

## Directors Report For the Period Ended March 31, 2009 (Un-audited)

On behalf of the Board of Directors, I am pleased to present the un-audited financial statements of Kot Addu Power Company Limited for the nine months period (ended March 31, 2009).

The Company's turnover during the review period was Rs. 52,978 Million (Rs. 36,904 Million in Jul 07 - Mar 08) and Cost of Sales was Rs. 44,942 Million (Rs. 30,133 Million in Jul 07 - Mar 08). Profit from operations was Rs. 11,608 Million (Rs. 7,257 Million in Jul 07 - Mar 08). Profit after tax during the review period was Rs. 4,176 Million (Rs. 3,823 Million in Jul 07 - Mar 08). This translates into Earnings per Share of Rs. 4.74 per share (Rs. 4.34 per share in Jul 07 - Mar 08).

From January 1, 2009 to March 31, 2009, the Power Plant generated 1782 GWh of electricity at a load factor of 61.7 % and with an overall availability of 77.4 %. The fuel mix for the dispatched output to the Company's customer (WAPDA) was 96.6% on low sulphur furnace oil, 3.2% on high speed diesel, and 0.2% on gas.

The Company's customer (WAPDA) caused payment/adjustment of Rs. 39,869 Million to be made against capacity, energy and other invoices (net of withholding tax). Receipt includes adjustment of overdue amount from WAPDA under circular debt resolution for Rs 31,868 Million on March 30, 2009. The Company continues to actively pursue WAPDA for settlement of remaining out standings.

On March 31, 09, the Company achieved 4,516,390 man hours worked without a Lost Time Accident.

During January 1, 09 to March 21, 09, major overhaul of three Gas Turbines; and Combustion Inspection of four Gas Turbine were successfully completed according to plan.

No provision for Worker's Profit Participation Fund was made in the Company's financial statements until June 30, 2006 as the Company's position with respect to Workers Profit Participation Fund has been that since it did not employ any person who fell under the definition of Worker as defined in the Companies Profit (Workers' Participation) Act, 1968, the Company was not required to establish a fund and consequently not required to make contributions to the fund established pursuant to the Workers' Welfare Fund Ordinance, 1971. Following the amendments in the Finance Act, 2006 in relation to the Companies Profit (Workers' Participation) Act, 1968 the Company established the Workers Profit Participation Fund for the period commencing from July 1, 2006 in accordance with the provisions of the law; and the cost of which is a pass through to WAPDA.

The Company continues to pursue the expansion of its generation capacity (proposed). Continuation of the activities related to the expansion project is no assurance/guarantee at this stage that the Company will increase its generation capacity.

On behalf of the Board



Aftab Mahmood Butt  
Chief Executive

Lahore: April 21, 2009

**CONDENSED INTERIM BALANCE SHEET AS AT MARCH 31, 2009 (UN-AUDITED)**

	March 31, 2009	June 30, 2008		March 31, 2009	June 30, 2008
Note	(Rupees in thousands)		Note	(Rupees in thousands)	
<b>EQUITY AND LIABILITIES</b>			<b>ASSETS</b>		
<b>CAPITAL AND RESERVES</b>			<b>NON-CURRENT ASSETS</b>		
Authorised capital 3,600,000,000 (June 2008: 3,600,000,000) ordinary shares of Rs 10 each	<u>36,000,000</u>	<u>36,000,000</u>	Property, plant and equipment	7 18,874,907	19,683,665
Issued, subscribed and paid up capital 880,253,228 (June 2008: 880,253,228) ordinary shares of Rs 10 each	8,802,532	8,802,532	Intangible assets	3,626	2,398
Capital reserve	444,451	444,451	Assets subject to finance lease	41,054	36,525
Unappropriated profit	<u>12,339,546</u>	<u>12,081,025</u>	Capital work-in-progress	197,247	133,276
	<u>21,586,529</u>	<u>21,328,008</u>	Long term loans and deposits	<u>30,574</u>	<u>25,254</u>
				<u>19,147,408</u>	<u>19,881,118</u>
<b>NON-CURRENT LIABILITIES</b>			<b>CURRENT ASSETS</b>		
Long term loan-unsecured	5,597,332	6,047,191	Stores and spares	2,802,793	2,551,182
Liabilities against assets subject to finance lease	40,891	30,924	Stock-in-trade	1,507,415	2,191,568
Deferred liabilities	<u>2,908,929</u>	<u>2,729,895</u>	Trade debts	23,258,823	29,303,453
	8,547,152	8,808,010	Loans, advances, deposits, prepayments and other receivables	2,064,977	2,857,701
<b>CURRENT LIABILITIES</b>			Cash and bank balances	<u>249,805</u>	<u>179,439</u>
Current portion of long term liabilities	907,304	906,342		29,883,813	37,083,343
Finances under mark-up arrangements - secured	6,079,246	23,637,028			
Trade and other payables	<u>11,910,990</u>	<u>2,285,073</u>			
	18,897,540	26,828,443			
<b>CONTINGENCIES AND COMMITMENTS</b>					
	<u>49,031,221</u>	<u>56,964,461</u>		<u>49,031,221</u>	<u>56,964,461</u>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT**  
**FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2009 (UN-AUDITED)**

	Note	Quarter ended		Nine months ended	
		March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
(Rupees in thousand)					
Sales		13,321,193	14,641,185	52,977,703	36,904,286
Cost of sales	9	(10,723,076)	(12,441,627)	(44,941,694)	(30,133,213)
<b>Gross profit</b>		2,598,117	2,199,558	8,036,009	6,771,073
Administrative expenses		(102,417)	(64,415)	(435,158)	(233,485)
Other operating income		1,841,303	255,384	4,007,231	719,865
<b>Profit from operations</b>		4,337,003	2,390,527	11,608,082	7,257,453
Finance cost		(2,085,641)	(535,432)	(5,187,326)	(1,377,731)
<b>Profit before tax</b>		2,251,362	1,855,095	6,420,756	5,879,722
Taxation		(787,069)	(649,301)	(2,245,108)	(2,056,261)
<b>Profit for the period</b>		<u>1,464,293</u>	<u>1,205,794</u>	<u>4,175,648</u>	<u>3,823,461</u>
Earnings per share					
- basic & diluted	<b>Rupees</b>	<u>1.66</u>	<u>1.37</u>	<u>4.74</u>	<u>4.34</u>

Appropriations have been reflected in the statement of changes in equity.  
The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

**CONDENSED INTERIM CASH FLOW STATEMENT  
FOR THE NINE MONTHS ENDED MARCH 31, 2009 (UN-AUDITED)**

	Note	Nine months ended	
		March 31, 2009	March 31, 2008
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from operations	11	27,667,431	(360,082)
Finance cost paid		(3,241,965)	(1,197,738)
Taxes paid		(2,047,051)	(1,860,090)
Staff retirement benefits paid		(16,281)	(299)
<b>Net cash from/(used in) operating activities</b>		<b>22,362,134</b>	<b>(3,418,209)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(373,093)	(84,913)
Income on bank deposits received		1,058	2,369
Net increase in long term loans and deposits		(5,320)	(6,327)
Sale proceeds of property, plant and equipment		470	7,236
<b>Net cash used in investing activities</b>		<b>(376,885)</b>	<b>(81,635)</b>
<b>Cash flows from financing activities</b>			
Repayment of liabilities against assets subject to finance lease		(5,368)	(3,303)
Repayment of long term loan		(449,858)	(449,858)
Dividend paid		(3,901,875)	(2,639,061)
<b>Net cash used in financing activities</b>		<b>(4,357,101)</b>	<b>(3,092,222)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17,628,148</b>	<b>(6,592,066)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>(23,457,589)</b>	<b>(6,222,344)</b>
<b>Cash and cash equivalents at the end of the period</b>	12	<b>(5,829,441)</b>	<b>(12,814,410)</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED MARCH 31, 2009 (UN-AUDITED)**

(Rupees in thousand)

	Share capital	Capital reserve	Un-appro- priated profit	Total
<b>Balance as on June 30, 2007</b>	8,802,532	444,451	9,616,465	18,863,448
Final dividend for the year ended June 30, 2007 - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Profit for the period	-	-	3,823,461	3,823,461
Interim dividend - Rs 3.25 per share	-	-	<u>(2,860,823)</u>	<u>(2,860,823)</u>
<b>Balance as on March 31, 2008</b>	8,802,532	444,451	7,938,343	17,185,326
Profit for the period	-	-	<u>4,142,682</u>	<u>4,142,682</u>
<b>Balance as on June 30, 2008</b>	8,802,532	444,451	12,081,025	21,328,008
Final dividend for the year ended June 30, 2008 - Rs 2.20 per share	-	-	(1,936,557)	(1,936,557)
Profit for the period	-	-	4,175,648	4,175,648
Interim dividend - Rs 2.25 per share	-	-	<u>(1,980,570)</u>	<u>(1,980,570)</u>
<b>Balance as on March 31, 2009</b>	<u>8,802,532</u>	<u>444,451</u>	<u>12,339,546</u>	<u>21,586,529</u>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

**NOTES TO AND FORMING PART OF THE FINANCIAL INFORMATION  
FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2009 (UN-AUDITED)**

1. This condensed interim financial information is un-audited and is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges.
2. The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of preceding annual published financial statements of the Company for the year ended June 30, 2008.
3. This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting'.
4. Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

**5. Trade and other payables**

Trade creditors include payable to Pakistan State Oil amounting to Rs 8,095 million (June 2008: Rs 137 million).

**6. Contingencies and commitments**

**6.1 Contingencies**

- (i) The management, on the strength of a favourable judgment by Sindh High Court, revised the income tax returns of the Company for tax years 2003 through 2007 to the effect that:

(a) depreciation and initial allowance earlier claimed in respect of assets in the original income tax returns for tax periods upto June 27, 2006 were not claimed being the date upto which Company was exempt from levy of income tax; and

(b) the respective taxable incomes of the tax periods subsequent to June 27, 2006 were reduced by significant amounts given to the position that in such tax periods, Company became entitled to an enhanced claim of depreciation and initial allowance attributable to an increased written down value of assets at commencement of such periods.

The overall impact of such revisions in income tax returns was a reversal of current and deferred tax provisions by Rs 1,621.164 million and Rs 1,105.092 million respectively. The relevant income tax authorities disputing Company's contentions mitigated the effect of revisions of returns by amending such revised returns and restoring the earlier position.

Against the foregoing amended assessments, Company's appeal before Commissioner of Income Tax (Appeals) was rejected by maintaining the tax department's position. Aggrieved with the decision, Company has plan to file appeal before Income Tax Appellate Tribunal. In view of the fact that management considers the revisions of income tax returns to be in accordance with relevant provisions of law, as interpreted by Sindh High Court, and that litigation would eventually be settled in Company's favour, the income tax liabilities determined by tax authorities have not been accounted for in these financial statements. Had such liabilities been recognized, the profit for the period would have been lower by Rs 2,713.908 million.

(c) Based on the facts stated above, the amended assessment order for tax year 2008 has also been issued under section 122(5A). Tax authorities have restored the Company to the position, had the tax returns for 2003 through 2007 not been revised. Aggrieved by the said assessment order, Company has decided to file an appeal before Commissioner of Income Tax (Appeals).

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

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

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

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

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

If it is established that the scheme is applicable to the Company and the Company is liable to pay contribution to the Workers' Welfare Fund then these amounts would be recoverable from WAPDA as a pass through item under the provisions of Power Purchase Agreement. However it is not certain presently whether or not any penalties payable in connection with this contribution would also be recoverable from WAPDA under the Power Purchase Agreement.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3.463 billion (June 2008: Rs 3.463 billion). Further, if it is established that interest is also applicable the maximum liability for interest would amount to Rs 14.145 billion (June 2008: Rs 12.397 billion) as on the date of this condensed interim financial information.

Based on the above grounds, the Company did not make any provision for Workers' Profit Participation Fund and interest thereon in the financial statements upto June 30, 2006, as according to the management of the Company, there are meritorious grounds that the ultimate decision would be in its favour.

- (iii) Claims against the Company not acknowledged as debts Rs 88.111 million (June 2008: Rs 58.576 million).
- (iv) The Company has provided guarantee in favour of Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 977.581 million (June 2008: Rs 1,185.827 million).

## 6.2 Commitments

- (i) Contracts for capital expenditure Rs 11.415 million (June 2008: Rs 13.149 million).
- (ii) Letters of credit other than for capital expenditure Rs 299.504 million (June 2008: Rs 219.373 million).

	<b>March 31, 2009</b>	<b>June 30, 2008</b>
	<b>(Rupees in thousand)</b>	
<b>7. Property, plant and equipment</b>		
Opening book value	19,683,665	21,174,460
Add: Additions during the period - note 7.1	311,726	66,636
	<u>19,995,391</u>	<u>21,241,096</u>
Less: Disposals during the period (at book value)	-	6,489
Depreciation charged during the period	<u>1,120,484</u>	<u>1,550,942</u>
	<u>1,120,484</u>	<u>1,557,431</u>
Closing book value	<u>18,874,907</u>	<u>19,683,665</u>

	March 31, 2009	June 30, 2008
	(Rupees in thousand)	
<b>7.1 Following is the detail of additions during the period</b>		
Buildings on freehold land	314	7,490
Plant and machinery	13,542	29,203
Gas turbine blading	293,304	1,966
Auxiliary plant and machinery	2,323	14,210
Office equipment	2,243	13,703
Vehicles	-	64
	<u>311,726</u>	<u>66,636</u>
<b>8. Trade debts</b>		
Trade debts	- note 8.1	23,327,576
Less: Provision for doubtful debts		68,753
		<u>23,258,823</u>
		<u>29,303,453</u>

**8.1** These are considered good and include an overdue amount of Rs 14,547 million (June 2008: Rs 20,341 million) receivable from WAPDA. 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.

	Quarter ended		Nine months ended	
	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
	(Rupees in thousand)			
<b>9. Cost of sales</b>				
Fuel cost	9,850,183	11,660,689	42,804,335	28,073,517
Salaries, wages and benefits	136,466	102,859	467,528	358,159
Plant maintenance	37,100	35,197	106,325	111,004
Gas turbines overhauls	298,457	132,629	387,396	208,915
Repair and renewals	28,406	120,358	59,883	205,182
Depreciation on property, plant and equipment	366,064	379,410	1,094,462	1,145,129
Amortisation on intangible assets	290	252	804	618
Provision for store obsolescence	6,110	10,233	20,961	30,689
	<u>10,723,076</u>	<u>12,441,627</u>	<u>44,941,694</u>	<u>30,133,213</u>

#### 10. Transactions with related parties

Relationship with the Company	Nature of transaction	March 31, 2009	June 30, 2008
		(Rupees in thousand)	
i. Associated undertakings	Purchase of services	327	876
	Sale of electricity	52,977,703	36,904,286
	Interest expense	712,990	810,258
	Interest income on late payment	3,990,754	703,727
	Donations	-	10,000
ii. Post retirement benefit plans	Expense charged	58,678	43,498
iii. Key management personnel	Sale of property, plant and equipment	-	1,733
	Compensation	77,059	44,548
		<b>March 31, 2009</b>	<b>June 30, 2008</b>
		<b>(Rupees in thousand)</b>	
<b>Period end balances</b>			
Receivable from related parties		23,710,577	30,383,952
Payable to related parties		348,143	115,215



	<b>Nine months ended</b>	
	<b>March 31, 2009</b>	<b>March 31, 2008</b>
	<b>(Rupees in thousand)</b>	
<b>11. Cash generated from operations</b>		
Profit before tax	6,420,756	5,879,722
Adjustments for:		
- Depreciation on property, plant and equipment	1,120,484	1,171,861
- Amortisation on intangible assets	804	618
- Depreciation on assets subject to finance lease	7,132	5,043
- Profit on disposal of property, plant and equipment	(470)	(1,024)
- Income on bank deposits	(458)	(1,739)
- Advances written off	436	581
- Provision for stores obsolescence	20,961	30,689
- Bad debts written off	8,927	-
- Provision for doubtful debts	26,462	10,500
- Staff retirement benefits accrued	47,328	34,375
- Finance cost	5,187,326	1,377,731
<b>Profit before working capital changes</b>	<b>12,839,688</b>	<b>8,508,357</b>
Effect on cash flow due to working capital changes		
- Increase in stores and spares	(272,573)	(46,866)
- Decrease/(increase) in stock-in-trade	684,152	(365,317)
- Decrease/(increase) in trade debts	6,009,242	(6,693,428)
- Decrease/(increase) in loans, advances, deposits, prepayments and other receivables	741,619	(1,553,552)
- Increase/(decrease) in trade and other payables	7,665,303	(209,276)
	<u>14,827,743</u>	<u>(8,868,439)</u>
	<u>27,667,431</u>	<u>(360,082)</u>
	<b>March 31, 2009</b>	<b>March 31, 2008</b>
	<b>(Rupees in thousand)</b>	
<b>12. Cash and cash equivalents</b>		
Cash and bank balances	249,805	215,935
Finances under mark up arrangements	(6,079,246)	(13,030,345)
	<u>(5,829,441)</u>	<u>(12,814,410)</u>
<b>13. Date of authorization for issue</b>		
This condensed interim financial information was authorized for issue on April 21, 2009 by the Board of Directors of the Company.		
<b>14. Corresponding figures</b>		
Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.		

  
Chief Executive

  
Director