trade debts include an overdue amount of Rs 58,646 million (2015: Rs 59,243 million) receivable from WAPDA, which is a related party of the Company. The trade debts are secured by a guarantee from the Government of Pakistan under the Facilitation Agreement. These are in the normal course of business and are interest free, however, a penal mark-up of SBP discount rate plus 4 percent per annum is charged in case the amounts are not paid within due dates. Aging analysis of trade receivables is given in note 39.1(b).



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

	2016	2015
	(Rupees in thousand)	
21.2 Provision for doubtful debts		
Opening balance as at July 1	176,901	146,773
Add: Provision for the year	45,840	33,842
	<u>222,741</u>	<u>180,615</u>
Less: Trade debts written off against provision	-	3,714
Closing balance as at June 30	<u>222,741</u>	<u>176,901</u>
22. Loans, advances, deposits, prepayments and other receivables		
Loans to employees - considered good	8,271	7,907
Advances to suppliers - considered good - note 22.1	50,208	37,965
Sales tax claims recoverable from Government - note 22.2	774,921	377,024
Prepayments	27,661	4,321
Claims recoverable from WAPDA as pass through items:		
Workers' Welfare Fund	296,848	312,660
Workers' Profit Participation Fund	684,164	739,384
	- note 22.3	1,052,044
Security deposits	6,171	3,585
Refundable from Workers' Profit Participation Fund - note 22.4	836	-
Advance for coal expansion project - note 22.5	111,967	6,999
Insurance claim receivable - net of provision - note 22.6	-	99,594
Other receivables	22,453	14,202
	<u>1,983,500</u>	<u>1,603,641</u>

22.1 Advances to suppliers include amounts due from WAPDA amounting to Rs 21 million (2015: Rs 21 million). These are in the normal course of business and are interest free.

22.2 Sales tax recoverable includes an amount of Rs 17 million (2015: Rs 17 million), which represents refund for input tax on purchase of diesel for start-up. This refund was withheld by Deputy Collector (Refunds) and has also been adjudicated against the Company by Collector of Customs, Federal Excise & Sales Tax. The Company has filed Miscellaneous Application before the Customs, Excise and Sales Tax Appellate Tribunal.

Sales tax recoverable also includes an amount of Rs 415 million (2015: Rs 415 million) which represents refund held for input tax on EPP and CPP apportionment issue in 2009 and 2011 as explained in note 13.1(iii) to these financial statements.

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

	2016	2015
	(Rupees in thousand)	
22.4 Workers' Profit Participation Fund		
Opening payable / (refundable) as at July 1	44,384	(11,500)
Add: Provision for the year	684,164	739,384
	<u>728,548</u>	<u>727,884</u>
Less: Payments made during the year	729,384	683,500
Closing (refundable) / payable as at June 30	<u>(836)</u>	<u>44,384</u>



22.5 The Company initiated coal expansion project during year ended June 30, 2014. For this purpose, a special purpose vehicle was incorporated under the name of KAPCO Energy (Private) Limited (KEPL) on April 30, 2014. Share Capital of KEPL has not been paid up as at June 30, 2016. The balance represents regulatory fees, professional charges, guarantee commission, feasibility study costs, consultant charges and other related expenses incurred by the Company on behalf of KEPL. Final decision for expansion project is dependent upon the outcome of feasibility study and approvals from shareholders as well as regulatory authorities.

	2016	2015
	(Rupees in thousand)	
22.6 Provision for insurance claim		
Opening balance as at July 1	-	-
Add: Provision for the year	94,274	-
Less: Debts written off against provision	-	-
Closing balance as at June 30	<u>94,274</u>	<u>-</u>

23. Cash and bank balances

At banks on:			
- Current accounts	- note 23.1	219,340	187,950
- Savings accounts	- note 23.1	378,100	487,237
		<u>597,440</u>	<u>675,187</u>
In hand		210	125
		<u>597,650</u>	<u>675,312</u>

23.1 Included in these are total restricted funds of Rs 35 million (2015: Nil) held by banks under lien as margin against letters of credit. The balances in saving accounts bear mark up ranging from 4.5 percent to 6 percent (2015: 4.5 percent to 7 percent) per annum.

	2016	2015
	(Rupees in thousand)	
24. Sales		
Energy purchase price	55,868,258	98,049,900
Sales tax	(9,340,707)	(14,265,771)
Net energy purchase price	46,527,551	83,784,129
Capacity purchase price	17,650,838	17,696,441
	<u>64,178,389</u>	<u>101,480,570</u>

25. Cost of sales

Fuel cost		44,821,350	81,833,907
Salaries, wages and benefits	- note 25.1	1,456,392	1,433,244
Plant maintenance	- note 25.3	263,143	308,578
Gas turbines overhauls	- note 25.3	666,627	358,683
Repair and renewals	- note 25.3	1,356,313	361,636
Depreciation on property, plant and equipment	- note 14.1	2,186,370	2,071,732
Amortization on intangible assets	- note 15.1	4,857	4,703
Provision / (reversal of provision) for store obsolescence	- note 19.2	15,409	(37,911)
		<u>50,770,461</u>	<u>86,334,572</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

	2016	2015
	(Rupees in thousand)	
25.1 Salaries, wages and benefits		
Salaries, wages and benefits include following in respect of retirement benefits;		
Pension		
Current service cost	72,508	63,422
Net interest cost for the year	<u>18,923</u>	<u>36,546</u>
	<u>91,431</u>	<u>99,968</u>
Medical		
Current service cost	4,695	4,335
Net interest cost for the year	<u>16,715</u>	<u>18,648</u>
	<u>21,410</u>	<u>22,983</u>
Free electricity		
Current service cost	14,858	15,561
Net interest cost for the year	<u>53,986</u>	<u>65,413</u>
	<u>68,844</u>	<u>80,974</u>

In addition to above, salaries, wages and benefits also include Rs 36 million (2015: Rs 38 million) in respect of provident fund contribution by the Company.

	2016	2015
	(Rupees in thousand)	
25.2 Disclosures relating to provident fund		
Size of the fund	917,089	795,075
Cost of investments made	599,019	590,890
Percentage of investments made	65.32%	74.32%
Fair value of investments	687,951	626,405
Breakup of investments		
Government securities	372,438	348,846
Term finance certificates	40,905	70,036
Listed securities	274,608	205,941
	2016	2015
	% age of size of the fund	
Breakup of investments		
Government securities	40.61%	43.88%
Term finance certificates	4.46%	8.81%
Listed securities	29.94%	25.90%

The figures for 2016 are based on the un-audited financial statements of the Provident Fund. Investments out of Provident Fund have been made in accordance with the provisions of section 227 of the Companies' Ordinance, 1984 and the rules formulated for this purpose.

25.3 Cost of sales include Rs 1,027 million (2015: Rs 659 million) for stores and spares consumed.



26. Administrative expenses	2016 (Rupees in thousand)	2015
Travelling	13,329	12,658
Motor vehicles running	37,322	43,198
Postage, telephone and telex	13,530	12,084
Legal and professional charges	35,788	44,288
Computer charges	19,269	14,830
Auditors' remuneration - note 26.1	4,617	3,652
Printing, stationery and periodicals	12,973	12,123
Repairs and maintenance infrastructure	50,576	53,670
Training expenses	18,497	5,492
Rent, rates and taxes	24,524	12,349
Depreciation on property, plant and equipment - note 14.1	36,250	33,404
Depreciation on assets subject to finance lease - note 16.1	27,370	28,455
Infrastructure cost	43,291	37,519
Education fee	30,024	32,495
Bad debts written off	6,414	9,266
Provision for loans and advances	94,274	-
Provision for doubtful debts - note 21.2	45,840	33,842
Other expenses	14,715	28,393
	528,603	417,718

26.1 Auditors' remuneration

The charges for auditors' remuneration include the following in respect of auditors' services for:

Statutory audit	2,590	2,242
Half yearly review	849	735
Workers' Profit Participation Fund audit, Employees Provident and Pension Fund audit, special reports and certificates	864	454
Out of pocket expenses	314	221
	4,617	3,652

27. Other operating expenses

Write down of property, plant and equipment	25	3,734
Donations - note 27.1	-	10,000
	25	13,734

27.1 None of the directors and their spouses had any interest in any of the donees during the prior year.

28. Other income	2016 (Rupees in thousand)	2015
Income from financial assets		
Income on bank deposits - note 23.1	22,816	23,870
Interest on loans to employees	2,856	3,065
Interest on late payment - WAPDA	3,942,032	6,169,794
Exchange gain	-	14,642
	3,967,704	6,211,371
Income from non-financial assets		
Profit on disposal of property, plant and equipment	1,561	684
Colony electricity	5,309	4,889
Provisions and unclaimed balances written back	19,039	21,434
Others - note 28.1	47,100	82,839
	73,009	109,846
	4,040,713	6,321,217

28.1 Others include income from rent, scrap sales, housing facilities and miscellaneous items.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

	2016	2015
	(Rupees in thousand)	
29. Finance cost		
Interest and mark up including commitment charges on		
- long term loan from WAPDA - unsecured	185,589	261,218
- long term finances - secured	-	5,280
- finances under mark-up arrangements - secured	2,569,185	3,704,701
- credit supplies of raw material	419,719	2,259,925
- liabilities against assets subject to finance lease	6,040	9,578
Exchange loss	14,549	-
Bank and other charges	41,651	7,381
	<u>3,236,733</u>	<u>6,248,083</u>

30. Taxation		
Current tax		
- Current year	4,988,044	5,447,287
- Prior year	225	21,781
	<u>4,988,269</u>	<u>5,469,068</u>
Deferred tax	<u>(376,040)</u>	<u>(480,097)</u>
	<u>4,612,229</u>	<u>4,988,971</u>

30.1 Tax charge reconciliation	2016	2015
	%age	
Numerical reconciliation between the applicable tax rate and the average effective tax rate		
Applicable tax rate	32.00	33.00
One time super tax - note 30.2	3.00	3.00
Effect of change in tax rate	0.13	(1.23)
Effect of tax credit	(1.51)	(1.22)
Effect of prior period tax	-	0.15
Others	0.09	0.04
Average effective tax rate	<u>33.71</u>	<u>33.74</u>

30.2 It represents tax expense pertaining to super tax, which has been levied at the rate of 3% for the tax year 2016 on all the companies having taxable income of Rs 500 million or above through amendments introduced in the Income Tax Ordinance, 2001 vide Finance Act, 2016.

30.3 Section 5A of Income Tax Ordinance, 2001 imposed income tax at the rate of 10% on undistributed reserves where such reserves of the Company are in excess of its paid up capital and the Company does not distribute minimum prescribed threshold out of current year profits. The Company has distributed the requisite amount of dividend during the year and accordingly no provision has been recognized in these financial statements.



31. Remuneration of Directors, Chief Executive and Executives

31.1 The aggregate amount charged in the financial statements for the year for remuneration including certain benefits to the chief executive and executives of the Company is as follows:

	Chief Executive		Executives	
	2016 (Rupees in thousand)	2015	2016 (Rupees in thousand)	2015
Managerial remuneration including bonus and other allowances	57,815	53,681	496,306	443,118
Contribution to provident & pension funds and other retirement benefit plans	3,898	3,544	68,542	62,498
Leave passage	3,000	3,000	20,009	17,531
	<u>64,713</u>	<u>60,225</u>	<u>584,857</u>	<u>523,147</u>
Number of Persons	1	1	121	114

In addition to above, the Company also provides the Chief Executive and some of the Executives with Company transport, telephones and medical facilities.

31.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 6 directors (2015: 6 directors) is Rs 4 million (2015: Rs 3 million).

32. Transactions with related parties

The related parties comprise associated undertakings, key management personnel and post retirement benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due to/from related parties are shown under payables and receivables and remuneration of the key management personnel is disclosed in note 31. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transaction	2016	2015
		(Rupees in thousand)	
i. Associated undertakings	Sale of goods and electricity	64,178,389	101,480,570
	Interest expense	185,589	261,218
	Interest income on late payment	3,942,032	6,169,794
	Bad debts written off	6,414	9,266
	Provision for doubtful debts	45,840	33,842
	Dividend paid	3,623,072	3,119,867
	Purchase of services	1,402	2,241
ii. Post retirement benefit plans	Expense charged	218,073	241,647

Sale and purchase transactions with related parties are carried out on mutually agreed terms.

33. Non-adjusting events after the balance sheet date

The Board of Directors of the Company have proposed a final dividend for the year ended June 30, 2016 of Rs 4.75 (2015: Rs 4.75) per share amounting to Rs 4,181 million (2015: Rs 4,181 million) at their meeting held on September 1, 2016 for approval of members at the Annual General Meeting to be held on October 20, 2016. These financial statements do not reflect this dividend payable.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

	2016 MWh	2015 MWh
34. Capacity and production		
Annual dependable capacity based on 8,784 hours (2015: 8,760 hours)	11,788,128	11,756,064
Actual energy delivered	6,582,630	6,933,805
Capacity for the power plant taking into account all the planned scheduled outages is 10,583,936 MWh (2015: 11,159,830 MWh). Actual energy delivered by the plant is dependent on the load demanded by WAPDA and the plant availability.		
35. Rates of exchange		
Liabilities in foreign currencies as on June 30, 2016 have been translated into Rupees at USD 0.9551 (2015: USD 0.9833), EURO 0.8598 (2015: EURO 0.8788), GBP 0.7123 (2015: GBP 0.6254) and YEN 98.1740 (2015: YEN 121.7582) equal to Rs 100.		
36. Cash generated from operations	2016 (Rupees in thousand)	2015
Profit before tax	13,683,280	14,787,680
Adjustments for:		
- Depreciation on property, plant and equipment	2,222,620	2,105,136
- Amortization on intangible assets	4,857	4,703
- Depreciation on assets subject to finance lease	27,370	28,455
- Profit on disposal of property, plant and equipment	(1,561)	(684)
- Write down of property, plant and equipment	25	3,734
- Income on bank deposits	(22,816)	(23,870)
- Bad debts written off	6,414	9,266
- Provision for doubtful advances	94,274	-
- Provision / (reversal of provision) for store obsolescence	15,409	(37,911)
- Provision for doubtful debts	45,840	33,842
- Staff retirement benefits accrued	181,685	204,585
- Finance cost	<u>3,236,733</u>	<u>6,248,083</u>
Profit before working capital changes	19,494,130	23,363,019
Effect on cash flow due to working capital changes:		
- Decrease / (increase) in stores and spares	104,894	(530,760)
- Decrease in stock-in-trade	404,196	588,998
- Decrease / (increase) in trade debts	1,640,049	(5,024,566)
- (Increase) / decrease in loans, advances, deposits, prepayments and other receivables	(162,664)	295,210
- (Decrease) / increase in trade and other payables	<u>(11,883,236)</u>	<u>5,795,127</u>
	<u>(9,896,761)</u>	<u>1,124,009</u>
	<u>9,597,369</u>	<u>24,487,028</u>
37. Cash and cash equivalents		
Cash and bank balances	- note 23 597,650	675,312
Finances under mark-up arrangements - secured	- note 11 (41,346,145)	(32,871,918)
	<u>(40,748,495)</u>	<u>(32,196,606)</u>



		2016	2015
		(Rupees in thousand)	
38. Earnings per share			
38.1 Basic earnings per share			
Profit for the year	Rupees in thousand	9,071,051	9,798,709
Weighted average number of ordinary shares	Number	880,253,228	880,253,228
Earnings per share	Rupees	10.31	11.13

38.2 Diluted earnings per share

Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at June 30, 2016 and June 30, 2015 which would have any effect on the basic earnings per share.

39. Financial risk management

39.1 Financial risk factors

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

Risk management is carried out by the management in accordance with the Financial Risk Management Policy approved by the Board of Directors. This policy covers specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of this policy.

(a) Market risk

(i) Currency risk

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

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



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	2016	2015
Trade and other payables - USD	(359,745)	(736,471)
Advances to suppliers - USD	-	-
Net exposure - USD	(359,745)	(736,471)
Trade and other payables - GBP	(55,500)	(216,433)
Advances to suppliers - GBP	-	-
Net exposure - GBP	(55,500)	(216,433)
Trade and other payables - Euro	(1,356,420)	(439,965)
Advances to suppliers - Euro	-	-
Net exposure - Euro	(1,356,420)	(439,965)
The following exchange rates were applied during the year:		
Rupees per USD		
Average rate	104.24	101.28
Reporting date rate	104.70	101.70
Rupees per GBP		
Average rate	153.99	159.44
Reporting date rate	140.39	159.91
Rupees per Euro		
Average rate	115.72	124.78
Reporting date rate	116.31	113.79

If the functional currency, at reporting date, had fluctuated by 5% against the USD, GBP and Euro with all other variables held constant, the impact on profit after taxation for the year would have been Rs 7 million (2015: Rs 5 million) respectively lower/higher, mainly as a result of exchange gains/losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

(ii) Other price risk

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

(iii) Interest rate risk

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

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



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

	2016 (Rupees in thousand)	2015
Financial assets		
Fixed rate instruments		
Staff Loans	29,662	31,569
Floating rate instruments		
Bank balances - savings accounts	378,100	487,237
Financial liabilities		
Fixed rate instruments		
Long term loan - WAPDA	926,402	1,466,609
Floating rate instruments		
Liabilities against assets subject to finance lease	76,832	85,595
Finances under mark-up arrangements - secured	41,346,145	32,871,918
	41,422,977	32,957,513

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

If interest rates on late payments, liabilities against assets subject to finance lease and finances under mark-up arrangement, at the year end date, fluctuate by 1% higher/lower with all other variables held constant, profit after taxation for the year would have been Rs 17 million (2015: Rs 54 million) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

	2016 (Rupees in thousand)	2015
Long term loans and deposits	31,859	36,385
Trade debts	69,376,790	71,069,093
Loans, advances, deposits, prepayments and other receivables		
- Loans to employees - considered good	10,059	7,907
- Workers' Welfare Fund receivable from WAPDA	296,848	312,660
- Workers' Profit Participation Fund receivable from WAPDA	684,164	739,384
- Insurance claim receivable	-	99,594
- Security deposits	6,171	3,585
- Refundable from Workers' Profit Participation Fund	836	-
- Other receivables	3,467	5,189
Balances with banks	597,440	675,187
	71,007,634	72,948,984



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

	2016 (Rupees in thousand)	2015
Not yet due	10,730,915	11,826,313
Due past 90 days	14,185,764	28,033,950
Due past 90 to 180 days	16,089,739	15,105,998
Due past 181 to 365 days	7,767,190	3,734,541
Due past 365 days	20,603,182	12,368,291
	<u>69,376,790</u>	<u>71,069,093</u>

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

	Rating		Rating Agency	(Rupees in thousand)	
	Short term	Long term		2016	2015
National Bank of Pakistan	A-1+	AAA	JCR-VIS	962	11,016
Habib Bank Limited	A-1+	AAA	JCR-VIS	571,631	664,000
MCB Bank Limited	A1+	AAA	PACRA	24,625	-
Faysal Bank Limited	A-1+	AA	JCR-VIS	86	148
Standard Chartered Bank	A1+	AAA	PACRA	1	1
NIB Bank Limited	A1+	AA-	PACRA	8	8
Bank of Punjab	A1+	AA-	PACRA	98	-
Burj Bank Limited	A-2	BBB+	JCR-VIS	15	-
Deutsche Bank AG	A-2	BBB+	S&P Global	13	13
Citibank N.A.	A-1	A	S&P Global	1	1
				<u>597,440</u>	<u>675,187</u>

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

(c) Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At June 30, 2016, the Company had borrowing limits available from financial institutions at Rs 56,400 million (2015: Rs 46,670 million) and Rs 597 million (2015: Rs 675 million) in cash and bank balances. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.



The following are the contractual maturities of financial liabilities as at June 30, 2016:

	<u>Carrying amount</u>	<u>Less than one year</u>	<u>One to five years</u>	<u>More than five years</u>
	(Rupees in thousand)			
Long term loan - unsecured	926,402	540,207	386,195	-
Liabilities against assets subject to finance lease	76,832	28,850	47,982	-
Finances under mark-up arrangements - secured	41,346,145	41,346,145	-	-
Trade and other payables	15,841,712	15,841,712	-	-
	<u>58,191,091</u>	<u>57,756,914</u>	<u>434,177</u>	<u>-</u>

The following are the contractual maturities of financial liabilities as at June 30, 2015:

	<u>Carrying amount</u>	<u>Less than one year</u>	<u>One to five years</u>	<u>More than five years</u>
	(Rupees in thousand)			
Long term loan - unsecured	1,466,609	540,207	926,402	-
Liabilities against assets subject to finance lease	85,595	27,034	58,561	-
Finances under mark-up arrangements - secured	32,871,918	32,871,918	-	-
Trade and other payables	27,580,419	27,580,419	-	-
	<u>62,004,541</u>	<u>61,019,578</u>	<u>984,963</u>	<u>-</u>

39.2 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms. The carrying values of all financial assets and liabilities reflected in these financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date

Specific valuation techniques used to value financial instruments include:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of reporting date, there were no Level 1, 2 or 3 assets or liabilities during prior or current year.



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		<u>Loans and receivables</u>	
		2016	2015
		(Rupees in thousand)	
39.3 Financial instruments by categories			
Financial assets as per balance sheet			
Long term loans and deposits		31,859	36,385
Trade debts		69,376,790	71,069,093
Loans, advances, deposits, prepayments and other receivables			
- Loans to employees - considered good		10,059	7,907
- Workers' Welfare Fund receivable from WAPDA		296,848	312,660
- Workers' Profit Participation Fund receivable from WAPDA		684,164	739,384
- Insurance claim receivable		-	99,594
- Security deposits		6,171	3,585
- Refundable from Workers' Profit Participation Fund		836	-
- Other receivables		3,467	5,189
Cash and bank balances		597,650	675,312
		<u>71,007,844</u>	<u>72,949,109</u>
Financial liabilities at amortized cost			
		2016	2015
		(Rupees in thousand)	
Financial liabilities as per balance sheet			
Long term loan - unsecured		926,402	1,466,609
Liabilities against assets subject to finance lease		76,832	85,595
Finances under mark-up arrangements - secured		41,346,145	32,871,918
Trade and other payables		15,841,712	27,580,419
		<u>58,191,091</u>	<u>62,004,541</u>

39.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Company monitors the capital structure on the basis of gearing ratio.

This ratio is calculated as debt divided by total capital. Debt is calculated as total borrowings including current and non-current borrowings, as disclosed in note 7. Total capital is calculated as 'equity' shown in the balance sheet plus debt. The gearing ratio as at year ended June 30, 2016 and June 30, 2015 are as follows:

		2016	2015
		(Rupees in thousand)	
Debt	- note 7	926,402	1,466,609
Total equity		30,955,088	29,728,609
Total capital		<u>31,881,490</u>	<u>31,195,218</u>
Gearing ratio	Percentage	3	5



40. Number of employees

Total number of employees at year end and average number of employees during the year are 604 (2015: 604) and 602 (2015: 589) respectively.

41. Corresponding figures

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

42. Date of authorisation for issue

These financial statements were authorised for issue on September 1, 2016 by the Board of Directors of the Company.

Aftab Mahmood Butt
(Chief Executive)

Anwar ul Haq
(Director)

