# Balance Sheet

as at June 30, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Authorised capital | | | |
| 3,600,000,000 (2011: 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 (2011: 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 | | 14,402,413 | 14,712,962 |
| | | 23,649,396 | 23,959,945 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term finances | 7 | 4,270,905 | 4,209,628 |
| Liabilities against assets subject to finance lease | 8 | 61,454 | 45,648 |
| Deferred liabilities | 9 | 3,918,411 | 3,362,859 |
| | | 8,250,770 | 7,618,135 |
| **CURRENT LIABILITIES** | | | |
| Current portion of long term liabilities | 10 | 1,677,142 | 857,502 |
| Finances under mark-up arrangements - secured | 11 | 20,049,549 | 23,512,168 |
| Trade and other payables | 12 | 45,718,500 | 39,389,473 |
| | | 67,445,191 | 63,759,143 |
| **CONTINGENCIES AND COMMITMENTS** | 13 | | |
| | | 99,345,357 | 95,337,223 |

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

Aftab Mahmood Butt
(Chief Executive)

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 18,264,486 | 16,958,177 |
| Intangible assets | 15 | 7,388 | 5,791 |
| Assets subject to finance lease | 16 | 40,914 | 52,908 |
| Capital work-in-progress | 17 | 130,768 | 362,005 |
| Long term loans and deposits | 18 | 53,198 | 42,496 |
| | | 18,496,754 | 17,421,377 |
| CURRENT ASSETS | | | |
| Stores and spares | 19 | 3,726,404 | 3,400,571 |
| Stock-in-trade | 20 | 4,239,457 | 3,341,020 |
| Trade debts | 21 | 69,332,911 | 67,120,940 |
| Loans, advances, deposits, prepayments and other receivables | 22 | 3,243,061 | 3,777,202 |
| Cash and bank balances | 23 | 306,770 | 276,113 |
| | | 80,848,603 | 77,915,846 |
| | | 99,345,357 | 95,337,223 |

Malcolm P. Clampin
(Director)

# Profit and Loss Account

for the year ended June 30, 2012

| | | Note | 2012 | 2011 |
|---|---|---|---|---|
| | | | ------- (Rupees in thousand) ------- | |
| Sales | | 24 | 100,504,304 | 74,350,745 |
| Cost of sales | | 25 | (89,252,443) | (63,652,527) |
| Gross profit | | | 11,251,861 | 10,698,218 |
| Administrative expenses | | 26 | (496,057) | (452,349) |
| Other operating expenses | | 27 | (600) | (16,150) |
| Other operating income | | 28 | 7,662,456 | 8,381,420 |
| Profit from operations | | | 18,417,660 | 18,611,139 |
| Finance cost | | 29 | (9,782,214) | (8,704,178) |
| Profit before tax | | | 8,635,446 | 9,906,961 |
| Taxation | | 30 | (2,564,159) | (3,380,288) |
| Profit for the year | | | 6,071,287 | 6,526,673 |
| Earnings per share | Rupees | 38 | 6.90 | 7.41 |

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, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| Profit for the period | | 6,071,287 | 6,526,673 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 6,071,287 | 6,526,673 |

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, 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 36 | 18,988,865 | 8,430,441 |
| Finance cost paid | | (4,672,337) | (4,860,095) |
| Taxes paid | | (2,393,685) | (3,577,900) |
| Staff retirement benefits paid | | (35,114) | (31,370) |
| **Net cash generated from/(used) in operating activities** | | 11,887,729 | (38,924) |
| **Cash flows from investing activities** | | | |
| Fixed capital expenditure | | (2,906,955) | (1,063,729) |
| Income on bank deposits received | | 2,529 | 1,834 |
| Net increase in long term loans and deposits | | (10,702) | (10,981) |
| Proceeds from sale of property, plant and equipment | | 1,184 | 3,851 |
| **Net cash used in investing activities** | | (2,913,944) | (1,069,025) |
| **Cash flows from financing activities** | | | |
| Repayment of liabilities against assets subject to finance lease | | (20,438) | (14,304) |
| Repayment of long term loan - unsecured | | (838,133) | (899,716) |
| Proceeds from long term loan - secured | | 1,716,305 | 800,000 |
| Dividend paid | | (6,338,243) | (5,027,372) |
| **Net cash used in financing activities** | | (5,480,509) | (5,141,392) |
| **Net increase/(decrease) in cash and cash equivalents** | | 3,493,276 | (6,249,341) |
| **Cash and cash equivalents at beginning of the year** | | (23,236,055) | (16,986,714) |
| **Cash and cash equivalents at the end of the year** | 37 | (19,742,779) | (23,236,055) |

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, 2012

| | Share capital | Capital reserve | Un-appropriated profit | Total |
|---|---|---|---|---|
| | (Rupees in thousand) | | | |
| 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 |
| Final dividend for the year ended June 30, 2011 - Rs 3.50 per share | - | - | (3,080,886) | (3,080,886) |
| Total comprehensive income for the year | - | - | 6,071,287 | 6,071,287 |
| Interim dividend - Rs 3.75 per share | - | - | (3,300,950) | (3,300,950) |
| Balance as on June 30, 2012 | 8,802,532 | 444,451 | 14,402,413 | 23,649,396 |

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

Aftab Mahmood Butt
(Chief Executive)

Malcolm P. Clampin
(Director)

# Notes to and Forming Part of the Financial Statements
for the year ended June 30, 2012

## 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 and to sell the electricity produced therefrom to a single customer, the Pakistan Water and Power Development Authority (WAPDA) under a Power Purchase Agreement (PPA). This agreement is for a term of 25 years which commenced from June 1996.

## 2. Basis of preparation

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

- International Accounting Standard (IAS) 1 (amendment), ‘Presentation of financial statements’, is effective for annual periods beginning on or after January 1, 2011. The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. This amendment does not have any impact on the Company's financial statements.

- IAS 24 (revised), 'Related Party Disclosures', is effective for annual periods beginning on or after January 1, 2011. The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. This revision does not have a material impact on the Company's financial statements.

- IAS 34 (amendment), 'Interim Financial Reporting', is effective for annual periods beginning on or after January 1, 2011. The amendment provides guidance as to application of disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. This amendment does not have a material impact on the Company's financial statements.

- IFRS 7 (amendment), 'Financial Instruments: Disclosures', is effective for annual periods beginning on or after January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment does not have any impact on the Company's financial statements.

- IFRS 7 (amendment), 'Financial Instruments: Disclosures', is effective for annual periods beginning on or after July 1, 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets) or where financial assets are not derecognised in their entirety. 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) |
|---|---|
| IFRS 1 (amendment), 'First time adoption of International Financial Reporting Standards' | January 1, 2011 |
| IFRS 3 (revised), 'Business Combinations' | January 1, 2011 |
| IAS 27 (amendment), 'Separate Financial Statements' | January 1, 2011 |
| IFRIC 13 (amendment), 'Customer loyalty programmes' | January 1, 2011 |
| IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement' | January 1, 2011 |
| IFRS 1 (amendment), 'First time adoption of International Financial Reporting Standards - Severe hyperinflation and removal of fixed dates for first-time adopters' | July 1, 2011 |

### 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 IAS 17, 'Leases'.

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

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| De-recognition of property, plant and equipment | (18,228,406) | (16,926,474) |
| Recognition of lease debtor | 9,114,079 | 9,945,357 |
| Decrease in unappropriated profit at the beginning of the year | (3,855,533) | (4,223,527) |
| (Decrease)/increase in profit for the year | (1,790,259) | 367,994 |
| Decrease in unappropriated profit at the end of the year | (5,645,792) | (3,855,533) |

- 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 SOEs need to be accounted for by the covered entities, including the Company, under the provisions of amended IFRS 2. However, keeping in the view the difficulties that may be faced by entities covered under the scheme, the SECP on receiving representations from some of entities covered under the Scheme and after having consulted ICAP, 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 823.359 million (2011: Rs 589.207 million), profit after taxation would have been lower by Rs 535.183 million (2011: Rs 382.985 million), retained earnings would have been lower by Rs 535.183 million (2011: Rs 382.985 million), earning per share would have been lower by Rs 0.61 per share (2011: Rs 0.44 per share) and reserves would have been higher by Rs 823.359 million (2011: 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' | July 1, 2012 |
| IAS 19, 'Employee Benefit' | July 1, 2012 |
| IFRS 1 (amendment), 'First-time Adoption of International Financial Reporting Standards' | January 1, 2013 |
| IFRS 1, 'First time adoption', on government loans | 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 |
| IAS 27, Separate financial statements | January 1, 2013 |
| IAS 28, Associates and joint ventures | January 1, 2013 |
| IAS 32, Financial instruments : Presentation | January 1, 2013 |
| IFRS 9, 'Financial instruments' | January 1, 2015 |

## 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, 2012. The actual return on plan assets during the year was Rs 147.381 million (2011: Rs 129.258 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 13.50 percent per annum (2011: 14.50 percent per annum).
- Expected rate of increase in salary level 13.50 percent per annum (2011: 14.50 percent per annum).
- Expected rate of increase in pension 8.50 percent per annum (2011: 9.50 percent per annum).
- Expected rate of return on plan assets 13.50 percent per annum (2011: 14.50 percent per annum).

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

The Company is expected to contribute Rs 63.009 million to the pension fund in the next year ending June 30, 2013.

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, 2012.

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

- Discount rate 13.50 percent per annum (2011: 14.50 percent per annum).
- Expected rate of increase in medical cost 10.50 percent per annum (2011: 11.50 percent per annum).
- Expected rate of increase in electricity benefit 13.50 percent per annum (2011: 14.50 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. All blades are depreciated at the annual rate as mentioned in note 14 regardless of whether they are in use or not. Refurbishment costs are accrued and charged to profit and loss account.

### 4.4 Intangible assets

Expenditure incurred to acquire computer software are capitalised as intangible assets and stated at cost less accumulated 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 First In First Out (FIFO) and net realisable value.

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

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale. Provision is made in the financial statements for obsolete and slow moving stock in trade based on management estimate.

### 4.9 Financial instruments

#### 4.9.1 Financial assets

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Held to maturity

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

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

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

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

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account.

Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

### 4.9.2 Financial liabilities

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

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

### 4.10 Offsetting of financial assets and liabilities

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

### 4.11 Long term loans and deposits

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

### 4.12 Trade debts

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

### 4.13 Cash and cash equivalents

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

### 4.14 Borrowings

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

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

### 4.15 Trade and other payables

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

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

### 4.16 Derivative financial instruments

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

### 4.17 Foreign currencies

#### a) Functional and presentation currency

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

#### b) Transactions and balances

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

### 4.18 Borrowing costs

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

### 4.19 Revenue recognition

Revenue on account of energy is recognised on transmission of electricity to WAPDA, whereas on account of capacity is recognised when due.  Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

### 4.20 Dividend

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

## 5. Issued, subscribed and paid up capital

| 2012 | 2011 | | 2012 | 2011 |
|---|---|---|---|---|
| (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:

| | 2012 | 2011 |
|---|---|---|
| | (Number of shares) | |
| Pakistan Water and Power Development Authority (WAPDA) | 354,255,935 | 402,563,562 |
| National Power (Kot Addu) Limited (a wholly owned subsidiary of International Power plc) | 316,891,159 | 316,891,159 |
| KAPCO Employees Empowerment Trust (Formed under Benazir Employees' Stock Option Scheme (BESOS)) | 48,307,627 | - |
| | 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.

| | | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **7. Long term finances** | | | |
| These are composed of: | | | |
| - Loan from related party - unsecured | - note 7.1 | 3,409,627 | 4,247,760 |
| - Other bank finances - secured | - note 7.2 | 2,516,305 | 800,000 |
| | | 5,925,932 | 5,047,760 |
| Less: Current maturity | | 1,655,027 | 838,132 |
| | | 4,270,905 | 4,209,628 |

### 7.1 Loan from related party - unsecured

| Lender | Currency | Loan Outstanding (Rupees in thousands) | Rate of interest/ mark-up per annum | No. of semi annual installments | Interest/ mark-up payable |
|---|---|---|---|---|---|
| WAPDA | PKR | 3,409,627 | 14% | 12, ending June 2018. | Semi annually |

### 7.2 Other bank finances - secured

| Lender | Currency | Loan Outstanding (Rupees in thousands) | Rate of interest/ mark-up per annum | No. of installments | Interest/ mark-up payable |
|---|---|---|---|---|---|
| Allied Bank Limited | PKR | 800,000 | 6 month KIBOR plus 2.75% | 4, ending April, 2014 | Semi annually |
| MCB Bank Limited | PKR | 996,370 | 6 month KIBOR plus 2.75% | 8, ending August, 2014 | Quarterly |
| Habib Bank Limited | PKR | 719,935 | 3 month KIBOR plus 2.50% | 4, ending August, 2014 | Semi annually |

These finances have been obtained from banks in order to meet working capital requirements and to retire letter of credits opened for Balancing, Modernization and Replacement (BMR) projects of the Company. It is secured by a joint pari passu hypothecation charge to the extent of Rs 3,400 million (2011: 1,067 million) on current assets and present and future plant and machinery of the Company. The effective mark-up charged during the year was 13.55 percent per annum.

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| **8. Liabilities against assets subject to finance lease** | | |
| Present value of minimum lease payments | 83,569 | 65,018 |
| Less:Current portion shown under current liabilities | 22,115 | 19,370 |
| | 61,454 | 45,648 |

Minimum lease payments have been discounted at an implicit interest rate ranging from 12.95 percent (2011: 13.35 percent) per annum to 16.30 percent (2011: 16.27 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:

| Year | Minimum lease payment | Future finance charge | Present value of lease liability |
|---|---|---|---|
| | | | 2012 |
| | ---------------- (Rupees in thousand) | | ---------------- |
| Not later than one year | 31,228 | 9,113 | 22,115 |
| Later than one year and not later than five years | 75,272 | 13,818 | 61,454 |
| | 106,500 | 22,931 | 83,569 |

| Year | Minimum lease payment | Future finance charge | Present value of lease liability |
|---|---|---|---|
| | | | 2011 |
| | ---------------- (Rupees in thousand) | | ---------------- |
| Not later than one year | 27,073 | 7,703 | 19,370 |
| Later than one year and not later than five years | 54,293 | 8,645 | 45,648 |
| | 81,366 | 16,348 | 65,018 |

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) | ------- |
| **9. Deferred Liabilities** | | | |
| Deferred taxation | - note 9.1 | 3,270,425 | 2,846,210 |
| Staff retirement benefits | - note 9.2 | 647,986 | 516,649 |
| | | 3,918,411 | 3,362,859 |

## 9.1 Deferred taxation

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

| | 2012 | 2011 |
|---|---|---|
| Accelerated tax depreciation | 3,373,403 | 2,947,397 |
| Provision for store obsolescence | (49,825) | (40,018) |
| Provision for doubtful debts | (23,904) | (38,413) |
| Liabilities against assets subject to finance lease | (29,249) | (22,756) |
| | 3,270,425 | 2,846,210 |

## 9.2 Staff retirement benefits

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| These are composed of: | | | |
| Pension | - note 9.2.1 | 140,468 | 66,447 |
| Medical | - note 9.2.2 | 178,061 | 170,058 |
| Free electricity | - note 9.2.2 | 329,457 | 280,144 |
| | | 647,986 | 516,649 |

### 9.2.1 Pension

The amounts recognised in the balance sheet are as follows:

| | 2012 | 2011 |
|---|---|---|
| Present value of defined benefit obligation | 1,400,795 | 1,355,828 |
| Fair value of plan assets | (1,192,195) | (1,043,050) |
| Unrecognised actuarial losses | (68,132) | (246,331) |
| Liability as at June 30 | 140,468 | 66,447 |
| | | |
| Liability as at July 1 | 66,447 | 8,427 |
| Charge to profit and loss account | 106,504 | 87,053 |
| Adjustment to opening book reserve | - | (5,610) |
| Contribution paid by the Company | (32,483) | (23,423) |
| Liability as at June 30 | 140,468 | 66,447 |

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

| | 2012 | 2011 |
|---|---|---|
| Present value of defined benefit obligation as at July 1 | 1,355,828 | 981,216 |
| Current service cost | 50,517 | 47,279 |
| Interest cost for the year | 197,491 | 155,810 |
| Benefits paid during the year | (30,719) | (23,398) |
| Experience (gain)/loss on liability | (172,322) | 194,921 |
| Present value of defined benefit obligation as at June 30 | 1,400,795 | 1,355,828 |

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

| | 2012 | 2011 |
|---|---|---|
| Fair value as at July 1 | 1,043,050 | 908,157 |
| Expected return on plan assets | 150,733 | 116,036 |
| Company contribution | 32,483 | 23,423 |
| Benefits paid during the year | (30,719) | (23,398) |
| Experience (loss)/gain on plan assets | (3,352) | 18,832 |
| Fair value as at June 30 | 1,192,195 | 1,043,050 |

Plan assets are comprised as follows:

| | 2012 | 2011 |
|---|---|---|
| Mutual funds | 5% | 5% |
| Interest bearing instruments | 91% | 91% |
| Cash | 4% | 4% |
| | 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:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| **As at June 30** | | | | | |
| Present value of defined benefit obligations | 1,400,795 | 1,355,828 | 981,216 | 823,819 | 658,959 |
| Fair value of plan assets | (1,192,195) | (1,043,050) | (908,157) | (805,960) | (694,732) |
| Deficit/(Surplus) | 208,600 | 312,778 | 73,059 | 17,859 | (35,773) |
| Experience adjustment on obligation gain/(loss) | 12% | -14% | -6% | -9% | -13% |
| Experience adjustment on plan assets | 0% | 2% | 1% | 2% | 8% |

9.2.2

| | Post retirement Medical | | Post retirement Free electricity | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Rupees in thousand) | | | |
| The amounts recognised in the balance sheet are as follows: | | | | |
| Present value of defined benefit obligation | 90,731 | 86,263 | 296,546 | 279,689 |
| Unrecognised actuarial gains | 87,330 | 83,795 | 32,911 | 455 |
| Liability as at June 30 | 178,061 | 170,058 | 329,457 | 280,144 |
| Liability as at July 1 | 170,058 | 160,892 | 280,144 | 243,532 |
| Charge to profit and loss account | 9,175 | 10,284 | 50,772 | 37,830 |
| Contribution paid by the Company | (1,172) | (1,118) | (1,459) | (1,218) |
| Liability as at June 30 | 178,061 | 170,058 | 329,457 | 280,144 |
| The movement in the present value of defined benefit obligation is as follows: | | | | |
| Present value of defined benefit obligation as at July 1 | 86,263 | 91,440 | 279,689 | 239,075 |
| Current service cost | 2,812 | 3,136 | 9,643 | 6,984 |
| Interest cost for the year | 12,627 | 11,787 | 41,129 | 30,846 |
| Benefits paid during the year | (1,172) | (1,118) | (1,459) | (1,218) |
| Experience (gain)/loss on liability | (9,799) | (18,982) | (32,456) | 4,002 |
| Present value of defined benefit obligation as at June 30 | 90,731 | 86,263 | 296,546 | 279,689 |

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:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | Post Retirement Medical | | | | |
| | (Rupees in thousand) | | | | |
| As at June 30 | | | | | |
| Present value of defined benefit obligation | 90,731 | 86,263 | 91,440 | 102,280 | 116,906 |
| Fair value of plan assets | - | - | - | - | - |
| Deficit | 90,731 | 86,263 | 91,440 | 102,280 | 116,906 |
| Experience adjustment on obligation gain/(loss) | 10% | 14% | 0% | 9% | -2% |

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

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | Post Retirement Free Electricity | | | | |
| | (Rupees in thousand) | | | | |
| As at June 30 | | | | | |
| Present value of defined benefit obligation | 296,546 | 279,689 | 239,075 | 190,619 | 153,849 |
| Fair value of plan assets | - | - | - | - | - |
| Deficit | 296,546 | 279,689 | 239,075 | 190,619 | 153,849 |
| Experience adjustment on obligation (loss)/gain | -12% | -2% | -11% | -8% | -1% |

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

| | One percent point increase | One percent point decrease |
|---|---|---|
| | (Rupees in thousand) | |
| Effect on the aggregate of the service cost and interest cost | 2,916 | (2,334) |
| Effect on the defined benefit obligation | 16,966 | (13,623) |

| | | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **10. Current portion of long term liabilities** | | | |
| Long term finances | - note 7 | 1,655,027 | 838,132 |
| Liabilities against assets subject to finance lease | - note 8 | 22,115 | 19,370 |
| | | 1,677,142 | 857,502 |

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **11. Finances under mark up arrangements - secured** | | | |
| Running finances - secured | - note 11.1 | 20,049,549 | 22,012,168 |
| Short term finances - secured | - note 11.2 | - | 1,500,000 |
| | | 20,049,549 | 23,512,168 |

## 11.1 Running finances - secured

Short term running finances available from various commercial banks under mark-up arrangements amount to Rs 26,600 million (2011: Rs 23,600 million) including murabaha facilities of Rs 6,150 million (2011: Rs 6,150 million). The rate of mark-up ranges from 12.93 percent to 16.04 percent (2011: 13.42 percent to 15.26 percent) per annum on the balances outstanding. In the event, the Company fails to pay the balances on the expiry of the quarter, year or earlier demand, mark-up is to be computed at the rate of 20 percent to 24 percent (2011: 20 percent to 24 percent) per annum on the balances unpaid.

## 11.2 Short term finances - secured

The finances were repaid during the year. The effective mark-up charged on this facility during the year was 14.01 percent (2011: 15.24 percent) per annum.

## 11.3 Letter of credit and bank guarantees

Of the aggregate facility of Rs 3,498.551 million (2011: 2,773.688 million) for opening letters of credit and Rs 71.449 million (2011: Rs 576.312 million) for guarantees, the amount utilised as at June 30, 2012 was Rs 641.241 million (2011: Rs 1,640.903 million) and Rs 71.449 million (2011: Rs 576.312 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 43,093 million (2011: Rs 41,427 million) and charge on property, plant and equipment upto a limit of Rs 39,400 million (2011: Rs 37,067 million).

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **12. Trade and other payables** | | | |
| Trade creditors | - note 12.1 | 31,315,545 | 29,578,561 |
| Accrued liabilities | | 171,981 | 651,331 |
| Liquidated damages | | 172,478 | 171,451 |
| Markup accrued on: | | | |
| - Long term loan - unsecured | | 5,231 | 6,517 |
| - Long term finances - secured | | 77,194 | 23,061 |
| - Finances under markup arrangements - secured | | 277,826 | 284,055 |
| - Liabilities against assets subject to finance lease | | 944 | 927 |
| - Credit supplies of raw material | | 13,120,838 | 8,057,596 |
| Deposits - interest free repayable on demand | | 1,211 | 175 |
| Workers' Welfare Fund | | 147,843 | 198,139 |
| Differential payable to WAPDA | - note 26.2 | 113,600 | 148,982 |
| Unclaimed dividends | | 300,376 | 256,783 |
| Others | | 13,433 | 11,895 |
| | | 45,718,500 | 39,389,473 |

12.1 Trade creditors include amount due to related parties Rs 0.782 million (2011: Rs 0.782 million) and payable to Pakistan State Oil (PSO) amounting to Rs 30,776 million (2011: Rs 29,551 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 Inland Revenue (Appeals) ['CIR(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 Appellate Tribunal Inland Revenue ('ATIR') contesting such amendments.

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 CIR(A). The Company preferred appeal before ATIR against the decision of CIR(A).

Both the above appeals have now been decided in favour of the Company by ATIR declaring the orders passed by the tax authorities for amended assessments as null and void. The Tax Department has a right to file an appeal before the High Court against the ATIR decision.

In view of the above fact, the income tax liabilities determined by tax authorities have not been accounted for in these financial statements. Had such liabilities been recognized, the profit for the period would have been lower by Rs 2,784.356 million (June 30, 2011: Rs 2,705.081 million).

During the year, Tax department carried out assessment for the Tax Years 2009, 2010 and 2011. Based on these assessments they created a demand of Rs 1,027 million which mainly pertains to the matters connected with the revised depreciation case which has now been decided in Company's favour by ATIR. The tax department has also filed an appeal before ATIR against CIR(A) decision. Based on the foregoing the company has not made any provision against this demand.

(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 sub-judice before the Sindh High Court as the Supreme Court of Pakistan accepted the petition of another company and remanded the case to the Sindh High Court for fresh decision in accordance with its order.

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 (2011: 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 1,270.852 million upto June 30, 2012 (2011: Rs 954.442 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 190.628 million (2011: Rs 143.166 million) to the OEM out of the discount recognised upto June 30, 2012. 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, 2012 beyond Rs 10.101 billion (2011: Rs 4.032 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 (2011: 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 71.449 million (2011: Rs 576.197 million).

Custom Authorities for import of professional equipment, tools etc., amounting to Rs Nil (2011: Rs 0.115 million).

## 13.2 Commitments

(i) Contracts for capital expenditure Rs 333.318 million (2011: Rs 1,125.377 million).

(ii) Letters of credit other than for capital expenditure Rs 347.294 million (2011: Rs 516.583 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, 2012** | | | | | | | | | |
| Opening net book value (NBV) | 46,285 | 299,866 | 14,489,540 | 2,009,529 | 81,332 | 20,818 | 564 | 10,243 | 16,958,177 |
| Additions (at cost) | - | 4,678 | 270,124 | 2,850,928 | 31,382 | 9,880 | 66 | 98 | 3,167,156 |
| Transfers | - | - | - | - | - | - | - | 4,517 | 4,517 |
| Disposals (at NBV) | - | - | - | - | - | - | - | (1,175) | (1,175) |
| Depreciation charge | - | (30,203) | (1,292,724) | (511,262) | (20,990) | (7,440) | (233) | (1,337) | (1,864,189) |
| Closing net book value (NBV) | 46,285 | 274,341 | 13,466,940 | 4,349,195 | 91,724 | 23,258 | 397 | 12,346 | 18,264,486 |
| **Gross carrying value basis** | | | | | | | | | |
| **As at June 30, 2012** | | | | | | | | | |
| Cost | 46,285 | 709,304 | 34,524,463 | 7,526,509 | 292,791 | 104,890 | 17,646 | 49,529 | 43,271,417 |
| Accumulated depreciation | - | (434,963) | (21,057,523) | (3,177,314) | (201,067) | (81,632) | (17,249) | (37,183) | (25,006,931) |
| Net book value (NBV) | 46,285 | 274,341 | 13,466,940 | 4,349,195 | 91,724 | 23,258 | 397 | 12,346 | 18,264,486 |
| Depreciation rate % per annum | - | 4 - 11 | 4 - 10.71 | 10-11 | 20 | 20 | 20 | 25 | |
| **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 | |

The cost of fully depreciated assets which are still in use as at June 30, 2012 is Rs 1,803 million (2011: Rs 1,729 million).

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |

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

| | | 2012 | 2011 |
|---|---|---|---|
| Cost of sales | - note 25 | 1,832,417 | 1,587,804 |
| Administration expenses | - note 26 | 31,772 | 32,016 |
| | | 1,864,189 | 1,619,820 |

14.2 Disposal of property, plant and equipment

2012

| Particulars of assets | Sold to | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | | | | |
| Vehicles | Employee | | | | | |
| Suzuki Liana | Mr. Imran Iqbal | 827 | (661) | 166 | 166 | Company Policy |
| | Ex-employees | | | | | |
| Toyota Corolla - GLi | Mr. Rizwan ul Haq | 1,384 | (576) | 808 | 808 | Company Policy |
| Toyota Corolla - GLi | Mr. Sajjad Mehmood | 1,007 | (806) | 201 | 210 | Company Policy |
| | | 3,218 | (2,043) | 1,175 | 1,184 | |

2011

| Particulars of assets | Sold to | Cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal |
|---|---|---|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | | | | |
| Vehicles | Employee | | | | | |
| 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 Party | | | | | |
| 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 | |

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |

## 15. Intangible assets - Computer software

Net carrying value basis

Year ended June 30

| | 2012 | 2011 |
|---|---|---|
| Opening Net Book Value (NBV) | 5,791 | 2,415 |
| Additions (at cost) | 3,488 | 4,912 |
| Disposals (at NBV) | - | - |
| Amortisation charge | (1,891) | (1,536) |
| Closing NBV | 7,388 | 5,791 |
| **Gross carrying value basis** | | |
| Cost | 35,062 | 31,574 |
| Accumulated amortisation | (27,674) | (25,783) |
| NBV | 7,388 | 5,791 |
| Amortisation rate % per annum | 20 | 20 |

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

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |

## 16. Assets Subject to Finance Lease

Net carrying value basis

Year ended June 30

| | 2012 | 2011 |
|---|---|---|
| Opening NBV | 52,908 | 50,476 |
| Additions (at cost) | 6,537 | 20,821 |
| Disposals (at NBV) | (4,517) | (285) |
| Depreciation charge | (14,014) | (18,104) |
| Closing NBV | 40,914 | 52,908 |
| **Gross carrying value basis** | | |
| Cost | 87,562 | 100,914 |
| Accumulated depreciation | (46,648) | (48,006) |
| NBV | 40,914 | 52,908 |
| Depreciation rate % per annum | 25 | 25 |

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

# Notes to and Forming Part of the Financial Statements

for the year ended June 30, 2012

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **17. Capital work-in-progress** | | | |
| Advance to contractor for office premises | | 71,352 | 71,352 |
| Civil works | | 10,934 | - |
| Plant and machinery including in transit Rs Nil (2011: 286.574 million) | | 6,235 | 289,124 |
| Others including amount for leased vehicles not yet delivered Rs 34.186 million (2011: 1.529 million) | | 42,427 | 1,529 |
| | | 130,768 | 362,005 |
| **18. Long term loans and deposits** | | | |
| Loans to employees - considered good | - note 18.1 | 53,407 | 41,453 |
| Security deposits | | 11,805 | 9,831 |
| | | 65,212 | 51,284 |
| Less: Receivable within one year | | 12,014 | 8,788 |
| | | 53,198 | 42,496 |
| **18.1 Loans to employees - considered good** | | | |
| Loans to employees - unsecured | - note 18.1.1 | 32,507 | 41,453 |
| Loans to employees - secured | - note 18.1.2 | 20,900 | - |
| | | 53,407 | 41,453 |

18.1.1 These represent unsecured loans to non-executive employees for the purchase of plot, car, construction of house etc. and are repayable in monthly installments over a maximum period of 120 months. These loans carry interest of 9 percent per annum (2011: 9 percent per annum). Included in loans to employees are loans amounting to Rs 1.180 million (2011: Rs 10.237 million) given to employees who were victims of flood. These are interest free and repayable upto 10 years.

18.1.2 These represent secured loans to executive employees under officers' housing loan policy for the purchase of residential plot, residential house, renovation of house etc. and are repayable in monthly installments over a maximum period of 109 months. These loans carry interest of 8.53 percent to 9.63 percent (2011: Nil) per annum. These loans are secured against the property purchased/renovated of the concerned employee.

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **19. Stores and spares** | | | |
| Stores and spares including in transit Rs 4.285 million (2011 : Rs 114.276 million) | - note 19.1 | 3,868,762 | 3,514,907 |
| Less: Provision for store obsolescence | - note 19.2 | 142,358 | 114,336 |
| | | 3,726,404 | 3,400,571 |

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 61.138 million (2011: Rs 96.407 million) which are being held by the following suppliers:

| | | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Siemens AG Germany | | 38,503 | 40,184 |
| Middle East Engineering Company (MEELSA) | | 7,526 | 9,124 |
| Scherzinger Pump Technology, Germany | | - | 3,901 |
| MJB International, UAE | | - | 28,089 |
| Siemens Pakistan Engineering Company Limited | | 9,351 | 9,351 |
| Allweiler AG | | 5,758 | 5,758 |
| | | 61,138 | 96,407 |
| **19.2 Provision for store obsolescence** | | | |
| Opening balance as on July 1 | | 114,336 | 88,581 |
| Add: Provision for the year | | 39,232 | 37,200 |
| | | 153,568 | 125,781 |
| Less: Stores written off against provision | | 11,210 | 11,445 |
| | | 142,358 | 114,336 |
| **20. Stock in trade** | | | |
| Furnace oil | - note 20.1 | 3,663,960 | 2,918,087 |
| Diesel | | 575,497 | 422,933 |
| | | 4,239,457 | 3,341,020 |

20.1 Stock in trade of Rs 2.425 million (2011: Rs 2.425 million) is being carried out at Net Realisable Value.

| | | 2012 | 2011 |
|---|---|---|---|
| **21. Trade debts** | | (Rupees in thousand) | |
| Trade debts | - note 21.1 | 69,401,209 | 67,230,691 |
| Less: Provision for doubtful debts | - note 21.2 | 68,298 | 109,751 |
| | | 69,332,911 | 67,120,940 |

21.1 These are considered good and include an overdue amount of Rs 58,109 million (2011: Rs 54,362 million) receivable from WAPDA. The trade debts are secured by a guarantee from the Government of Pakistan under the Facilitation Agreement. These are in the normal course of business and are interest free, however, a penal mark-up of SBP discount rate plus 4 percent per annum is charged in case the amounts are not paid within due dates.

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **21.2 Provision for doubtful debts** | | | |
| Opening balance | | 109,751 | 110,482 |
| Add: Provision for the year | | 19,092 | - |
| | | 128,843 | 110,482 |
| Less: Trade debts written off against provision | | 60,545 | 731 |
| | | 68,298 | 109,751 |

## 22. Loans, advances, deposits, prepayments and other receivables

| | | 2012 | 2011 |
|---|---|---|---|
| Loans to employees - considered good | | 12,014 | 8,788 |
| Advances to suppliers - considered good | - note 22.1 | 103,053 | 133,645 |
| Claims recoverable from Government: | | | |
| - Sales tax | - note 22.2 | 560,381 | 661,928 |
| - Income tax | | 1,967,923 | 1,709,345 |
| Prepayments | | 3,689 | 6,924 |
| Claims recoverable from WAPDA for pass through items: | | | |
| - Workers' Welfare Fund | | 147,843 | 198,139 |
| - Workers' Profit Participation Fund | | 431,783 | 881,888 |
| - Flood Surcharge | | - | 146,670 |
| | - note 22.3 | 579,626 | 1,226,697 |
| Security deposits | | 2,725 | 2,105 |
| Refundable from Workers' Profit Participation Fund | - note 22.4 | 3,217 | 4,652 |
| Other receivables | | 10,433 | 23,118 |
| | | 3,243,061 | 3,777,202 |

22.1 Advances to suppliers include amounts due from WAPDA Rs 48.334 million (2011: Rs 68.592 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 (2011: 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. 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.

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **22.4 Workers' Profit Participation Fund** | | | |
| Opening refundable | | (4,652) | (1,460) |
| Provision for the year | | 431,783 | 495,348 |
| | | 427,131 | 493,888 |
| Less: Payments made during the year | | 430,348 | 498,540 |
| Closing refundable | | (3,217) | (4,652) |

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.

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| **23. Cash and bank balances** | | | |
| At banks on: | | | |
| - Current accounts | | 304,163 | 272,396 |
| - Savings accounts | | 2,442 | 3,572 |
| | - note 23.1 | 306,605 | 275,968 |
| In hand | | 165 | 145 |
| | | 306,770 | 276,113 |

23.1 Included in these are total restricted funds of Rs Nil (2011: Rs 13.590 million) held by banks under lien as margin against letters of credit. The balances in saving accounts bear mark up of 5 percent to 6 percent per annum (2011: 5 percent to 7.5 percent per annum).

| | 2012 | 2011 |
|---|---|---|
| **24. Sales** | | |
| Energy purchase price | 85,376,620 | 59,699,701 |
| Capacity purchase price | 15,127,684 | 14,651,044 |
| | 100,504,304 | 74,350,745 |

Energy purchase price is exclusive of sales tax of Rs 13,660.260 million (2011: Rs 10,146.074 million).

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |

## 25. Cost of sales

| | | 2012 | 2011 |
|---|---|---|---|
| Fuel cost | | 85,652,226 | 59,941,657 |
| Salaries, wages and benefits | - note 25.1 | 977,457 | 878,832 |
| Plant maintenance | | 201,183 | 183,965 |
| Gas turbines overhauls | | 265,133 | 733,042 |
| Repair and renewals | | 281,877 | 285,491 |
| Depreciation on property, plant and equipment | - note 14.1 | 1,832,417 | 1,587,804 |
| Amortisation on intangible assets | - note 15.1 | 1,891 | 1,536 |
| Liquidated damages | | 1,027 | 3,000 |
| Provision for store obsolescence | - note 19.2 | 39,232 | 37,200 |
| | | 89,252,443 | 63,652,527 |

Cost of sales include Rs 592.798 million (2011: Rs 589.926 million) for stores and spares consumed.

## 25.1 Salaries, wages and benefits

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

| | 2012 | 2011 |
|---|---|---|
| **Pension** | | |
| Current service cost | 50,517 | 47,279 |
| Interest cost for the year | 197,491 | 155,810 |
| Expected return on plan assets | (150,733) | (116,036) |
| Amortisation of actuarial loss | 9,229 | - |
| | 106,504 | 87,053 |
| **Medical** | | |
| Current service cost | 2,812 | 3,136 |
| Interest cost for the year | 12,627 | 11,787 |
| Amortisation of actuarial gain | (6,264) | (4,639) |
| | 9,175 | 10,284 |
| **Free electricity** | | |
| Current service cost | 9,643 | 6,984 |
| Interest cost for the year | 41,129 | 30,846 |
| | 50,772 | 37,830 |

In addition to above, salaries, wages and benefits also include Rs 24.461 million (2011: Rs 22.268 million) in respect of provident fund contribution by the Company.

# Notes to and Forming Part of the Financial Statements

for the year ended June 30, 2012

## 26. Administrative expenses

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| Traveling | | 19,866 | 19,953 |
| Motor vehicles running | | 42,306 | 36,093 |
| Postage, telephone and telex | | 10,701 | 10,863 |
| Legal and professional charges | | 31,970 | 20,159 |
| Computer charges | | 5,879 | 5,681 |
| Auditors' remuneration | - note 26.1 | 2,881 | 2,488 |
| Printing, stationery and periodicals | | 14,381 | 8,499 |
| Repairs and maintenance infrastructure | | 33,292 | 33,780 |
| Training expenses | | 10,568 | 9,192 |
| Rent, rates and taxes | | 15,143 | 14,894 |
| Depreciation on property, plant and equipment | - note 14.1 | 31,772 | 32,016 |
| Depreciation on assets subject to finance lease | - note 16.1 | 14,014 | 18,104 |
| Infrastructure cost | | 26,717 | 37,322 |
| Differential payable to WAPDA | - note 26.2 | 113,828 | 148,978 |
| Education fee | | 29,562 | 28,448 |
| Bad debts written off | | 45,861 | 12,820 |
| Advances written off | | 15,598 | - |
| Provision for doubtful debts | - note 21.2 | 19,092 | - |
| Other expenses | | 12,626 | 13,059 |
| | | 496,057 | 452,349 |

## 26.1 Auditors' remuneration

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

| | 2012 | 2011 |
|---|---|---|
| Statutory audit | 1,685 | 1,518 |
| Half yearly review | 597 | 506 |
| Workers' Profit Participation Fund audit, Employees Provident and Pension Fund audit, special reports and certificates. | 396 | 315 |
| Out of pocket expenses | 203 | 149 |
| | 2,881 | 2,488 |

26.2 This represents income tax differential payable to WAPDA in accordance with clause 6.7 and 6.15(a) of Part I of Schedule 6 of Power Purchase Agreement (PPA) on account of difference in income tax rate as provided for in the PPA and the current tax rate as applicable to the Company.

## 27. Other operating expenses

| | | 2012 | 2011 |
|---|---|---|---|
| Donations | - note 27.1 | 600 | 16,150 |
| | | 600 | 16,150 |

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

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| **28. Other operating income** | | |
| **Income from financial assets** | | |
| Income on bank deposits | 2,529 | 1,834 |
| Interest on loans to employees | 2,831 | 2,997 |
| Interest on late payment - WAPDA | 7,511,566 | 8,030,496 |
| | 7,516,926 | 8,035,327 |
| **Income from non-financial assets** | | |
| Profit on disposal of property, plant and equipment | 9 | 3,241 |
| Colony electricity | 3,442 | 4,136 |
| Provisions and unclaimed balances written back | 103,996 | 317,327 |
| Others | 38,083 | 21,389 |
| | 145,530 | 346,093 |
| | 7,662,456 | 8,381,420 |
| **29. Finance cost** | | |
| Interest and mark-up including commitment charges on: | | |
| - Long term loan from WAPDA - unsecured | 564,066 | 687,776 |
| - Long term finances - secured | 325,091 | 23,061 |
| - Finances under markup arrangements - secured | 3,033,285 | 2,767,208 |
| - Credit supplies of raw material | 5,763,242 | 5,148,050 |
| - Liabilities against assets subject to finance lease | 7,705 | 7,673 |
| Exchange loss | 85,082 | 66,606 |
| Bank and other charges | 3,743 | 3,804 |
| | 9,782,214 | 8,704,178 |
| **30. Taxation** | | |
| For the year: | | |
| - Current | 2,205,102 | 3,299,708 |
| - Deferred | 424,215 | 81,049 |
| | 2,629,317 | 3,380,757 |
| Prior years: | | |
| - Current | (65,158) | (469) |
| - Deferred | - | - |
| | (65,158) | (469) |
| | 2,564,159 | 3,380,288 |
| **30.1 Tax charge reconciliation** | %age | %age |
| 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 | (0.75) | - |
| Effect of tax credit | (4.40) | (0.86) |
| Others | (0.16) | (0.02) |
| Average effective tax rate | 29.69 | 34.12 |

## 31. Remuneration of Directors, Chief executive and Executives

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

| | Chief Executive | | Executives | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Rupees in thousand) | | | |
| Managerial remuneration including bonus and other allowances | 32,667 | 25,169 | 235,543 | 195,359 |
| Contribution to provident & pension funds and other retirement benefit plans | 2,242 | 1,766 | 44,696 | 32,101 |
| Leave passage | 1,900 | - | 10,017 | 8,761 |
| | 36,809 | 26,935 | 290,256 | 236,221 |
| Number of Persons | 1 | 1 | 71 | 68 |

The Company also provides the Chief Executive and some of the Executives with Company transport, telephones and medical facilities.

### 31.2 Remuneration to other directors

Aggregate amount charged in the financial statements for the year for fee to 6 directors (2011: 6 directors) was Rs 0.670 million (2011: Rs 0.280 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 | 2012 | 2011 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| i. Associated undertakings | Purchase of services | 810 | 1,449 |
| | Sale of goods and electricity | 100,504,304 | 74,350,745 |
| | Interest expense | 564,066 | 687,776 |
| | Interest income on late payment | 7,511,566 | 8,030,496 |
| | Bad debts written off | 45,861 | 12,820 |
| | Advances written off | 5,856 | - |
| ii. Post retirement benefit plans | Expense charged | 190,912 | 157,435 |

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, 2012 of Rs 3.15 (2011: Rs 3.50) per share amounting to Rs 2,772.798 million (2011: Rs 3,080.886 million) at their meeting held on August 28, 2012 for approval of members at the Annual General Meeting to be held on October 22, 2012. These financial statements do not reflect this dividend payable.

| | 2012 MWh | 2011 MWh |
|---|---|---|
| **34. Capacity and production** | | |
| Annual dependable capacity (Based on 8,784 hours) | 11,788,128 | 11,755,920 |
| Actual energy delivered | 6,065,461 | 5,687,720 |

Capacity for the power plant taking into account all the planned scheduled outages is 11,175,518 MWh (2011: 10,824,333 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 1.0616 (2011: USD 1.1621), EURO 0.8439 (2011: EURO 0.8007), GBP 0.6799 (2011: GBP 0.7214) and YEN 84.2531 (2011: YEN 93.4667) equal to Rs 100.

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| **36. Cash generated from operations** | | |
| Profit before tax | 8,635,446 | 9,906,961 |
| Adjustments for: | | |
| - Depreciation on property, plant and equipment | 1,864,189 | 1,619,820 |
| - Amortisation on intangible assets | 1,891 | 1,536 |
| - Depreciation on assets subject to finance lease | 14,014 | 18,104 |
| - Profit on disposal of property, plant and equipment | (9) | (3,241) |
| - Income on bank deposits | (2,529) | (1,834) |
| - Bad debts written off | 45,861 | 12,820 |
| - Advances written off | 15,598 | - |
| - Provision for store obsolescence | 39,232 | 37,200 |
| - Provision for doubtful debts | 19,092 | - |
| - Staff retirement benefits accrued | 166,451 | 135,167 |
| - Finance cost | 9,782,214 | 8,704,178 |
| Profit before working capital changes | 20,581,450 | 20,430,711 |
| Effect on cash flow due to working capital changes: | | |
| - Increase in stores and spares | (365,065) | (254,564) |
| - Increase in stock-in-trade | (898,437) | (1,073,815) |
| - Increase in trade debts | (2,276,924) | (15,431,490) |
| - Decrease/(Increase) in loans, advances, deposits, prepayments and other receivables | 772,284 | (1,260,735) |
| - Increase in trade and other payables | 1,175,557 | 6,020,334 |
| | (1,592,585) | (12,000,270) |
| | 18,988,865 | 8,430,441 |

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |

## 37. Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| Cash and bank balances | 306,770 | 276,113 |
| Finances under mark-up arrangements - secured | (20,049,549) | (23,512,168) |
| | (19,742,779) | (23,236,055) |

## 38. Earnings per share

### 38.1 Basic earnings per share

| | | 2012 | 2011 |
|---|---|---|---|
| Profit for the year | Rupees in thousand | 6,071,287 | 6,526,673 |
| Weighted average number of ordinary shares | Numbers | 880,253,228 | 880,253,228 |
| Earnings per share | Rupees | 6.90 | 7.41 |

### 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, 2012 and June 30, 2011 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:

| | 2012 | 2011 |
|---|---|---|
| Trade and other payables - USD | (3,576) | (761,065) |
| Advances to suppliers - USD | - | - |
| Net exposure - USD | (3,576) | (761,065) |
| | | |
| Trade and other payables - GBP | (1,471) | - |
| Advances to suppliers - GBP | - | - |
| Net exposure - GBP | (1,471) | - |
| | | |
| Trade and other payables - Euro | (78,763) | (3,993,972) |
| Advances to suppliers - Euro | - | - |
| Net exposure - Euro | (78,763) | (3,993,972) |

The following exchange rates were applied during the year:

| | 2012 | 2011 |
|---|---|---|
| **Rupees per USD** | | |
| Average rate | 89.40 | 85.63 |
| Reporting date rate | 94.20 | 86.05 |
| **Rupees per GBP** | | |
| Average rate | 141.47 | 136.44 |
| Reporting date rate | 147.07 | 138.62 |
| **Rupees per Euro** | | |
| Average rate | 119.53 | 117.07 |
| Reporting date rate | 118.50 | 124.89 |

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 2.760 million (2011: Rs 18.587 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:

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| **Financial assets** | | |
| **Fixed rate instruments** | | |
| Staff Loans | 53,407 | 41,453 |
| **Floating rate instruments** | | |
| Bank balances - savings accounts | 2,442 | 3,572 |
| **Financial liabilities** | | |
| **Fixed rate instruments** | | |
| Long term loan - WAPDA | 3,409,627 | 4,247,760 |
| **Floating rate instruments** | | |
| Other long term loans - secured | 2,516,305 | 800,000 |
| Liabilities against assets subject to finance lease | 83,569 | 65,018 |
| Finances under mark-up arrangements - secured | 20,049,549 | 23,512,168 |
| Trade payables | 30,775,515 | 29,550,609 |
| | 53,424,938 | 53,927,795 |

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 60.020 million (2011: Rs 4.014 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:

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| Long term loans and deposits | 65,212 | 51,284 |
| Trade debts | 69,332,911 | 67,120,940 |
| Loans, advances, deposits, prepayments and other receivables: | | |
| - Workers' Welfare Fund receivable from WAPDA | 147,843 | 198,139 |
| - Workers' Profit Participation Fund receivable from WAPDA | 431,783 | 881,888 |
| - Flood surcharge receivable from WAPDA | - | 146,670 |
| - Security deposits | 2,725 | 2,105 |
| - Refundable from Workers' Profit Participation Fund | 3,217 | 4,652 |
| - Other receivables | 3,340 | 13,055 |
| Cash and bank balances | 306,605 | 275,968 |
| | 70,293,636 | 68,694,701 |

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:

| | 2012 | 2011 |
|---|---|---|
| | ------- (Rupees in thousand) ------- | |
| Not yet due | 11,223,755 | 12,758,989 |
| Due past 90 days | 36,484,161 | 31,068,086 |
| Due past 90 to 180 days | 17,037,531 | 18,937,753 |
| Due past 181 to 365 days | 4,521,434 | 4,282,171 |
| Due past 365 days | 66,030 | 73,941 |
| | 69,332,911 | 67,120,940 |

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:

| | Short term | Long term | Rating Agency | 2012 | 2011 |
|---|---|---|---|---|---|
| | ------- Rating ------- | | | ------- (Rupees in thousand) ------- | |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | 849 | 1,385 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | - | 98 |
| Faysal Bank Limited | A1+ | AA | PACRA | 1 | 12 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | 303,436 | 262,416 |
| Standard Chartered Bank | A1+ | AAA | PACRA | 1 | 41 |
| NIB Bank Limited | A1+ | AA- | PACRA | 7 | 6 |
| Deutsche Bank AG | A-1 | A+ | Standard & Poors | 15 | 2 |
| Bank Alfalah Limited | A1+ | AA | PACRA | - | 8,500 |
| Citibank N.A. | A-1 | A+ | Standard & Poors | 2,296 | 3,508 |
| | | | | 306,605 | 275,968 |

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, 2012, the Company had borrowing limits available from financial institutions at Rs 28,100 million (2011: Rs 26,600 million) and Rs 306.770 million (2011: Rs 276.113 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, 2012:

| | Carrying amount | Less than one year | One to five years | More than five years |
|---|---|---|---|---|
| | (Rupees in thousand) | | | |
| Long term loan - unsecured | 3,409,627 | 701,405 | 2,708,222 | - |
| Long term loan - secured | 2,516,305 | 953,622 | 1,562,683 | - |
| Liabilities against assets subject to finance lease | 83,569 | 22,115 | 61,454 | - |
| Finances under mark-up arrangements - secured | 20,049,549 | 20,049,549 | - | - |
| Trade and other payables | 45,569,371 | 45,569,371 | - | - |
| | 71,628,421 | 67,296,062 | 4,332,359 | - |

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 |

### 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 | |
|---|---|---|
| | 2012 | 2011 |
| | ------- (Rupees in thousand) ------- | |
| **Financial assets as per balance sheet** | | |
| Long term loans and deposits | 65,212 | 51,284 |
| Trade debts | 69,332,911 | 67,120,940 |
| Loans, advances, deposits, prepayments and other receivables: | | |
| - Workers' Welfare Fund receivable from WAPDA | 147,843 | 198,139 |
| - Workers' Profit Participation Fund receivable from WAPDA | 431,783 | 881,888 |
| - Flood surcharge receivable from WAPDA | - | 146,670 |
| - Security deposits | 2,725 | 2,105 |
| - Refundable from Workers' Profit Participation Fund | 3,217 | 4,652 |
| - Other receivables | 3,340 | 13,055 |
| Cash and bank balances | 306,770 | 276,113 |
| | 70,293,801 | 68,694,846 |

| | Financial liabilities at amortised cost | |
|---|---|---|
| | 2012 | 2011 |
| | ------- (Rupees in thousand) ------- | |
| **Financial liabilities as per balance sheet** | | |
| Long term loan - unsecured | 3,409,627 | 4,247,760 |
| Long term loan - secured | 2,516,305 | 800,000 |
| Liabilities against assets subject to finance lease | 83,569 | 65,018 |
| Finances under mark-up arrangements - secured | 20,049,549 | 23,512,168 |
| Trade and other payables | 45,569,371 | 39,190,323 |
| | 71,628,421 | 67,815,269 |

### 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, 2012 and June 30, 2011 are as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| | | ------- (Rupees in thousand) ------- | |
| Borrowings | - note 7 | 5,925,932 | 5,047,760 |
| Less: Cash and cash equivalents | - note 23 | 306,770 | 276,113 |
| Net debt | | 5,619,162 | 4,771,647 |
| Total equity | | 23,649,396 | 23,959,945 |
| Total capital | | 29,268,558 | 28,731,592 |
| Gearing ratio | Percentage | 19 | 17 |

## 40. Date of authorisation for issue

These financial statements were authorised for issue on August 28, 2012 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)