Balance Sheet

as at June 30, 2011

	Note	2011	2010
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
3,600,000,000 (2010: 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 (2010: 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		14,712,962	13,247,745
		23,959,945	22,494,728
NON-CURRENT LIABILITIES			
Long term finances	7	4,209,628	4,247,761
Liabilities against assets subject to finance lease	8	45,648	45,728
Deferred liabilities	9	3,362,859	3,178,013
		7,618,135	7,471,502
CURRENT LIABILITIES			
Current portion of long term liabilities	10	857,502	912,181
Finances under mark-up arrangements - secured	11	23,512,168	17,230,710
Trade and other payables	12	39,389,473	29,490,972
		63,759,143	47,633,863
CONTINGENCIES AND COMMITMENTS	13		
		95,337,223	77,600,093

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

Aftab Mahmood Butt
(Chief Executive)

	Note	2011	2010
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	16,958,177	17,800,135
Intangible assets	15	5,791	2,415
Assets subject to finance lease	16	52,908	50,476
Capital work-in-progress	17	362,005	81,068
Long term loans and deposits	18	42,496	31,515
		17,421,377	17,965,609
CURRENT ASSETS			
Stores and spares	19	3,400,571	3,183,207
Stock-in-trade	20	3,341,020	2,267,205
Trade debts	21	67,120,940	51,702,270
Loans, advances, deposits, prepayments and other receivables	22	3,777,202	2,237,806
Cash and bank balances	23	276,113	243,996
		77,915,846	59,634,484
		95,337,223	77,600,093

Malcolm P. Clampin
(Director)

Profit and Loss Account

for the year ended June 30, 2011

		Note	2011	2010
			(Rupees in thousand)	
Sales		24	74,350,745	85,934,854
Cost of sales		25	(63,652,527)	(76,010,946)
Gross profit			10,698,218	9,923,908
Administrative expenses		26	(452,349)	(450,701)
Other operating expenses		27	(16,150)	(180,589)
Other operating income		28	8,381,420	3,773,832
Profit from operations			18,611,139	13,066,450
Finance cost		29	(8,704,178)	(5,335,919)
Profit before tax			9,906,961	7,730,531
Taxation		30	(3,380,288)	(2,641,405)
Profit for the year			6,526,673	5,089,126
Earnings per share	Rupees	38	7.41	5.78

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, 2011

	2011	2010
	(Rupees in thousand)	
Profit for the year	6,526,673	5,089,126
Other comprehensive income	-	-
Total comprehensive income for the year	6,526,673	5,089,126

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, 2011

	Note	2011	2010
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	36	8,430,441	3,838,786
Finance cost paid		(4,860,095)	(3,412,964)
Taxes paid		(3,577,900)	(1,715,604)
Staff retirement benefits paid		(31,370)	(28,771)
Net cash used in operating activities		(38,924)	(1,318,553)
Cash flows from investing activities			
Fixed capital expenditure		(1,063,729)	(899,574)
Income on bank deposits received		1,834	1,126
Net increase in long term loans and deposits		(10,981)	(1,894)
Proceeds from sale of property, plant and equipment		3,851	3,554
Net cash used in investing activities		(1,069,025)	(896,788)
Cash flows from financing activities			
Repayment of liabilities against assets subject to finance lease		(14,304)	(12,030)
Repayment of long term loan - unsecured		(899,716)	(899,715)
Proceeds from long term loan - secured		800,000	-
Dividend paid		(5,027,372)	(5,642,340)
Net cash used in financing activities		(5,141,392)	(6,554,085)
Net decrease in cash and cash equivalents		(6,249,341)	(8,769,426)
Cash and cash equivalents at beginning of the year		(16,986,714)	(8,217,288)
Cash and cash equivalents at the end of the year	37	(23,236,055)	(16,986,714)

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, 2011

(Rupees in thousand)

	Share capital	Capital reserve	Un-appropriated profit	Total
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
Final dividend for the year ended June 30, 2010 - Rs 2.75 per share	-	-	(2,420,696)	(2,420,696)
Total comprehensive income for the year	-	-	6,526,673	6,526,673
Interim dividend - Rs 3.00 per share	-	-	(2,640,760)	(2,640,760)
Balance as on June 30, 2011	8,802,532	444,451	14,712,962	23,959,945

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 7, ‘Statement of cash flows’. The guidance has been amended to clarify that only expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities. This amendment results in an improvement in the alignment of the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position. This amendment does not have a material impact on the Company's financial statements.

- IAS 17, ‘Leases’. The amendment provides that when a lease includes both land and buildings, classification as a finance or operating lease is performed separately in accordance with IAS 17’s general principles. Prior to the amendment, IAS 17 generally required a lease of land with an indefinite useful life to be classified as an operating lease, unless title passed at the end of the lease term. However, the IASB has concluded that this is inconsistent with the general principles of lease classification, so the relevant guidance has been deleted. A lease newly classified as a finance lease should be recognised retrospectively. This amendment does not have a material impact on the Company’s financial statements.

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 1 (Amendment), 'Presentation of Financial Statements'	July 1, 2010
IAS 27 (Amendment), ‘Consolidated and Separate Financial Statements’	July 1, 2010
IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues'	January 1, 2010

Standards or Interpretation	Effective date (accounting periods beginning on or after)
IFRS 3 (Amendment), 'Business Combinations'	July 1, 2010
IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations'	July 1, 2010
IFRS 1 (Amendment), 'First time adoption of International Financial Reporting Standards'	July 1, 2010
IFRIC 15 (Amendment), 'Arrangements for construction of real estates'	January 1, 2010
IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'	July 1, 2010

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 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:

	2011	2010
	(Rupees in thousand)	
De-recognition of property, plant and equipment	(16,926,474)	(17,770,923)
Recognition of lease debtor	9,945,357	10,791,628
Decrease in unappropriated profit at the beginning of the year	(4,223,527)	(4,150,742)
(Decrease)/increase in profit for the year	367,994	(72,785)
Decrease in unappropriated profit at the end of the year	(3,855,533)	(4,223,527)

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

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

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

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

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

The Scheme, developed in compliance with stated GOP Policy of empowerment of employees of State Owned Enterprises need to be accounted for by the covered entities, including the Company, under the provisions of amended International Financial Reporting Standard 2 Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by entities covered under the scheme, the Securities & Exchange Commission of Pakistan on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan, has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Company for the year would have been higher by Rs 589.207 million, profit after taxation would have been lower by Rs 382.985 million, retained earnings would have been lower by Rs 382.985 million, earning per share would have been lower by Rs 0.44 per share and reserves would have been higher by Rs 589.207 million.

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, 2011
IAS 24 (Revised), 'Related Party Disclosures'	January 1, 2011
IAS 34 (Amendment), 'Interim Financial Reporting' Classified as Held-For-Sale'	January 1, 2011
IFRS 1 (Amendment), 'First-time Adoption of International Financial Reporting Standards'	January 1, 2011
IFRS 7 (Amendment), 'Financial Instruments: Disclosures'	January 1, 2011
IFRS 9, 'Financial instruments'	January 1, 2013
IFRS 10, 'Consolidated financial statements'	January 1, 2013
IFRS 11, 'Joint arrangements'	January 1, 2013
IFRS 12, 'Disclosure of interests in other entities'	January 1, 2013
IFRS 13, 'Fair value measurement'	January 1, 2013
IFRIC 13 (Amendment), 'Customer Loyalty Programs'	January 1, 2011
IFRIC 14, (Amendment), 'Prepayment of a Minimum Funding Requirement'	January 1, 2011

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, 2011. The actual return on plan assets during the year was Rs 129.258 million (2010: Rs 102.510 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 14.50 percent per annum (2010: 12.75 percent per annum).
- Expected rate of increase in salary level 14.50 percent per annum (2010: 12.75 percent per annum).
- Expected rate of increase in pension 9.50 percent per annum (2010: 7.75 percent per annum).
- Expected rate of return on plan assets 14.50 percent per annum (2010: 12.75 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 106.504 million to the pension fund in the next year ending June 30, 2012.

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, 2011.

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

- Discount rate 14.50 percent per annum (2010: 12.75 percent per annum).
- Expected rate of increase in medical cost 11.50 percent per annum (2010: 9.75 percent per annum).
- Expected rate of increase in electricity benefit 14.50 percent per annum (2010: 12.75 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 so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates mentioned in note 15.

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 so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates mentioned in note 16. Depreciation of leased assets is charged to profit and loss account.

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

Operating leases

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

4.7 Stores and spares

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

Refurbishable items are valued at the lower of cost and net realisable value. Cost of refurbishment is charged to the profit and loss account as it is incurred. The item is charged to the profit and loss account when, upon inspection, it cannot be refurbished.

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 off 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

2011	2010		2011	2010
(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:

	2011	2010
	(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 finances

		2011	2010
		(Rupees in thousand)	
These are composed of:			
- Loan from related parties - unsecured	- note 7.1	4,247,760	5,147,476
- Other bank loans - secured- note 7.2		800,000	-
		5,047,760	5,147,476
Less: Current maturity		838,132	899,715
		4,209,628	4,247,761

7.1 Loan from related parties - unsecured

Lender	Currency	Amount of loan Rs in thousand	Rate of interest per annum	No. of semi annual installments	Interest payable
WAPDA	PKR	27,010,368	14%	14, ending June 2018.	Semi annually

7.2 Other bank loans - secured

This loan has been obtained from Allied Bank of Pakistan Limited in order to meet permanent working capital requirements of Company. It is secured by a joint pari passu hypothecation charge to the extent of Rs 1,067 million (2010: Nil) on present and future plant and machinery of the Company. It carries a mark-up at six months Karachi Inter Bank Offered Rate (KIBOR) plus 2.75 percent per annum and is payable in 4 equal semi-annual installments of Rs 200 million starting from November 2012 and ending in May 2014. The effective mark-up charged during the year was 16.44 percent per annum.

8. Liabilities against assets subject to finance lease

	2011	2010
	(Rupees in thousand)	
Present value of minimum lease payments	65,018	58,194
Less: Current portion shown under current liabilities	19,370	12,466
	45,648	45,728

Minimum lease payments have been discounted at an implicit interest rate ranging from 13.35 percent (2010: 13.41 percent) per annum to 16.27 percent (2010: 15.25 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	
			2011	2010
Not later than one year	27,073	7,703	19,370	12,466
Later than one year and not later than five years	54,293	8,645	45,648	45,728
	81,366	16,348	65,018	58,194

		2011	2010
		(Rupees in thousand)	

9. Deferred Liabilities

Deferred taxation	- note 9.1	2,846,210	2,765,161
Staff retirement benefits	- note 9.2	516,649	412,852
		3,362,859	3,178,013

9.1 Deferred taxation

The liability for deferred taxation comprises of timing differences relating to:

Accelerated tax depreciation	2,947,397	2,855,200
Provision for store obsolescence	(40,018)	(31,003)
Provision for doubtful debts	(38,413)	(38,669)
Liabilities against assets subject to finance lease	(22,756)	(20,367)
	2,846,210	2,765,161

The gross movement in deferred tax liability during the year is as follows:

Opening balance	2,765,161	2,576,733
Charge during the year	81,049	188,428
Closing balance	2,846,210	2,765,161

9.2 Staff retirement benefits

These are composed of:

Pension	- note 9.2.1	66,447	8,427
Medical	- note 9.2.2	170,058	160,893
Free electricity	- note 9.2.2	280,144	243,532
		516,649	412,852

	2011	2010
	(Rupees in thousand)	

9.2.1 Pension

The amounts recognised in the balance sheet are as follows:

	2011	2010
Present value of defined benefit obligation	1,355,828	981,216
Fair value of plan assets	(1,043,050)	(908,157)
Unrecognised actuarial gains	(246,331)	(64,632)
Liability as at June 30	66,447	8,427

	2011	2010
Liability as at July 1	8,427	744
Charge to profit and loss account	87,053	33,796
Adjustment to opening book reserve	(5,610)	-
Contribution paid by the Company	(23,423)	(26,113)
Liability as at June 30	66,447	8,427

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

	2011	2010
Present value of defined benefit obligation as at July 1	981,216	823,819
Current service cost	47,279	31,413
Interest cost for the year	155,810	94,754
Benefits paid during the year	(23,398)	(24,015)
Experience loss on liability	194,921	55,245
Present value of defined benefit obligation as at June 30	1,355,828	981,216

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

	2011	2010
Fair value as at July 1	908,157	805,960
Expected return on plan assets	116,036	92,371
Company contribution	23,423	26,113
Benefits paid during the year	(23,398)	(24,015)
Experience gain on plan assets	18,832	7,728
Fair value as at June 30	1,043,050	908,157

Plan assets are comprised as follows:

	2011	2010
Mutual funds	5%	5%
Debt	91%	89%
Cash	4%	6%
	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:

	2011	2010	2009	2008	2007
	(Rupees in thousand)				
As at June 30					
Present value of defined benefit obligations	1,355,828	981,216	823,819	658,959	524,958
Fair value of plan assets	(1,043,050)	(908,157)	(805,960)	(694,732)	(590,283)
Deficit/(surplus)	312,778	73,059	17,859	(35,773)	(65,325)
Experience adjustment on obligation	-14%	-6%	-9%	-13%	-18%
Experience adjustment on plan assets	2%	1%	2%	8%	11%

9.2.2

	Post Retirement Medical		Post Retirement Free Electricity	
	2011	2010	2011	2010
	(Rupees in thousand)		(Rupees in thousand)	
The amounts recognised in the balance sheet are as follows:				
Present value of defined benefit obligation	86,263	91,440	279,689	239,075
Unrecognised actuarial gains	83,795	69,452	455	4,457
Liability as at June 30	170,058	160,892	280,144	243,532
Liability as at July 1	160,892	149,748	243,532	215,807
Charge to profit and loss account	10,284	12,764	37,830	28,764
Contribution paid by the Company	(1,118)	(1,620)	(1,218)	(1,039)
Liability as at June 30	170,058	160,892	280,144	243,532
The movement in the present value of defined benefit obligation is as follows:				
Present value of defined benefit obligation as at July 1	91,440	102,280	239,075	190,619
Current service cost	3,136	3,519	6,984	6,941
Interest cost for the year	11,787	11,905	30,846	22,261
Benefits paid during the year	(1,118)	(1,620)	(1,218)	(1,039)
Experience (gain)/loss on liability	(18,982)	(24,644)	4,002	20,293
Present value of defined benefit obligation as at June 30	86,263	91,440	279,689	239,075

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:

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:

	2011	2010	2009	2008	2007
	Post Retirement Medical				
	(Rupees in thousand)				
As at June 30					
Present value of defined benefit obligation	86,263	91,440	102,280	116,906	101,335
Fair value of plan assets	-	-	-	-	-
Deficit	86,263	91,440	102,280	116,906	101,335
Experience adjustment on obligation gain/(loss)	14%	0%	9%	-2%	-3%

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

	2011	2010	2009	2008	2007
	Post Retirement Free Electricity				
	(Rupees in thousand)				
As at June 30					
Present value of defined benefit obligation	279,689	239,075	190,619	153,849	134,189
Fair value of plan assets	-	-	-	-	-
Deficit	279,689	239,075	190,619	153,849	134,189
Experience adjustment on obligation (loss)/gain	-2%	-11%	-8%	-1%	-12%

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	1,331	(1,181)
Effect on the defined benefit obligation	7,455	(6,597)

10. Current portion of long term liabilities

		2011	2010
		(Rupees in thousand)	
Long term finances	- note 7	838,132	899,715
Liabilities against assets subject to finance lease	- note 8	19,370	12,466
		857,502	912,181

11. Finances under mark-up arrangements - secured

		2011	2010
Running finances - secured	- note 11.1	22,012,168	17,230,710
Short term finances - secured	- note 11.2	1,500,000	-
		23,512,168	17,230,710

11.1 Running finances - secured

Short term running finances available from various commercial banks under mark-up arrangements amount to Rs 23,600 million (2010: Rs 20,950 million) including murabaha facilities of Rs 6,150 million (2010: Rs 4,500 million). The rate of mark-up ranges from Re 0.3677 to Re 0.4181 (2010: Re 0.3679 to Re 0.4455) 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 (2010: Re 0.5479 to Re 0.6575) per Rs 1,000 per diem or part thereof on the balances unpaid.

11.2 Short term finances - secured

Company has entered into 'Secured, Privately Placed Short Term Islamic Sukuk' with a consortium of investors led by the Meezan Bank, upto Rs 3,000 million (2010: Nil). This facility carries a mark-up at six months KIBOR plus 1.45% per annum. This facility is secured by creating first pari passu charge on the book debts/ receivables and stock-in-trade of the Company. The effective mark-up charged on this facility during the year was 15.24 percent (2010: Nil) per annum.

11.3 Letter of credit and bank guarantees

Of the aggregate facility of Rs 2,773.688 million (2010: 1,871.026 million) for opening letters of credit and Rs 576.312 million (2010: Rs 1,838.039 million) for guarantees, the amount utilised as at June 30, 2011 was Rs 1,640.903 million (2010: Rs 644.661 million) and Rs 576.312 million (2010: Rs 164.707 million) respectively.

The aggregate running finances, short term finances and letters of credit and guarantees are secured by charge on stores, spares, stock-in-trade and trade debts upto a limit of Rs 41,427 million (2010: Rs 30,827 million) and charge on property, plant and equipment upto a limit of Rs 37,067 million (2010: Rs 28,467 million).

12. Trade and other payables

		2011	2010
		(Rupees in thousand)	
Trade creditors	- note 12.1	29,578,561	22,965,581
Accrued liabilities		651,331	1,112,115
Liquidated damages		171,451	168,451
Mark-up accrued on:			
- Long term loan - unsecured		6,517	7,897
- Long term finances - secured		23,061	-
- Finances under mark-up arrangements - secured		284,055	225,073
- Liabilities against assets subject to finance lease		927	927
- Credit supplies of raw material		8,057,596	4,294,176
Deposits - interest free repayable on demand		175	114
Workers' Welfare Fund	- note 12.2	198,139	154,616
Differential payable to WAPDA	- note 26.2	148,982	333,044
Unclaimed dividends		256,783	222,699
Others	- note 12.3	11,895	6,279
		39,389,473	29,490,972

12.1 Trade creditors include amount due to related parties Rs 0.782 million (2010: Rs 0.782 million) and payable to Pakistan State Oil (PSO) amounting to Rs 29,551 million (2010: Rs 22,951 million)

	2011	2010
	(Rupees in thousand)	
12.2 Workers' Welfare Fund		
Opening balance	154,616	174,458
Provision for the year	198,139	154,616
	352,755	329,074
Less: Payments made during the year	154,616	174,458
Closing balance	198,139	154,616

12.3 Other payables include amount due to International Power plc Rs Nil (2010: Rs 0.166 million).

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 2,705.081 million (2010: Rs 2,708.647 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 Supreme Court of Pakistan on a constitutional petition filed by another company in February 2011.

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 (2010: 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 954.442 million upto June 30, 2011 (2010: Rs 466.830 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 143.166 million (2010: Rs 116.708 million) to the OEM out of the discount recognised upto June 30, 2011. 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, 2011 beyond Rs 4.032 billion (2010: Rs 2.274 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 dispatch electricity was due to WAPDA's non-payment of dues on timely basis to the Company and consequential inability of the Company to make timely payments to its fuel supplier (PSO) that resulted in inadequate level of electricity production owing to shortage of fuel.

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 (2010: Rs 88.111 million).

(vi) The Company had provided following bank guarantees in favour of:

Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs 576.197 million (2010: Rs 164.707 million).

Custom Authorities for import of professional equipment, tools etc., amounting to Rs 0.115 million (2010: Rs Nil).

13.2 Commitments

(i) Contracts for capital expenditure Rs 1,125.377 million (2010: Rs 292.793 million).

(ii) Letters of credit other than for capital expenditure Rs 516.583 million (2010: Rs 359.655 million).

14. Property, plant and equipment

	Freehold land	Buildings on freehold land	Plant and machinery	Gas turbine blading	Auxiliary plant and machinery	Office equipment	Fixtures and fittings	Vehicles	Total
	(Rupees in thousand)								
Net carrying value basis									
Year ended June 30, 2011									
Opening net book value (NBV)	46,285	317,665	15,767,198	1,575,828	64,025	15,881	1,163	12,090	17,800,135
Additions (at cost)	-	11,749	-	719,937	35,165	11,117	219	-	778,187
Transfers	-	-	-	-	-	-	-	285	285
Disposals (at NBV)	-	-	-	-	(128)	-	-	(482)	(610)
Depreciation charge	-	(29,548)	(1,277,658)	(286,236)	(17,730)	(6,180)	(818)	(1,650)	(1,619,820)
Closing net book value (NBV)	46,285	299,866	14,489,540	2,009,529	81,332	20,818	564	10,243	16,958,177
Gross carrying value basis									
As at June 30, 2011									
Cost	46,285	704,626	34,254,339	4,675,581	261,409	95,010	17,580	46,089	40,100,919
Accumulated depreciation	-	(404,760)	(19,764,799)	(2,666,052)	(180,077)	(74,192)	(17,016)	(35,846)	(23,142,742)
Net book value (NBV)	46,285	299,866	14,489,540	2,009,529	81,332	20,818	564	10,243	16,958,177
Depreciation rate % per annum	-	4 - 9.92	4 - 8.22	10	20	20	20	25	
Net carrying value basis									
Year ended June 30, 2010									
Opening net book value (NBV)	46,285	346,371	17,044,856	1,002,492	36,666	16,328	1,875	9,245	18,504,118
Additions (at cost)	-	171	-	800,646	43,663	5,661	324	6,584	857,049
Transfers	-	-	-	-	-	-	-	1,490	1,490
Disposals (at NBV)	-	-	-	-	-	-	-	(2,142)	(2,142)
Depreciation charge	-	(28,877)	(1,277,658)	(227,310)	(16,304)	(6,108)	(1,036)	(3,087)	(1,560,380)
Closing net book value (NBV)	46,285	317,665	15,767,198	1,575,828	64,025	15,881	1,163	12,090	17,800,135
Gross carrying value basis									
As at June 30, 2010									
Cost	46,285	692,877	34,254,340	3,955,644	228,930	83,893	17,361	47,575	39,326,905
Accumulated depreciation	-	(375,212)	(18,487,142)	(2,379,816)	(164,905)	(68,012)	(16,198)	(35,485)	(21,526,770)
Net book value (NBV)	46,285	317,665	15,767,198	1,575,828	64,025	15,881	1,163	12,090	17,800,135
Depreciation rate % per annum	-	4 - 9.92	4 - 8.22	10	20	20	20	25	

The cost of fully depreciated assets which are still in use as at June 30, 2011 is Rs 1,729 million (2010: Rs 1,566 million).

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

		2011	2010
		(Rupees in thousand)	
Cost of sales	- note 25	1,587,804	1,527,356
Administrative expenses	- note 26	32,016	33,024
		1,619,820	1,560,380

14.2 Disposal of property, plant and equipment

2011

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
			(Rupees in thousand)			
Vehicles	**Employees**					
Toyota Corolla - GLI	Mr. Fazal-ur-Rehman	1,007	(722)	285	285	Company Policy
	Outsiders					
Toyota Corolla - XE	Mr. Sajjad Hussain	500	(500)	-	533	Negotiation
Honda Civic	Mr. Shahid Nazir	986	(789)	197	887	Negotiation
Auxillary Plant and Machinery	**Third Parties**					
BOD Apparatus	M/s Business Dynamic Enterprises	138	(138)	-	40	Negotiation
Video Image Camera	M/s Olympus	2,548	(2,420)	128	2,106	Negotiation
		5,179	(4,569)	610	3,851	

2010

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
			(Rupees in thousand)			
Vehicles	**Employees**					
Honda Civic	M. Safdar Ali	944	944	-	455	Negotiation
Toyota Corolla	Riaz Ahmad	500	500	-	531	Negotiation
Suzuki Baleno	Rizwan Ul Haq	763	611	152	152	Company Policy
Honda Civic	Sahib Khan	814	651	163	163	Company Policy
Honda Civic	Azhar Baig	814	651	163	163	Company Policy
Toyota Corolla	Muhammad Amin	870	696	174	174	Company Policy
	Ex-Employee					
Honda Civic	Shakil Ahmad Khan	1,560	624	936	936	Negotiation
	Third Parties					
Toyota Corolla - GLI	AIG Pakistan - New Hampshire Insurance Company	1,007	453	554	980	Insurance Claim
		7,272	5,130	2,142	3,554	

	2011	2010
	(Rupees in thousand)	
15. Intangible assets - Computer software		
Net carrying value basis		
Year ended June 30		
Opening net book value (NBV)	2,415	3,335
Additions (at cost)	4,912	238
Disposals (at NBV)	-	-
Amortisation charge	(1,536)	(1,158)
Closing net book value (NBV)	5,791	2,415
Gross carrying value basis		
Cost	31,574	26,662
Accumulated amortisation	(25,783)	(24,247)
Net book value (NBV)	5,791	2,415
Amortisation rate % per annum	20	20

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

	2011	2010
	(Rupees in thousand)	
16. Assets Subject to Finance Lease		
Net carrying value basis		
Year ended June 30		
Opening net book value (NBV)	50,476	46,745
Additions (at cost)	20,821	19,830
Disposals (at NBV)	(285)	(1,490)
Amortisation charge	(18,104)	(14,609)
Closing net book value (NBV)	52,908	50,476
Gross carrying value basis		
Cost	100,914	81,100
Accumulated amortisation	(48,006)	(30,624)
Net book value (NBV)	52,908	50,476
Amortisation rate % per annum	25	25

16.1 Depreciation charge for the year has been allocated in administrative expenses.

			2011	2010
			(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 including in transit Rs 286.574 million (2010: Rs Nil)		289,124	1,372
	Others		1,529	-
			362,005	81,068
18.	**Long term loans and deposits**			
	Loans to employees - considered good	- note 18.1	41,453	29,909
	Security deposits		9,831	7,816
			51,284	37,725
	Less: Receivable within one year		8,788	6,210
			42,496	31,515

18.1 These represent unsecured loans to non-executive employees for the purchase of plot, car, construction of house etc. and are repayable in monthly installments over a maximum period of 120 months. These loans carry interest of 9 percent per annum (2010: 9 percent per annum). Included in loans to employees are loans amounting to Rs 10.237 million (2010: Rs Nil) given to employees who were victims of flood. These are interest free and repayable upto 10 years.

			2011	2010
19.	**Stores and spares**		(Rupees in thousand)	
	Stores and spares including in transit Rs 114.276 million (2010 : Rs 40.254 million)	- note 19.1	3,514,907	3,271,788
	Less: Provision for store obsolescence	- note 19.2	114,336	88,581
			3,400,571	3,183,207

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 96.406 million (2010: Rs 120.129 million) which are being held by the following suppliers:

	2011	2010
	(Rupees in thousand)	
Siemens AG Germany	40,184	16,715
Middle East Engineering Company (MEELSA)	9,124	18,273
Wood Group Heavy Industrial Turbines Limited	-	64,904
Scherzinger Pump Technology, Germany	3,901	-
MJB International, UAE	28,089	-
Siemens Pakistan Engineering Company Limited	9,351	9,351
SSS Gears Limited	-	5,128
Allweiler AG	5,758	5,758
	96,407	120,129

		2011	2010
		(Rupees in thousand)	
19.2 Provision for store obsolescence			
Opening balance as on July 1		88,581	84,992
Add: Provision for the year		37,200	7,539
		125,781	92,531
Less: Stores written off against provision		11,445	3,950
		114,336	88,581
20. Stock in trade			
Furnace oil	- note 20.1	2,918,087	1,728,192
Diesel		422,933	539,013
		3,341,020	2,267,205

20.1 Stock in trade of Rs 2.425 million (2010: Rs 2.425) is being carried out at Net Realisable Value and an amount of Rs Nil (2010: Rs 18.234 million) has been charged to cost of sales, being the cost of stock in trade written down during the year.

		2011	2010
		(Rupees in thousand)	
21. Trade debts			
Trade debts	- note 21.1	67,230,691	51,812,752
Less: Provision for doubtful debts	- note 21.2	109,751	110,482
		67,120,940	51,702,270

21.1 These are considered good and include an over due amount of Rs 54,362 million (2010: Rs 41,645 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 per cent per annum is charged in case the amounts are not paid within due dates.

	2011	2010
	(Rupees in thousand)	
21.2 Provision for doubtful debts		
Opening balance	110,482	102,680
Add: Provision for the year	-	7,802
	110,482	110,482
Less: Trade debts written off against provision	731	-
	109,751	110,482

		2011	2010
		(Rupees in thousand)	
22. Loans, advances, deposits, prepayments and other receivables			
Loans to employees - considered good		8,788	6,210
Advances to suppliers - considered good	- note 22.1	133,645	66,828
Claims recoverable from Government			
- Sales tax	- note 22.2	661,928	167,579
- Income tax		1,709,345	1,430,684
Prepayments		6,924	4,435
Claims recoverable from WAPDA for pass through items			
- Workers' Welfare Fund		198,139	154,616
- Workers' Profit Participation Fund		881,888	386,540
- Flood Surcharge		146,670	-
	- note 22.3	1,226,697	541,156
Security deposits		2,105	1,995
Refundable from Workers' Profit Participation Fund	- note 22.4	4,652	1,460
Other receivables		23,118	17,459
		3,777,202	2,237,806

22.1 Advances to suppliers include amounts due from WAPDA Rs 68.592 million (2010: Rs 2.073 million) and due from Uch Power Limited Rs Nil (2010: Rs 0.251 million). 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 (2010: Rs 16.972 million), which represents refund for input tax on purchase of diesel for start-up. This refund was withheld by Deputy Collector (Refunds) and has also been adjudicated against the Company by Collector of Customs, Federal Excise & Sales Tax. The Company has filed Miscellaneous Application before the Customs, Excise and Sales Tax Appellate Tribunal.

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. Similarly under section 6.15(a) of Part I of Schedule 6 to the Power Purchase Agreement (PPA) with WAPDA, any surcharge levied is recoverable from WAPDA as pass through item.

	2011	2010
	(Rupees in thousand)	
22.4 Workers' Profit Participation Fund		
Opening refundable	(1,460)	(3,856)
Provision for the year	495,348	386,540
	493,888	382,684
Less: Payments made during the year	498,540	384,144
Closing refundable	(4,652)	(1,460)

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 Supreme Court.

23. Cash and bank balances

		2011	2010
		(Rupees in thousand)	
At banks on:			
- Current accounts		272,396	235,373
- Savings accounts		3,572	8,471
	- note 23.1	275,968	243,844
In hand		145	152
		276,113	243,996

23.1 Included in these are total restricted funds of Rs 13.590 million (2010: Rs 7.858 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 (2010: 5 percent to 7.5 percent per annum).

24. Sales

	2011	2010
	(Rupees in thousand)	
Energy purchase price	59,699,701	71,880,576
Capacity purchase price	14,651,044	14,054,278
	74,350,745	85,934,854

Energy purchase price is exclusive of sales tax of Rs 10,146.074 million (2010: Rs 11,476.389 million).

25. Cost of sales

		2011	2010
		(Rupees in thousand)	
Fuel cost		59,941,657	71,741,859
Salaries, wages and benefits	- note 25.1	878,832	709,886
Plant maintenance		183,965	210,057
Gas turbines overhauls		733,042	948,301
Repair and renewals		285,491	697,458
Depreciation on property, plant and equipment	- note 14.1	1,587,804	1,527,356
Amortisation on intangible assets	- note 15.1	1,536	1,158
Liquidated damages		3,000	167,332
Provision for store obsolescence	- note 19.2	37,200	7,539
		63,652,527	76,010,946

Cost of sales include Rs 589.926 million (2010: Rs 1,316.238 million) for stores and spares consumed.

		2011	2010
		(Rupees in thousand)	
25.1	Salaries, wages and benefits		
	Salaries, wages and benefits include following in respect of retirement benefits:		
	Pension		
	Current service cost	47,279	31,413
	Interest cost for the year	155,810	94,754
	Expected return on plan assets	(116,036)	(92,371)
		87,053	33,796
	Medical		
	Current service cost	3,136	3,519
	Interest cost for the year	11,787	11,905
	Amortisation of actuarial gain	(4,639)	(2,660)
		10,284	12,764
	Free electricity		
	Current service cost	6,984	6,941
	Interest cost for the year	30,846	22,261
	Amortisation of actuarial gain	-	(438)
		37,830	28,764

In addition to above, salaries, wages and benefits also include Rs 22.268 million (2010: Rs 18.018 million) in respect of provident fund contribution by the Company.

			2011	2010
26.	Administrative expenses		(Rupees in thousand)	
	Travelling		19,953	17,515
	Motor vehicles running		36,093	31,032
	Postage, telephone and telex		10,863	10,635
	Legal and professional charges		20,159	18,119
	Computer charges		5,681	5,866
	Auditors' remuneration	- note 26.1	2,488	2,254
	Printing, stationery and periodicals		8,499	7,676
	Repairs and maintenance infrastructure		33,780	40,587
	Training expenses		9,192	5,299
	Rent, rates and taxes		14,894	17,177
	Depreciation on property, plant and equipment	- note 14.1	32,016	33,024
	Depreciation on assets subject to finance lease	- note 16.1	18,104	14,609
	Infrastructure cost		37,322	19,881
	Differential payable to WAPDA	- note 26.2	148,978	173,033
	Education fee		28,448	25,635
	Bad debts written off		12,820	-
	Advances written off		-	266
	Provision for doubtful debts	- note 21.2	-	7,802
	Other expenses		13,059	20,291
			452,349	450,701

		2011	2010
		(Rupees in thousand)	
26.1	**Auditors' remuneration**		
	The charges for auditors' remuneration include the following in respect of auditors' services for:		
	Statutory audit	1,518	1,320
	Half yearly review	506	440
	Workers' Profit Participation Fund audit, Employees Provident and Pension Fund audit, special reports and certificates.	315	255
	Out of pocket expenses	149	239
		2,488	2,254

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 Pur chase Agreement (PPA) on account of dif ference in income tax rate as provided for in the PPA and the current tax rate as applicable to the Company.

			2011	2010
			(Rupees in thousand)	
27.	**Other operating expenses**			
	Donations	- note 27.1	16,150	8,000
	Project development cost		-	172,589
			16,150	180,589

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

		2011	2010
		(Rupees in thousand)	
28.	**Other operating income**		
	Income from financial assets		
	Income on bank deposits	1,834	1,126
	Interest on loans to employees	2,997	2,837
	Interest on late payment - WAPDA	8,030,496	3,693,842
	Exchange gain	-	53,065
		8,035,327	3,750,870
	Income from non-financial assets		
	Profit on disposal of property, plant and equipment	3,241	1,412
	Colony electricity	4,136	2,726
	Provisions and unclaimed balances written back	317,327	3,204
	Others	21,389	15,620
		346,093	22,962
		8,381,420	3,773,832

	2011	2010
	(Rupees in thousand)	
29. Finance cost		
Interest and mark-up including commitment charges on		
- long term loan from WAPDA - unsecured	687,776	813,736
- long term finances - secured	23,061	-
- finances under mark-up arrangements - secured	2,767,208	1,483,765
- credit supplies of raw material	5,148,050	3,026,951
- liabilities against assets subject to finance lease	7,673	7,273
Exchange loss	66,606	-
Bank and other charges	3,804	4,194
	8,704,178	5,335,919
30. Taxation		
For the year		
- Current	3,299,708	2,454,277
- Deferred	81,049	188,428
	3,380,757	2,642,705
Prior years		
- Current	(469)	(1,300)
- Deferred	-	-
	(469)	(1,300)
	3,380,288	2,641,405

	2011 %age	2010 %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	(0.86)	(0.79)
Effect of income taxed at different rates	(0.02)	(0.02)
Average effective tax rate	34.12	34.17

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:

(Rupees in thousand)

	Chief Executive		Executives	
	2011	2010	2011	2010
Managerial remuneration including bonus and other allowances	25,169	22,253	195,359	167,917
Contribution to provident & pension funds and other retirement benefit plans	1,766	1,535	32,101	10,051
Leave passage	-	-	8,761	7,089
	26,935	23,788	236,221	185,057
Number of Persons	1	1	68	66

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 (2010: 6 directors) was Rs 0.280 million (2010: Rs 0.340 million).

32. Transactions with related parties

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

Relationship with the Company	Nature of transaction	2011	2010
		(Rupees in thousand)	
i. Associated undertakings	Purchase of services	1,449	1,166
	Sale of goods and electricity	74,350,745	85,934,854
	Interest expense	687,776	813,736
	Interest income on late payment	8,030,496	3,693,842
	Bad debts written off	12,820	-
ii. Post retirement benefit plans	Expense charged	157,435	93,342

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, 2011 of Rs 3.50 (2010: Rs 2.75) per share amounting to Rs 3,080.886 million (2010: Rs 2,420.696 million) at their meeting held on September 5, 2011 for approval of members at the Annual General Meeting to be held on October 24, 2011. These financial statements do not reflect this dividend payable.

34. Capacity and production

	2011 MWh	2010 MWh
Annual dependable capacity (Based on 8,760 hours)	11,755,920	11,755,920
Actual energy delivered	5,687,720	7,766,706

Capacity for the power plant taking into account all the planned scheduled outages is 10,824,333 MWh (2010: 10,348,086 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 1.1621 (2010: USD 1.168), EURO 0.8007 (2010: EURO 0.9562), GBP 0.7214 (2010: GBP 0.7754) and YEN 93.4667 (2010: YEN 103.4982) equal to Rs 100.

36. Cash generated from operations

	2011	2010
	(Rupees in thousand)	
Profit before tax	9,906,961	7,730,531
Adjustments for:		
- Depreciation on property, plant and equipment	1,619,820	1,560,380
- Amortisation on intangible assets	1,536	1,158
- Depreciation on assets subject to finance lease	18,104	14,609
- Profit on disposal of property, plant and equipment	(3,241)	(1,412)
- Project development cost - written off	-	169,152
- Income on bank deposits	(1,834)	(1,126)
- Bad debts written off	12,820	-
- Advances written off	-	266
- Provision for store obsolescence	37,200	7,539
- Provision for doubtful debts	-	7,802
- Staff retirement benefits accrued	135,167	75,324
- Finance cost	8,704,178	5,335,919
Profit before working capital changes	20,430,711	14,900,142
Effect on cash flow due to working capital changes		
- Increase in stores and spares	(254,564)	(59,267)
- Increase in stock-in-trade	(1,073,815)	(299,993)
- Increase in trade debts	(15,431,490)	(18,988,103)
- Increase in loans, advances, deposits, prepayments and other receivables	(1,260,735)	(33,629)
- Increase in trade and other payables	6,020,334	8,319,636
	(12,000,270)	(11,061,356)
	8,430,441	3,838,786

	2011	2010
	(Rupees in thousand)	

37. Cash and cash equivalents

	2011	2010
Cash and bank balances	276,113	243,996
Finances under mark-up arrangements - secured	(23,512,168)	(17,230,710)
	(23,236,055)	(16,986,714)

38. Earnings per share

38.1 Basic earnings per share

		2011	2010
Profit for the year	Rupees in thousand	6,526,673	5,089,126
Weighted average number of ordinary shares	Numbers	880,253,228	880,253,228
Earnings per share	Rupees	7.41	5.78

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, 2011 and June 30, 2010 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 management in accordance with the Financial Risk Management Policy approved by the Board of Directors (the Board). This policy covers specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of this policy.

(a) Market risk

(i) Currency risk

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

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

	2011	2010
Trade and other payables - USD	(761,065)	(15,938)
Advances to suppliers - USD	-	1,400
Net exposure - USD	(761,065)	(14,538)
Advances to suppliers - GBP	-	5,800
Trade and other payables - Euro	(3,993,972)	(4,023,739)

The following exchange rates were applied during the year:

Rupees per USD		
Average rate	85.63	84.07
eporting date rate	86.05	85.60
Rupees per GBP		
Average rate	136.44	132.36
Reporting date rate	138.62	128.96
Rupees per Euro		
Average rate	117.07	116.46
Reporting date rate	124.89	104.58

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 18.587 million (2010: Rs 13.876 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:

	2011	2010
	(Rupees in thousand)	
Financial assets		
Fixed rate instruments		
Staff Loans	41,453	29,909
Floating rate instruments		
Bank balances - savings accounts	3,572	8,471
Financial liabilities		
Fixed rate instruments		
Long term loan - WAPDA	4,247,760	5,147,476
Floating rate instruments		
Other long term loans - secured	800,000	-
Liabilities against assets subject to finance lease	65,018	58,194
Finances under mark-up arrangements - secured	23,512,168	17,230,710
Trade payables	29,550,609	22,950,935
	53,927,795	40,239,839

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 4.014 million (2010: Rs 36.419 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:

	2011	2010
	(Rupees in thousand)	
Long term loans and deposits	51,284	37,725
Trade debts	67,120,940	51,702,270
Loans, advances, deposits, prepayments and other receivables		
- Workers' Welfare Fund receivable from WAPDA	198,139	154,616
- Workers' Profit Participation Fund receivable from WAPDA	881,888	386,540
- Flood Surcharge Receivable from WAPDA	146,670	-
- Security deposits	2,105	1,995
- Refundable from Workers' Profit Participation Fund	4,652	1,460
- Other receivables	13,055	12,121
Cash and bank balances	275,968	243,844
	68,694,701	52,540,571

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:

	2011	2010
	(Rupees in thousand)	
Not yet due	12,758,989	10,057,700
Due upto 90 days	31,068,086	24,255,338
Due past 90 to 180 days	18,937,753	17,321,912
Due past 181 to 365 days	4,282,171	32,321
Due past 365 days	73,941	34,999
	67,120,940	51,702,270

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		Rating Agency	2011	2010
	Short term	Long term		(Rupees in thousand)	
National Bank of Pakistan	A-1+	AAA	JCR-VIS	1,385	4,119
United Bank Limited	A-1+	AA+	JCR-VIS	98	99
Faysal Bank Limited	A-1+	AA	JCR-VIS	12	1
MCB Bank Limited	A1+	AA+	PACRA	-	4,298
Habib Bank Limited	A-1+	AA+	JCR-VIS	262,416	223,317
Allied Bank Limited	A1+	AA	PACRA	-	406
Royal Bank of Scotland Limited	A1+	AA	PACRA	-	567
Standard Chartered Bank	A1+	AAA	PACRA	41	39
NIB Bank Limited	A1+	AA-	PACRA	6	6
Deutsche Bank AG	A-1	A+	Standard & Poors	2	419
Bank Alfalah Limited	A1+	AA	PACRA	8,500	-
Citibank N.A.	A-1	A+	Standard & Poors	3,508	10,573
				275,968	243,844

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, 2011, the Company had borrowing limits available from financial institutions at Rs 26,600 million (2010: Rs 20,950 million) and Rs 276.113 million (2010: Rs 243.996 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, 2011:

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
Long term loan - unsecured	4,247,760	838,132	2,483,225	926,403
Long term loan - secured	800,000	-	800,000	-
Liabilities against assets subject to finance lease	65,018	19,370	45,648	-
Finances under mark-up arrangements - secured	23,512,168	23,512,168	-	-
Trade and other payables	39,190,323	39,190,323	-	-
	67,815,269	63,559,993	3,328,873	926,403

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	47,728	-
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	2,828,878	1,466,611

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	
	2011	2010
	(Rupees in thousand)	
Financial assets as per balance sheet		
Long term loans and deposits	51,284	37,725
Trade debts	67,120,940	51,702,270
Loans, advances, deposits, prepayments and other receivables		
- Workers' Welfare Fund receivable from WAPDA	198,139	154,616
- Workers' Profit Participation Fund receivable from WAPDA	881,888	386,540
- Flood surcharge receivable from WAPDA	146,670	-
- Security deposits	2,105	1,995
- Refundable from Workers' Profit Participation Fund	4,652	1,460
- Other receivables	13,055	12,121
Cash and bank balances	276,113	243,996
	68,694,846	52,540,723

	Financial liabilities at amortised cost	
	2011	2010
	(Rupees in thousand)	
Financial liabilities as per balance sheet		
Long term loan - unsecured	4,247,760	5,147,476
Long term loan - secured	800,000	-
Liabilities against assets subject to finance lease	65,018	58,194
Finances under mark-up arrangements - secured	23,512,168	17,230,710
Trade and other payables	39,190,323	29,335,004
	67,815,269	51,771,384

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, 2011 and June 30, 2010 are as follows:

		2011	2010
		(Rupees in thousand)	
Borrowings - note 7		5,047,760	5,147,476
Less: Cash and cash equivalents - note 23		276,113	243,996
Net debt		4,771,647	4,903,480
Total equity		23,959,945	22,494,728
Total capital		28,731,592	27,398,208
Gearing ratio	Percentage	17	18

40. Date of authorisation for issue

These financial statements were authorised for issue on September 5, 2011 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.

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)