Review Report to the Members

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Kot Addu Power Company Limited (the Company) to comply with the Listing Regulation No. 37, 43 and 36 of the Karachi, Lahore and Islamabad Stock Exchanges respectively, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at armís length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2010.

Lahore,
September 1, 2010

A. F. Ferguson & Co.
Chartered Accountants

Name of engagement partner: Imran Farooq Mian

Auditors' Report to the Members

We have audited the annexed balance sheet of Kot Addu Power Company Limited (The Company) as at June 30, 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2010 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

(e) Without qualifying our opinion, we draw attention to note 13.1(iv) to the financial statements. The Company has not made any provision for liquidated damages for the year ended June 30, 2010 as management in consultation with its legal counsel is of the view that the plant was technically available to deliver the electricity and failure to dispatch was consequential to shortage of fuel due to default in payments by WAPDA. The ultimate outcome of the matter cannot presently be determined, and no provision for any liquidated damages that may result has been made in the financial statements.

Lahore,
September 1, 2010

A. F. Ferguson & Co.
Chartered Accountants

Name of engagement partner: Imran Farooq Mian

Balance Sheet
as at June 30, 2010

	Note	2010	2009
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
3,600,000,000 (2009: 3,600,000,000) ordinary shares of Rs 10 each		36,000,000	36,000,000
Issued, subscribed and paid up capital			
880,253,228 (2009: 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		13,247,745	13,836,253
		22,494,728	23,083,236
NON-CURRENT LIABILITIES			
Long term loan - unsecured	7	4,247,761	5,147,476
Liabilities against assets subject to finance lease	8	45,728	46,214
Deferred liabilities	9	3,178,013	2,943,032
		7,471,502	8,136,722
CURRENT LIABILITIES			
Current portion of long term liabilities	10	912,181	908,568
Finances under mark-up arrangements - secured	11	17,230,710	8,617,641
Trade and other payables	12	29,490,972	19,213,087
		47,633,863	28,739,296
CONTINGENCIES AND COMMITMENTS	13		
		77,600,093	59,959,254

The annexed notes 1 to 41 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

	Note	2010	2009
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	17,800,135	18,504,118
Intangible assets	15	2,415	3,335
Assets subject to finance lease	16	50,476	46,745
Capital work-in-progress	17	81,068	212,606
Long term loans and deposits	18	31,515	29,621
		17,965,609	18,796,425
CURRENT ASSETS			
Stores and spares	19	3,183,207	3,131,479
Stock-in-trade	20	2,267,205	1,967,212
Trade debts	21	51,702,270	32,721,969
Loans, advances, deposits, prepayments and other receivables	22	2,237,806	2,941,816
Cash and bank balances	23	243,996	400,353
		59,634,484	41,162,829
		77,600,093	59,959,254

Malcolm P. Clampin
(Director)

Profit and Loss Account
for the year ended June 30, 2010

		Note	2010	2009
			(Rupees in thousand)	
Sales		24	85,934,854	69,363,913
Cost of sales		25	(76,010,946)	(58,373,072)
Gross profit			9,923,908	10,990,841
Administrative expenses		26	(450,701)	(692,415)
Other operating expenses		27	(180,589)	(34,852)
Other operating income		28	3,773,832	4,869,530
Profit from operations			13,066,450	15,133,104
Finance cost		29	(5,335,919)	(6,410,224)
Profit before tax			7,730,531	8,722,880
Taxation		30	(2,641,405)	(3,050,525)
Profit for the year			5,089,126	5,672,355
Earnings per share	Rupees	38	5.78	6.44

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 41 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

Statement of Comprehensive Income
for the year ended June 30, 2010

	2010	2009
	(Rupees in thousand)	
Profit for the year	5,089,126	5,672,355
Other comprehensive income	-	-
Total comprehensive income for the year	5,089,126	5,672,355

The annexed notes 1 to 41 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

Cash Flow Statement
for the year ended June 30, 2010

	Note	2010	2009
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	36	3,838,786	28,325,266
Finance cost paid		(3,412,964)	(4,372,789)
Taxes paid		(1,715,604)	(3,501,346)
Staff retirement benefits paid		(28,771)	(23,139)
Net cash (used in)/from operating activities		(1,318,553)	20,427,992
Cash flows from investing activities			
Fixed capital expenditure		(899,574)	(396,029)
Income on bank deposits received		1,126	1,094
Net increase in long term loans and deposits		(1,894)	(4,367)
Proceeds from sale of property, plant and equipment		3,554	1,864
Net cash used in investing activities		(896,788)	(397,438)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(12,030)	(7,105)
Repayment of long term loan		(899,715)	(899,715)
Dividend paid		(5,642,340)	(3,883,433)
Net cash used in financing activities		(6,554,085)	(4,790,253)
Net (decrease)/increase in cash and cash equivalents		(8,769,426)	15,240,301
Cash and cash equivalents at beginning of the year		(8,217,288)	(23,457,589)
Cash and cash equivalents at the end of the year	37	(16,986,714)	(8,217,288)

The annexed notes 1 to 41 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

Statement of Changes in Equity
for the year ended June 30, 2010

				(Rupees in thousand)
	Share capital	Capital reserve	Un-appropriated profit	Total
Balance as on June 30, 2008	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)
Total comprehensive income for the year	-	-	5,672,355	5,672,355
Interim dividend - Rs 2.25 per share	-	-	(1,980,570)	(1,980,570)
Balance as on June 30, 2009	8,802,532	444,451	13,836,253	23,083,236
Final dividend for the year ended June 30, 2009 - Rs 4.20 per share	-	-	(3,697,064)	(3,697,064)
Total comprehensive income for the year	-	-	5,089,126	5,089,126
Interim dividend - Rs 2.25 per share	-	-	(1,980,570)	(1,980,570)
Balance as on June 30, 2010	8,802,532	444,451	13,247,745	22,494,728

The annexed notes 1 to 41 form an integral part of these financial statements.

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

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. 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.

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 differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives 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 to published standards and interpretations effective in current year

- IAS 1 (Revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The company has preferred to present two statements; a profit and loss account and a statement of comprehensive income. These financial statements have been prepared under revised disclosure requirements.

- Certain amendments to IAS 23 'Borrowing Costs' have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after July 01, 2009. Adoption of these amendments has required the Company to capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs has been removed. Its adoption did not have any impact on the Company's financial statements.

- IFRS 7 'Financial instruments – Disclosures' (Amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. These financial statements have been prepared under revised disclosure requirements. However, there is no impact on earnings per share.

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 (accounting periods beginning on or after)
IAS 27 (Revised), 'Consolidated and Separate Financial Statements'	July 1, 2009
IFRS 3 (Revised), 'Business Combinations'	July 1, 2009
IFRS 8, 'Operating Segments'	January 1, 2009
IFRIC 17, 'Distribution of non-cash assets to owners'	July 1, 2009
IFRIC 18, 'Transfer of Assets from Customers'	July 1, 2009

2.2.3 Standards, amendments and interpretation to existing standards that are not yet effective

- IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' is applicable for periods beginning on or after January 1, 2006, however, Independent Power Producers (IPPs), whose letter of intent has been/will be signed on or before June 30, 2010, have been exempted from its application by Securities and Exchange Commission of Pakistan (SECP). 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 International Accounting Standard (IAS) 17, 'Leases'.

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

	2010	2009
	(Rupees in thousand)	
De-recognition of property, plant and equipment	(17,770,923)	(18,476,591)
Recognition of lease debtor	10,791,628	11,620,754
Decrease in unappropriated profit at the beginning of the year	(4,150,742)	(4,387,308)
(Decrease)/increase in profit for the year	(72,785)	236,566
Decrease in unappropriated profit at the end of the year	(4,223,527)	(4,150,742)

- 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.

During the year, the Government of Pakistan introduced Benazir Employees' Stock Option Scheme ('BESOS') for the benefit of employees of certain government owned companies which included Kot Addu Power Company Limited . BESOS requires formation of a Trust to which 12% of the shares of the company held by WAPDA are to be transferred. Employees of the Company eligible for the scheme are to be allotted units from the Trust which will be surrendered on the employee's retirement and payment equivalent to the market value of the surrendered units will be made to the employee by a fund to be maintained by the Privatisation Commission. In case of the Company the Trust has not been formed to date. The amended IFRS 2 would be applicable to the Company's financial statements from the financial year starting from July 1, 2010 and as such there is no financial impact on the current financial statements.

Management believes that amended IFRS 2 is not applicable to the scheme. However, ICAP has been requested to provide further guidance on the accounting implications of BESOS under the requirements of the amended IFRS 2. Pending clarification on the issue by ICAP, the financial impact, if any, on the future financial statements of the Company arising from implementation of BESOS has not been quantified at this stage.

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

Standards or Interpretations	Effective date (accounting periods beginning on or after)
IAS 1 (Amendment), 'Presentation of Financial Statements'	January 1, 2010
IAS 24 (Revised), 'Related Party Disclosures'	January 1, 2011
IAS 32 (Amendment), 'Financial Instruments - Presentation: Classification of Right Issues'	February 1, 2010
IAS 36 (Amendment), 'Impairment of Assets'	January 1, 2010
IFRS 5 (Amendment), 'Measurement of Non-Current Assets (or disposal groups) Classified as Held-For-Sale'	January 1, 2010
IFRS 9, 'Financial Instruments'	January 1, 2013
IFRIC 14, (Amendment), 'Prepayment of a Minimum Funding Requirement'	January 1, 2011
IFRIC 19, 'Extinguising Financial Liabilities with Equity Instruments'	July 1, 2010

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 is in accordance with law, the amounts are shown 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 upto 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. upto June 27, 2006.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences 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, 2010. The actual return on plan assets during the year was Rs 102.510 million (2009: Rs 99.192 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 12.75 percent per annum (2009: 11.5 percent per annum).
- Expected rate of increase in salary level 12.75 percent per annum (2009: 7.4 percent for 2010 and 11.5 percent for subsequent years).
- Expected rate of increase in pension 7.75 percent per annum (2009: 6.5 percent per annum).
- Expected rate of return on plan assets 12.75 percent per annum (2009: 11.5 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 47.279 million to the pension fund in the next year ending June 30, 2011.

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 'Employee Benefits'.

(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 dependant 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 currently. The latest actuarial valuation was carried out as at June 30, 2010.

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

- Discount rate 12.75 percent per annum (2009: 11.5 percent per annum).
- Expected rate of increase in medical cost 9.75 percent per annum (2009: 8.5 percent per annum).
- Expected rate of increase in electricity benefit 12.75 percent per annum (2009: 11.5 percent per annum).

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 Pakistan Water and Power Development Authority (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 on 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 14.

The assets' residual values and estimated useful lives are reviewed at each financial year end and adjusted if impact on depreciation is significant.

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 with useful life span of 10 years. All blades are depreciated 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 amortisation and any identified impairment loss. Intangible assets are amortised using the straight line method over a period of five years.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised, while no amortisation 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 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 amortisation 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. 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.

4.8 Stock in trade

Stock in trade except for those in transit are valued at lower of cost based on 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 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 amortised 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 or loss. Financial assets carried at fair value through profit or loss 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 amortised 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.

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 measures the investments at cost less impairment in value, if any.

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 or 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 amortised 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 amortised 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 Pak Rupees 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 upto 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. Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

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

2010	2009		2010	2009
(Number of shares)			(Rupees in thousand)	
253,000	253,000	Ordinary shares of Rs 10 each fully paid in cash	2,530	2,530
880,000,228	880,000,228	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	8,800,002	8,800,002
880,253,228	880,253,228		8,802,532	8,802,532

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

	2010	2009
	(Number of shares)	
Pakistan Water and Power Development Authority (WAPDA)	402,563,562	402,563,562
National Power (Kot Addu) Limited (a wholly owned subsidiary of International Power plc)	316,891,159	316,891,159
	719,454,721	719,454,721

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.

7. Long term loan - unsecured

Lender	Currency	2010	2009	Rate of interest per annum	No of semi annual installments	Interest payable
		(Rupees in thousand)				
WAPDA - Related party	PKR	5,147,476	6,047,191	14%	16, ending June 2018	Semi annually
Less: Current maturity		899,715	899,715			
		4,247,761	5,147,476			

8. Liabilities against assets subject to finance lease

	2010	2009
	(Rupees in thousand)	
Present value of minimum lease payments	58,194	55,067
Less: Current portion shown under current liabilities	12,466	8,853
	45,728	46,214

Minimum lease payments have been discounted at an implicit interest rate ranging from 13.41 to 15.25 percent per annum (2009: 14.47 to 16.68 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.

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

			Rupees in thousand	
Years	Minimum lease payment	Future finance charge	Present value of lease liability 2010	2009
Not later than one year	19,761	7,295	12,466	8,853
Later than one year and not later than five years	54,571	8,843	45,728	46,214
	74,332	16,138	58,194	55,067

		2010	2009
		(Rupees in thousand)	
9. Deferred Liabilities			
Deferred taxation	- note 9.1	2,765,161	2,576,733
Staff retirement benefits	- note 9.2	412,852	366,299
		3,178,013	2,943,032
9.1 Deferred taxation			
The liability for deferred taxation comprises of timing differences relating to:			
Accelerated tax depreciation		2,855,200	2,661,691
Provision for store obsolescence		(31,003)	(29,747)
Provision for doubtful debts		(38,669)	(35,938)
Liabilities against assets subject to finance lease		(20,367)	(19,273)
		2,765,161	2,576,733
The gross movement in deferred tax liability during the year is as follows:			
Opening balance		2,576,733	2,402,469
Charge during the year		188,428	174,264
Closing balance		2,765,161	2,576,733
9.2 Staff retirement benefits			
These are composed of:			
Pension	- note 9.2.1	8,427	744
Medical	- note 9.2.2	160,893	149,748
Free electricity	- note 9.2.2	243,532	215,807
		412,852	366,299

	2010	2009
	(Rupees in thousand)	

9.2.1 Pension

The amounts recognised in the balance sheet are as follows:

Present value of defined benefit obligation	981,216	823,819
Fair value of plan assets	(908,157)	(805,960)
Unrecognised actuarial gains	(64,632)	(17,115)
Liability as at June 30	8,427	744

Liability as at July 1	744	1,298
Charge to profit and loss account	33,796	20,944
Contribution paid by the Company	(26,113)	(21,498)
Liability as at June 30	8,427	744

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

Present value of defined benefit obligation as at July 1	823,819	658,959
Current service cost	31,413	25,520
Interest cost for the year	94,754	79,075
Benefits paid during the year	(24,015)	(9,462)
Experience loss on liability	55,245	69,727
Present value of defined benefit obligation as at June 30	981,216	823,819

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

Fair value as at July 1	805,960	694,732
Expected return on plan assets	92,371	83,651
Company contribution	26,113	21,498
Benefits paid during the year	(24,015)	(9,462)
Experience gain on plan assets	7,728	15,541
Fair value as at June 30	908,157	805,960

Plan assets are comprised as follows:

Mutual funds	5%	3%
Debt	89%	74%
Cash	6%	23%
	100%	100%

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

	2010	2009	2008	2007	2006
			(Rupees in thousand)		
As at June 30					
Present value of defined benefit obligation	981,216	823,819	658,959	524,958	401,056
Fair value of plan assets	(908,157)	(805,960)	(694,732)	(590,283)	(498,170)
Deficit/(surplus)	73,059	17,859	(35,773)	(65,325)	(97,114)
Experience adjustment on obligation	-6%	-9%	-13%	-18%	7%
Experience adjustment on plan assets	1%	2%	8%	11%	10%

9.2.2

	Post Retirement Medical		Post Retirement Free electricity	
	2010	2009	2010	2009
	(Rupees in thousand)		(Rupees in thousand)	
The amounts recognised in the balance sheet are as follows:				
Present value of defined benefit obligation	91,441	102,280	239,075	190,619
Unrecognised actuarial gains	69,452	47,468	4,457	25,188
Liability as at June 30	160,893	149,748	243,532	215,807
Liability as at July 1	149,748	132,776	215,807	193,352
Charge to profit and loss account	12,764	18,128	28,764	22,940
Contribution paid by the Company	(1,619)	(1,156)	(1,039)	(485)
Liability as at June 30	160,893	149,748	243,532	215,807
The movement in the present value of defined benefit obligation is as follows:				
Present value of defined benefit obligation as at July 1	102,280	116,906	190,619	153,849
Current service cost	3,519	4,215	6,941	5,891
Interest cost for the year	11,905	14,212	22,261	18,772
Benefits paid during the year	(1,619)	(1,156)	(1,039)	(485)
Experience (gain)/loss on liability	(24,644)	(31,897)	20,293	12,592
Present value of defined benefit obligation as at June 30	91,441	102,280	239,075	190,619

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:

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2010

	2010	2009	2008	2007	2006
	Post Retirement Medical (Rupees in thousand)				
As at June 30					
Present value of defined benefit obligation	91,441	102,280	116,906	101,335	88,005
Fair value of plan assets	-	-	-	-	-
Deficit	91,441	102,280	116,906	101,335	88,005
Experience adjustment on obligation gain/(loss)	0%	9%	-2%	-3%	14%

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

	2010	2009	2008	2007	2006
	Post Retirement Electricity (Rupees in thousand)				
As at June 30					
Present value of defined benefit obligation	239,075	190,619	153,849	134,189	107,247
Fair value of plan assets	-	-	-	-	-
Deficit	239,075	190,619	153,849	134,189	107,247
Experience adjustment on obligation (loss)/gain	-11%	-8%	-1%	-12%	33%

A one percentage point change in medical cost trend assumption would have the following effects:

	One percent point increase	One percent point decrease
	(Rupees in thousand)	
Effect on the aggregate of the service cost and interest cost	2,804	(3,588)
Effect on the defined benefit obligation	14,657	(18,468)

		2010	2009
		(Rupees in thousand)	

10. Current portion of long term liabilities

Long term loans - unsecured	- note 7	899,715	899,715
Liabilities against assets subject to finance lease	- note 8	12,466	8,853
		912,181	908,568

11. Finances under mark-up arrangements - secured

Short term running finances available from various commercial banks under mark-up arrangements amount to Rs 20,950 million (2009: Rs 17,950 million) including murabaha finance facilities of Rs 4,500 million (2009: Rs 3,000 million). The rate of mark-up ranges from Re 0.3679 to Re 0.4455 (2009: Re 0.3570 to Re 0.5068) per Rs 1,000 per diem or part thereof 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 Re 0.5479 to Re 0.6575 (2009: Re 0.5479 to Re 0.6575) per Rs 1,000 per diem or part thereof on the balances unpaid.

Of the aggregate facility of Rs 1,871.026 million (2009: 1,395.161 million) for opening letters of credit and Rs 1,838.964 million (2009: Rs 1,248.039 million) for guarantees, the amount utilised as at June 30, 2010 was Rs 644.661 million (2009: Rs 438.511 million) and Rs 164.707 million (2009: Rs 977.581 million) respectively.

The aggregate running finances, letters of credit and guarantees are secured by charge on stores, spares, stock-in-trade and trade debts upto a limit of Rs 30,827 million (2009: Rs 38,382 million) and charge on property, plant and equipment upto a limit of Rs 28,467 million (2009: Rs 37,468 million).

		2010	2009
		(Rupees in thousand)	

12. Trade and other payables

Trade creditors	- note 12.1	22,965,581	15,506,757
Accrued liabilities		1,112,115	331,013
Liquidated damages		168,451	1,119
Mark-up accrued on:			
- Long term loan - unsecured		7,897	9,278
- Finances under mark-up arrangements - secured		225,073	427,680
- Liabilities against assets subject to finance lease		927	927
- Credit supplies of raw material		4,294,176	2,167,233
Deposits - interest free repayable on demand		114	123
Workers' Welfare Fund	- note 12.2	154,616	174,458
Differential payable to WAPDA	- note 26.2	333,044	400,869
Unclaimed dividends		222,699	187,405
Others	- note 12.3	6,279	6,225
		29,490,972	19,213,087

12.1 Trade creditors include amount due to related parties Rs 0.782 million (2009: Rs 0.912 million) and payable to Pakistan State Oil (PSO) amounting to Rs 22,951 million (2009: Rs 15,482 million).

	2010	2009
	(Rupees in thousand)	

12.2 Workers' Welfare Fund

	2010	2009
Opening balance	174,458	161,191
Provision for the year	154,616	174,458
	329,074	335,649
Less: Payments made during the year	174,458	161,191
Closing balance	154,616	174,458

12.3 Other payables include amount due to International Power plc Rs 0.166 million (2009: Rs Nil).

13. Contingencies and commitments

13.1 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.

The Company filed an appeal before the Commissioner of Income Tax (Appeals) ['CIT(A)'] against the foregoing amended assessments, which was rejected by maintaining the tax department's position. Aggrieved with the decision, Company has filed appeal before Income Tax Appellate Tribunal ('ITAT') contesting such amendments which is pending adjudication.

The return for tax year 2008 was also filed on the basis of written down values of assets brought forward from tax year 2007, as computed in the revised return of income in accordance with position explained above. Such return has also been amended by tax authorities in line with the action taken in respect of revised returns for tax year 2003 through 2007 and has also been endorsed by CIT(A). The Company has preferred appeal before ITAT against the decision of CIT(A) in this respect also which is yet to be taken up for hearing.

In view of the fact that management considers that position adopted by Company is 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 year would have been lower by Rs 2,708.647 million (2009: Rs 2,713.057 million).

(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 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.

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.

Certain amendments have been introduced in Finance Act 2006, to relax the conditions of payment of interest and penalty for companies defaulting in creating Fund under the Act. If it is established that Workers' Profit Participation Fund (WPPF) 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.

Furthermore, the Company has obtained opinion from its legal advisors who have confirmed that in case WPPF becomes payable as a consequence of the decision by the Sindh High Court, the Company will not be required to pay any interest, as interest is payable to workers only. It is an established fact that the Company did not have any worker as per the applicable definition upto June 30, 2006.

In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 3.463 billion (2009: Rs 3.463 billion). 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.

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

(iii) The Company has a 'Long Term Supply Agreement' (LTSA) with one of the Original Equipment Manufacturers (OEM) for the supply of spares to the Company. According to the terms of LTSA, the

Company has availed discount amounting to Rs 466.830 million upto June 30, 2010 (2009: Rs 143.463 million). This discount is contingent upon the Company procuring at least a specified amount of spares from the OEM during the tenure of LTSA. Inability of the Company to achieve the desired level of purchases would result in payment of compensation fee amounting to Rs 116.708 million (2009: Rs 71.731 million) to the OEM out of the discount recognised upto June 30, 2010. The management of the Company feels that the minimum specified level of purchases will be achieved during the contractual period and no compensation fee would be payable to the OEM, consequently no provision for compensation fee as referred above has been made in these financial statements.

(iv) WAPDA may impose liquidated damages (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. Currently, liquidated damages cannot be estimated reliably, however, these are not expected to increase upto June 30, 2010 beyond Rs 2.274 billion (2009: Rs 1.500 billion) approximately based on the best available estimate to the management.

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 despatch 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.

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.

(v) Claims against the Company not acknowledged as debts Rs 88.111 million (2009: Rs 88.111 million).

(vi) The Company had provided guarantee in favour of Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 164.707 million (2009: Rs 977.580 million).

13.2 Commitments

(i) Contracts for capital expenditure Rs 292.793 million (2009: Rs 2.001 million).

(ii) Letters of credit other than for capital expenditure Rs 359.655 million (2009: Rs 438.510 million).

14. Property, plant & equipment

2010 (Rupees in thousand)

	Cost as at June 30, 2009	Additions/ transfers/ (deletions)	Cost as at June 30, 2010	Accumulated depreciation as at June 30, 2009	Depreciation charge for the year/ transfers/ (deletions)	Accumulated depreciation as at June 30, 2010	Book value as at June 30, 2010	Rate %
Freehold land	46,285	-	46,285	-	-	-	46,285	-
Buildings on freehold land	692,706	171	692,877	346,335	28,877	375,212	317,665	4 - 8.45
Plant and machinery	34,254,340	-	34,254,340	17,209,484	1,277,658	18,487,142	15,767,198	4 - 8.22
Gas turbine blading	3,154,998	800,646	3,955,644	2,152,506	227,310	2,379,816	1,575,828	10
Auxiliary plant and machinery	185,267	43,663	228,930	148,601	16,304	164,905	64,025	20
Office equipment	78,232	5,661	83,893	61,904	6,108	68,012	15,881	20
Fixtures and fittings	17,037	324	17,361	15,162	1,036	16,198	1,163	20
Vehicles	45,696	6,584 2,567 (7,272)	47,575	36,451	3,087 1,077 (5,130)	35,485	12,090	25
2010	38,474,561	857,049 2,567 (7,272)	39,326,905	19,970,443	1,560,380 1,077 (5,130)	21,526,770	17,800,135	

2009 (Rupees in thousand)

	Cost as at June 30, 2008	Additions/ (deletions)	Cost as at June 30, 2009	Accumulated depreciation as at June 30, 2008	Depreciation charge for the year/ (deletions)	Accumulated depreciation as at June 30, 2009	Book value as at June 30, 2009	Rate %
Freehold land	46,285	-	46,285	-	-	-	46,285	-
Buildings on freehold land	692,392	314	692,706	317,479	28,856	346,335	346,371	4 - 7.95
Plant and machinery	34,238,103	16,237	34,254,340	15,932,159	1,277,325	17,209,484	17,044,856	4 - 8.22
Gas turbine blading	2,861,694	293,304	3,154,998	1,988,861	163,645	2,152,506	1,002,492	10
Auxiliary plant and machinery	179,142	6,125	185,267	133,045	15,556	148,601	36,666	20
Office equipment	80,018	2,889 (4,675)	78,232	59,926	6,653 (4,675)	61,904	16,328	20
Fixtures and fittings	17,037	-	17,037	13,858	1,304	15,162	1,875	20
Vehicles	48,270	- (2,574)	45,696	33,948	4,411 (1,908)	36,451	9,245	25
2009	38,162,941	318,869 (7,249)	38,474,561	18,479,276	1,497,750 (6,583)	19,970,443	18,504,118	

The cost of fully depreciated assets which are still in use as at June 30, 2010 is Rs 1,566 million (2009: Rs 1,547 million).

14.1 Disposal of property, plant & equipment

2010						
Particular of Assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds	Mode of disposal
			(Rupees in thousand)			
Vehicles						
	Employees					
	Mr. Rizwan-ul-Haq	763	611	152	152	Company Policy
	Mr. Sahib Khan Saif	814	651	163	163	Company Policy
	Mr. Azhar Baig	814	651	163	163	Company Policy
	Mr. Muhammad Amin	870	696	174	174	Company Policy
	Mr. Muhammad Safdar Ali	944	944	-	455	Negotiation
	Mr. Riaz Ahmad	500	500	-	531	Negotiation
	Ex-employee					
	Mr. Shakil Ahmad Khan	1,560	624	936	936	Negotiation
	Third parties					
	AIG Pakistan - New Hampshire Insurance Company	1,007	453	554	980	Insurance Claim
		7,272	5,130	2,142	3,554	

2009						
Particular of Assets	Sold to	Cost	Accumulated depreciation	Book value	Sales proceeds	Mode of disposal
			(Rupees in thousand)			
Vehicles						
	Employees					
	Mr. Jamil Ahmad Shah	868	694	174	174	Company Policy
	Muhammad Yaseen	801	641	160	509	Negotiation
	Third parties					
	Syed Azhar Hameed	905	573	332	852	Negotiation
Other assets having book value less than Rs 50,000		4,675	4,675	-	329	Negotiation
		7,249	6,583	666	1,864	

15. Intangible assets

(Rupees in thousand)

	Cost as at June 30, 2009	Additions	Cost as at June 30, 2010	Accumulated amortisation as at June 30, 2009	Amortisation charge for the year	Accumulated amortisation as at June 30, 2010	Book value as at June 30, 2010
Computer software (acquired)	26,424	238	26,662	23,089	1,158	24,247	2,415
2010	26,424	238	26,662	23,089	1,158	24,247	2,415
2009	24,392	2,032	26,424	21,994	1,095	23,089	3,335

15.1 The depreciation/amortisation charge for the year has been allocated as follows:

		Depreciation	Amortisation	Total 2010
Cost of sales	- note 25	1,527,356	1,158	1,528,514
Administrative expenses	- note 26	33,024	-	33,024
		1,560,380	1,158	1,561,538

		Depreciation	Amortisation	Total 2009
Cost of sales	- note 25	1,463,179	1,095	1,464,274
Administrative expenses	- note 26	34,571	-	34,571
		1,497,750	1,095	1,498,845

16. Assets subject to finance lease

(Rupees in thousand)

	Cost as at June 30, 2009	Additions/ (transfers)	Cost as at June 30, 2010	Accumulated depreciation as at June 30, 2009	Depreciation charge for the year/ (transfers)	Accumulated depreciation as at June 30, 2010	Book value as at June 30, 2010	Rate %
Vehicles	63,837	19,830	81,100	17,092	14,609	30,624	50,476	25
		(2,567)			(1,077)			
2010	63,837	19,830	81,100	17,092	14,609	30,624	50,476	
		(2,567)			(1,077)			
2009	43,754	21,643	63,837	7,229	10,199	17,092	46,745	
		(1,560)			(336)			

16.1 The depreciation charge for the year has been allocated to administrative expenses.

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2010

		2010	2009
		(Rupees in thousand)	
17.	**Capital work-in-progress**		
	Advance to contractor for office premises	71,352	71,352
	Civil works	8,344	-
	Plant and machinery	1,372	9,848
	Others	-	131,406
		81,068	212,606
18.	**Long term loans and deposits**		
	Loans to employees - considered good	29,909	28,874
	Security deposits	7,816	6,550
		37,725	35,424
	Less: Receivable within one year	6,210	5,803
		31,515	29,621

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 (2009: 9 percent per annum).

			2010	2009
			(Rupees in thousand)	
19.	**Stores and spares**			
	Stores and spares including in transit Rs 40.254 million (2009: Rs 221.681 million)	- note 19.1	3,271,788	3,216,471
	Less: Provision for store obsolescence	- note 19.2	88,581	84,992
			3,183,207	3,131,479

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 120.129 million (2009: Rs 83.860 million) which are being held by the following suppliers:

		2010	2009
		(Rupees in thousand)	
Siemens AG Germany		16,715	-
Middle East Engineering Company (MEELSA)		18,273	35,260
Wood Group Heavy Industrial Turbines Limited		64,904	-
Scherzinger Pump Technology, Germany		-	3,355
MJB International, UAE		-	45,245
Siemens Pakistan Engineering Company Limited		9,351	-
SSS Gears Limited		5,128	-
Allweiler AG		5,758	-
		120,129	83,860

19.2 Provision for store obsolescence

		2010	2009
Opening balance		84,992	74,593
Add: Provision for the year		7,539	38,753
		92,531	113,346
Less: Stores written off against provision		3,950	28,354
		88,581	84,992

20. Stock in trade

		2010	2009
Furnace oil	- note 20.1	1,728,192	1,698,214
Diesel		539,013	268,998
		2,267,205	1,967,212

20.1 Stock in trade of Rs 2.425 million (2009: Rs Nil) is being carried at Net Realizable Value and an amount of Rs 18.234 million (2009: Rs Nil) has been charged to cost of sales being the cost of stock in trade written down during the year.

		2010	2009
		(Rupees in thousand)	

21. Trade debts

		2010	2009
Trade debts	- note 21.1	51,812,752	32,824,649
Less: Provision for doubtful debts	- note 21.2	110,482	102,680
		51,702,270	32,721,969

21.1 These are considered good and include an overdue amount of Rs 41,645 million (2009: Rs 25,619 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.

			2010	2009
			(Rupees in thousand)	
21.2	**Provision for doubtful debts**			
	Opening balance		102,680	52,260
	Add: Provision for the year		7,802	79,127
			110,482	131,387
	Less: Trade debts written off against provision		-	28,707
			110,482	102,680

			2010	2009
22.	**Loans, advances, deposits, prepayments and other receivables**			
	Loans to employees - considered good		6,210	5,803
	Advances to suppliers - considered good	- note 22.1	66,828	29,174
	Claims recoverable from Government			
	- Sales tax	- note 22.2	167,579	108,784
	- Income tax		1,430,684	2,168,057
	Prepayments		4,435	5,139
	Claims recoverable from WAPDA for pass through items			
	Workers' Welfare Fund		154,616	174,458
	Workers' Profit Participation Fund		386,540	436,144
		- note 22.3	541,156	610,602
	Security deposits		1,995	2,216
	Refundable from Workers' Profit Participation Fund	- note 22.4	1,460	3,856
	Other receivables	- note 22.5	17,459	8,185
			2,237,806	2,941,816

22.1 Advances to suppliers include amounts due from WAPDA Rs 2.073 million (2009: Rs 1.809 million) and due from Uch Power Limited Rs 0.251 million (2009: Rs Nil). These are in the normal course of business and are interest free.

22.2 Sales tax recoverable includes an amount of Rs 16.972 million (2009: Rs 16.994 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. Out of this, Rs 10.087 million has been settled in favour of Company subsequent to year end. Company has filed Miscellaneous Application before the Customs, Excise and Sales Tax Appellate Tribunal for the remainder of the amount.

Pending the outcome of the appeal the amount has been shown as recoverable in the financial statements as according to the management of the Company, there are meritorious grounds that the ultimate decision would be in its favour.

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.

		2010	2009
		(Rupees in thousand)	

22.4 Workers' Profit Participation Fund

Opening (refundable)/payable		(3,856)	2,976
Provision for the year		386,540	436,144
		382,684	439,120
Less: Payments made during the year		384,144	442,976
Closing refundable		(1,460)	(3,856)

Following the amendments made by the Finance Act 2006 to the Companies Profits (Workers' Participation) Act, 1968, 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.

As fully explained in note 13.1(ii), the Company has not made any provision for Workers' Profit Participation Fund for the years upto June 30, 2006, based on a legal advice and in view of a constitutional petition pending adjudication in Sindh High Court.

22.5 Other receivables include amounts due from International Power plc Rs Nil (2009: Rs 0.119 million).

		2010	2009
		(Rupees in thousand)	

23. Cash and bank balances

At banks on:			
- Current accounts		235,373	395,821
- Savings accounts		8,471	4,362
	- note 23.1	243,844	400,183
In hand		152	170
		243,996	400,353

23.1 Included in these are total restricted funds of Rs 7.858 million (2009: Rs 203.292 million) held by banks under lien as margin against letters of credit. The balances in saving accounts bear mark-up of 5 percent to 7.5 percent per annum (2009: 5 percent per annum).

		2010	2009
		(Rupees in thousand)	

24. Sales

	2010	2009
Energy purchase price	71,880,576	55,904,957
Capacity purchase price	14,054,278	13,458,956
	85,934,854	69,363,913

Energy purchase price is exclusive of sales tax of Rs 11,476.389 million (2009: Rs 8,924.236 million).

25. Cost of sales

		2010 (Rupees in thousand)	2009 (Rupees in thousand)
Fuel cost		71,741,859	55,621,836
Salaries, wages and benefits	- note 25.1	709,886	599,771
Plant maintenance		210,057	152,900
Gas turbines overhauls		948,301	419,584
Repair and renewals		697,458	75,954
Depreciation on property, plant and equipment	- note 15.1	1,527,356	1,463,179
Amortisation on intangible assets	- note 15.1	1,158	1,095
Liquidated damages		167,332	-
Provision for store obsolescence	- note 19.2	7,539	38,753
		76,010,946	58,373,072

Cost of sales include Rs 1,316.238 million (2009: Rs 577.859 million) for stores and spares consumed.

25.1 Salaries, wages and benefits

Salaries, wages and benefits include following in respect of retirement benefits:

	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Pension		
Current service cost	31,413	25,520
Interest cost for the year	94,754	79,075
Expected return on plan assets	(92,371)	(83,651)
	33,796	20,944
Medical		
Current service cost	3,519	4,215
Interest cost for the year	11,905	14,212
Amortisation of actuarial gain	(2,660)	(299)
	12,764	18,128
Free electricity		
Current service cost	6,941	5,891
Interest cost for the year	22,261	18,772
Amortisation of actuarial gain	(438)	(1,723)
	28,764	22,940

In addition to above, salaries, wages and benefits also include Rs 18.018 million (2009: Rs 15.418 million) in respect of provident fund contribution by the Company.

			2010	2009
			(Rupees in thousand)	
26.	**Administrative expenses**			
	Travelling		17,515	11,655
	Motor vehicles running		31,032	28,401
	Postage, telephone and telex		10,635	10,108
	Legal and professional charges		18,119	29,451
	Computer charges		5,866	5,795
	Auditors' remuneration	- note 26.1	2,254	2,174
	Printing, stationery and periodicals		7,676	5,868
	Repairs and maintenance infrastructure		40,587	24,241
	Training expenses		5,299	7,977
	Rent, rates and taxes		17,177	11,669
	Depreciation on property, plant and equipment	- note 15.1	33,024	34,571
	Depreciation on assets subject to finance lease	- note 16.1	14,609	10,199
	Infrastructure cost		19,881	13,666
	Differential payable to WAPDA	- note 26.2	173,033	286,321
	Education fee		25,635	23,865
	Bad debts written off		-	92,396
	Advances written off		266	436
	Provision for doubtful debts	- note 21.2	7,802	79,127
	Other expenses		20,291	14,495
			450,701	692,415
26.1	**Auditors' remuneration**			
	The charges for auditors' remuneration include the following in respect of auditors' services for:			
	Statutory audit		1,320	1,200
	Half yearly review		440	400
	Workers' Profit Participation Fund audit, Employees Provident and Pension Fund audit, special reports and certificates		255	406
	Out of pocket expenses		239	168
			2,254	2,174

26.2 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.

			2010	2009
			(Rupees in thousand)	
27.	**Other operating expenses**			
	Donations	- note 27.1	8,000	-
	Project development cost		172,589	34,852
			180,589	34,852
27.1	None of the directors and their spouses had any interest in any of the donees during the year.			
28.	**Other operating income**			
	Income from financial assets			
	Income on bank deposits		1,126	494
	Interest on loans to employees		2,837	2,787
	Interest on late payment - WAPDA		3,693,842	4,848,215
	Exchange gain		53,065	-
			3,750,870	4,851,496
	Income from non-financial assets			
	Profit on disposal of property, plant and equipment		1,412	1,198
	Colony electricity		2,726	1,591
	Provisions and unclaimed balances written back		3,204	3,260
	Others		15,620	11,985
			22,962	18,034
			3,773,832	4,869,530
29.	**Finance cost**			
	Interest and mark-up including commitment charges on			
	- long term loan from WAPDA - unsecured		813,736	939,696
	- finances under mark-up arrangements - secured		1,483,765	3,178,818
	- credit supplies of raw material		3,026,951	2,267,233
	- liabilities against assets subject to finance lease		7,273	6,060
	Exchange loss		-	11,684
	Bank and other charges		4,194	6,733
			5,335,919	6,410,224
30.	**Taxation**			
	For the year			
	- Current		2,454,277	2,876,292
	- Deferred		188,428	174,264
			2,642,705	3,050,556
	Prior years			
	- Current		(1,300)	(31)
	- Deferred		-	-
			(1,300)	(31)
			2,641,405	3,050,525

	2010 %age	2009 %age
30.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	35.00	35.00
Effect of change in prior years' tax	(0.02)	-
Effect of tax credit	(0.79)	-
Effect of income taxed at different rates	(0.02)	(0.03)
Average effective tax rate	34.17	34.97

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, full time working directors including alternate directors and executives of the Company is as follows:

	Chief Executive		Executives (Rupees in thousand)	
	2010	2009	2010	2009
Managerial remuneration including bonus and other allowances	22,253	23,708	167,917	129,803
Contribution to provident & pension funds and other retirement benefit plans	1,535	1,227	10,051	13,534
Leave passage	-	-	7,089	4,445
	23,788	24,935	185,057	147,782
Number of Persons	1	1	66	54

Salary of Chief Executive includes an amount of Rs Nil (2009: Rs 11.441 million) paid to Ex- Chief Executive Officer. The Company also provides the Chief Executive and some of the Executives with Company transport and telephones.

31.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 6 directors (2009: 6 directors) was Rs 0.340 million (2009: Rs 0.586 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:

Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2010

Relationship with the Company	Nature of transaction	2010 (Rupees in thousand)	2009 (Rupees in thousand)
i. Associated undertakings	Purchase of services	1,166	1,417
	Sale of goods and electricity	85,934,854	69,364,198
	Interest expense	813,736	939,696
	Interest income on late payment	3,693,842	4,848,215
	Bad debts written off	-	92,396
ii. Post retirement benefit plans	Expense charged	93,342	77,430

Sale and purchase transactions with related parties are carried out on commercial terms and conditions. Interest is charged between associated undertakings on the basis of mutually agreed terms.

33. Proposed dividend

The Board of Directors of the Company have proposed a final dividend for the year ended June 30, 2010 of Rs 2.75 (2009: Rs 4.20) per share amounting to Rs 2,420.696 million (2009: Rs 3,697.064 million) at their meeting held on September 1, 2010 for approval of members at the Annual General Meeting to be held on October 25, 2010. These financial statements do not reflect this dividend payable.

34. Capacity and production

	2010 MWh	2009 MWh
Annual dependable capacity (Based on 8,760 hours)	11,755,920	11,755,920
Actual energy delivered	7,766,706	7,545,364

Capacity for the power plant taking into account all the planned scheduled outages is 10,348,068 MWh (2009: 10,736,826 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 have been translated into Rupees at USD 1.168 (2009: USD 1.230), EURO 0.9562 (2009: EURO 0.8709), GBP 0.7754 (2009: GBP 0.7387) and YEN 103.4982 (2009: YEN 117.9941) equal to Rs 100.

		2010	2009
		(Rupees in thousand)	
36.	**Cash generated from operations**		
	Profit before tax	7,730,531	8,722,880
	Adjustments for:		
	- Depreciation on property, plant and equipment	1,560,380	1,497,750
	- Amortisation on intangible assets	1,158	1,095
	- Depreciation on assets subject to finance lease	14,609	10,199
	- Profit on disposal of property, plant and equipment	(1,412)	(1,198)
	- Project development cost written off	169,152	-
	- Income on bank deposits	(1,126)	(494)
	- Bad debts written off	-	92,396
	- Advances written off	266	436
	- Provision for store obsolescence	7,539	38,753
	- Provision for doubtful debts	7,802	79,127
	- Staff retirement benefits accrued	75,324	62,012
	- Finance cost	5,335,919	6,410,224
	Profit before working capital changes	14,900,142	16,913,180
	Effect on cash flow due to working capital changes		
	- Increase in stores and spares	(59,267)	(619,050)
	- (Increase)/decrease in stock-in-trade	(299,993)	224,356
	- Increase in trade debts	(18,988,103)	(3,590,039)
	- (Increase)/decrease in loans, advances, deposits, prepayments and other receivables	(33,629)	539,934
	- Increase in trade and other payables	8,319,636	14,856,885
		(11,061,356)	11,412,086
		3,838,786	28,325,266
37.	**Cash and cash equivalents**		
	Cash and bank balances	243,996	400,353
	Finances under mark-up arrangements - secured	(17,230,710)	(8,617,641)
		(16,986,714)	(8,217,288)

38. Earnings per share

38.1 Basic earnings per share

Profit for the year	Rupees in thousand	5,089,126	5,672,355
Weighted average number of ordinary shares	Numbers	880,253,228	880,253,228
Earnings per share	Rupees	5.78	6.44

38.2 Diluted earnings per share

A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at June 30, 2010 and June 30, 2009 which would have any effect on the earnings per share if the option to convert is exercised.

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 minimise potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board has provided 'Risk Management Policy' covering 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 was as follows:

	2010	2009
Trade and other payables - USD	(15,938)	(2,491,038)
Advances to suppliers - USD	1,400	6,941
Net exposure - USD	(14,538)	(2,484,097)
Trade and other payables - GBP	-	(7,500)
Advances to suppliers - GBP	5,800	-
Net exposure - GBP	5,800	(7,500)
Trade and other payables - Euro	(4,023,739)	(274,376)
Advances to suppliers - Euro	-	149,158
Net exposure - Euro	(4,023,739)	(125,218)

The following exchange rates were applied during the year:

	2010	2009
Rupees per USD		
Average rate	84.07	78.89
Reporting date rate	85.60	81.30
Rupees per GBP		
Average rate	132.36	126.69
Reporting date rate	128.96	135.38
Rupees per Euro		
Average rate	116.46	108.26
Reporting date rate	104.58	114.82

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 13.876 million (2009: Rs 7.065 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 was:

	2010	2009
	(Rupees in thousand)	
Financial assets		
Fixed rate instruments		
Staff Loans	29,909	28,874
Floating rate instruments		
Bank balances - savings accounts	8,471	4,362
Financial liabilities		
Fixed rate instruments		
Long term loan - WAPDA	5,147,476	6,047,191
Floating rate instruments		
Liabilities against assets subject to finance lease	58,194	55,067
Finances under mark-up arrangements - secured	17,230,710	8,617,641
Trade payables	22,950,935	15,481,936
	40,239,839	24,154,644

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 36.419 million (2009: Rs 35.424 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 was as follows:

	2010	2009
	(Rupees in thousand)	
Long term loans and deposits	37,725	35,425
Trade debts	51,702,270	32,721,969
Loans, advances, deposits, prepayments and other receivables		
- Workers' Welfare Fund receivable from WAPDA	154,616	174,458
- Workers' Profit Participation Fund receivable from WAPDA	386,540	436,144
- Security deposits	1,995	2,216
- Refundable from Workers' Profit Participation Fund	1,460	3,856
- Other receivables	12,121	1,618
Cash and bank balances	243,844	400,183
	52,540,571	33,775,869

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 and 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:

	2010	2009
	(Rupees in thousand)	
Not yet due	10,057,700	7,102,259
Due past 90 days	24,255,338	20,128,760
Due past 90 to 180 days	17,321,912	5,232,124
Due past 181 to 365 days	32,321	257,315
Due past 365 days	34,999	1,511
	51,702,270	32,721,969

The credit quality of cash and 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 Short term	Rating Long term	Rating Agency	2010	2009
				(Rupees in thousand)	
National Bank of Pakistan	A-1+	AAA	JCR-VIS	4,119	4,875
United Bank Limited	A-1+	AA+	JCR-VIS	99	-
Faysal Bank Limited	A1+	AA	PACRA	1	4
MCB Bank Limited	A1+	AA+	PACRA	4,298	-
Habib Bank Limited	A-1+	AA+	JCR-VIS	223,317	390,946
Allied Bank Limited	A1+	AA	PACRA	406	-
Royal Bank of Scotland Limited	A1+	AA	PACRA	567	466
Standard Chartered Bank	A1+	AAA	PACRA	39	38
NIB Bank Limited	A1+	AA-	PACRA	6	6
Deutsche Bank AG	A-1	A+	Standard & Poors	419	486
Citibank N.A.	A-1	A+	Standard & Poors	10,573	3,362
				243,844	400,183

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, 2010, the Company had borrowing limits available from financial institutions at Rs 20,950 million (2009: Rs 17,950 million) and Rs 243.996 million (2009: Rs 400.353 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, 2010:

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
Long term loan - unsecured	5,147,476	899,715	2,781,150	1,466,611
Liabilities against assets subject to finance lease	58,194	12,466	45,728	-
Finances under mark-up arrangements - secured	17,230,710	17,230,710	-	-
Trade and other payables	29,335,004	29,335,004	-	-
	51,771,384	47,477,895	2,826,878	1,466,611

The following are the contractual maturities of financial liabilities as at June 30, 2009:

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
Long term loan - unsecured	6,047,191	899,715	3,140,658	2,006,818
Liabilities against assets subject to finance lease	55,067	8,853	46,214	-
Finances under mark-up arrangements - secured	8,617,641	8,617,641	-	-
Trade and other payables	19,036,356	19,036,356	-	-
	33,756,255	28,562,565	3,186,872	2,006,818

39.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

39.3 Financial instruments by categories

	Loans and receivables 2010	Loans and receivables 2009
	(Rupees in thousand)	
Financial assets as per balance sheet		
Long term loans and deposits	37,725	35,425
Trade debts	51,702,270	32,721,969
Loans, advances, deposits, prepayments and other receivables		
- Workers' Welfare Fund receivable from WAPDA	154,616	174,458
- Workers' Profit Participation Fund receivable from WAPDA	386,540	436,144
- Security deposits	1,995	2,216
- Refundable from Workers' Profit Participation Fund	1,460	3,856
- Other receivables	12,121	1,618
Cash and bank balances	243,996	400,353
	52,540,723	33,776,039

	Financial liabilities at amortised cost 2010	Financial liabilities at amortised cost 2009
	(Rupees in thousand)	
Financial liabilities as per balance sheet		
Long term loan - unsecured	5,147,476	6,047,191
Liabilities against assets subject to finance lease	58,194	55,067
Finances under mark-up arrangements - secured	17,230,710	8,617,641
Trade and other payables	29,335,004	19,036,229
	51,771,384	33,756,128

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 net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings, as disclosed in note 7, less cash and cash equivalents as disclosed in note 23. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. The Company's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at year ended June 30, 2010 and June 30, 2009 are as follows:

		2010	2009
		(Rupees in thousand)	
Borrowings - note 7		5,147,476	6,047,191
Less: Cash and cash equivalents - note 23		243,996	400,353
Net debt		4,903,480	5,646,838
Total equity		22,494,728	23,083,236
Total capital		27,398,208	28,730,074
Gearing ratio	Percentage	18	20

40. Date of authorisation for issue

These financial statements were authorised for issue on September 1, 2010 by the Board of Directors of the Company.

41. Corresponding figures

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

Note	Reclassification from	Note	Reclassification to	(Rupees in thousand) Amount
26	Administrative expenses	27	Other operating expenses	
	- Donations		- Donations	-
	- Project development cost		- Project development cost	34,852

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

Proxy Form

I/We ______________________ of ____ being a Member of Kot Addu Power Company Limited (the "Company") holding ____________________ shares hereby appoint ______________________ of ________________________ who is also a Member of the Company, as my/our proxy to vote for me/us, and on my/our behalf at the 14th Annual General Meeting of the Company to be held on October 25, 2010 and at any adjourment thereof.

Signed this __________________ day of ______________ 2010.

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Witnesses:

1. Signature ______________________

   Name ______________________

   CNIC ______________________

   Address ______________________

2. Signature ______________________

   Name ______________________

   CNIC ______________________

   Address ______________________

Revenue Stamp
Rs. 5/-

____

The Signature should agree with the Specimen signature registered with the Company.

Note

1. This Proxy, duly completed, signed and witnessed, must be deposited at the offices of the Company's Registrar, THK Associates (Private) Limited, Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi, 75530 not later than forty-eight (48) hours before the time appointed for the Meeting.

2. No person shall act as proxy who is not a Member of the Company (except that a corporation may appoint a person who is not a Member).

3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a Member with Company's Registrar, all such instruments or proxies shall be regarded invalid.

4. The Proxy shall produce his/her original CNIC or original passport at the time of Meeting.

5. Incase of indivisual CDC Account holders, attested copy of CNIC or passport (as the case may be of the benefecial owner will have to be provided with this Proxy.

6. Incase of a corporate entity, the Board of Directors Resolution/Power of Attorney with specimen signature of the nominee shall be submitted alongwith the Proxy (unless it has been provided earlier).

KAPCO

AFFIX
CORRECT
POSTAGE

THK Associates (Private) Limited
Registrar for
Kot Addu Power Company Limited
Ground Floor, State Life Building no. 3
Dr. Ziauddin Ahmed Road
Karachi 75530, Pakistan