ENGRO POWERGEN QADIRPUR LIMITED

FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED JUNE 30, 2014

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Engro Powergen Qadirpur Limited as at June 30, 2014 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the half year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2014 and of the profit, total comprehensive income, changes in equity and its cash flows for the half year then ended; and

(d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Chartered Accountants
Karachi
Date: August 20, 2014

Engagement Partner: Waqas A. Sheikh

ENGRO POWERGEN QADIRPUR LIMITED
BALANCE SHEET AS AT JUNE 30, 2014

(Amounts in thousand)

	Note	June 30, 2014	December 31, 2013
		Rupees	
ASSETS			
Non-current assets			
Property, plant and equipment	4	14,310,798	15,233,998
Intangible assets	5	79,701	83,967
Long term deposits		2,491	2,491
Long term loans and advances	7	22,910	16,941
		14,415,900	15,337,397
Current assets			
Inventories	8	385,334	366,431
Stores and spares	9	383,036	367,678
Trade debts	10	3,374,149	476,333
Loans, advances, deposits, prepayments and other receivables	11	1,868,870	2,223,730
Taxes recoverable		46,217	43,901
Short term investments	12	50,686	-
Balances with banks	13	172,994	217,674
		6,281,286	3,695,747
TOTAL ASSETS		**20,697,186**	**19,033,144**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	3,238,000	3,238,000
Share premium	15	80,777	80,777
Maintenance reserve	16	227,182	227,182
Hedging reserve		(37,472)	-
Unappropriated profit		2,565,852	1,976,627
Remeasurement of retirement benefit obligation - Actuarial gain		1,085	723
Total equity		6,075,424	5,523,309
Liabilities			
Non-current liability			
Borrowing	17	8,297,776	9,586,454
Current liabilities			
Creditors, accrued and other liabilities	18	2,317,678	1,593,488
Accrued interest / mark-up		61,984	41,792
Current portion of long term borrowing	17	1,374,867	1,405,632
Short term borrowings	19	2,569,457	882,469
		6,323,986	3,923,381
Total liabilities		14,621,762	13,509,835
Contingencies and Commitments	20		
TOTAL EQUITY AND LIABILITIES		**20,697,186**	**19,033,144**

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive Officer **Director**

ENGRO POWERGEN QADIRPUR LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE HALF YEAR ENDED JUNE 30, 2014

(Amounts in thousand except for earnings per share)

	Note	Half year ended June 30, 2014	Half year ended June 30, 2013
		Rupees	
Sales	21	6,516,121	5,178,951
Cost of sales	22	(5,067,943)	(3,872,705)
Gross profit		1,448,178	1,306,246
Administrative expenses	23	(78,060)	(53,128)
Other expenses	24	(105,764)	(12,395)
Other income	25	156,804	8,242
Profit from operations		1,421,158	1,248,965
Finance cost	26	(333,241)	(203,127)
Workers' profits participation fund and Workers' welfare fund	27	-	-
Profit before taxation		1,087,917	1,045,838
Taxation	28	(40)	(18)
Profit for the period		1,087,877	1,045,820
Earnings per share - basic and diluted	29	3.36	3.23

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive Officer

Director

ENGRO POWERGEN QADIRPUR LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED JUNE 30, 2014

(Amounts in thousand)

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	
Profit for the period	1,087,877	1,045,820
Other comprehensive income / (loss):		
Item that may be reclassified subsequently to profit or loss		
- Hedging reserve - loss for the period	(38,374)	-
Less: Transfers to profit and loss	902	-
	(37,472)	-
Item that will not be reclassified to profit or loss		
- Remeasurement of retirement benefit obligation - Actuarial gain	362	566
Total comprehensive income for the period	1,050,767	1,046,386

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive Officer

Director

ENGRO POWERGEN QADIRPUR LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED JUNE 30, 2014

(Amounts in thousand)

	Share capital	Share premium	Maintenance reserve* (note 16)	Hedging reserve	Unappropriated profit	Remeasurement of retirement benefit obligation - Actuarial gain	Total
	Rupees						
Balance as at January 1, 2013	3,238,000	80,777	227,182	-	3,212,299	-	6,758,258
Total comprehensive income for the half year ended June 30, 2013	-	-	-	-	1,045,820	-	1,045,820
Remeasurement of retirement benefit obligation - Actuarial gain	-	-	-	-	-	566	566
Transactions with owners							
Final dividend for the year ended December 31, 2012 @ Rs. 2.15 per share	-	-	-	-	(696,170)	-	(696,170)
Balance as at June 30, 2013	3,238,000	80,777	227,182	-	3,561,949	566	7,108,474
Total comprehensive income for the half year ended December 31, 2013	-	-	-	-	412,524	-	412,524
Remeasurement of retirement benefit obligation - Actuarial gain	-	-	-	-	-	157	157
Transactions with owners							
Interim dividend @ Rs. 6.17 per share	-	-	-	-	(1,997,846)	-	(1,997,846)
Balance as at December 31, 2013	3,238,000	80,777	227,182	-	1,976,627	723	5,523,309
Total comprehensive income for the half year ended June 30, 2014							
Profit for the period	-	-	-	-	1,087,877	-	1,087,877
Other comprehensive income	-	-	-	(37,472)	-	-	(37,472)
Remeasurement of retirement benefit obligation - Actuarial gain	-	-	-	-	-	362	362
Transactions with owners							
Interim dividend @ Rs. 1.54 per share	-	-		-	(498,652)	-	(498,652)
Balance at June 30, 2014	3,238,000	80,777	227,182	(37,472)	2,565,852	1,085	6,075,424

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive Officer **Director**

ENGRO POWERGEN QADIRPUR LIMITED
STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED JUNE 30, 2014

(Amounts in thousand)

	Note	Half year ended June 30, 2014	Half year ended June 30, 2013
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (utilised in) / generated from operations	30	(156,051)	4,564,849
Taxes paid		(2,356)	(6,529)
Long term loans and advances - net		(5,969)	(4,204)
Net cash (utilised in) / generated from operating activities		(164,376)	4,554,116
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment - Net		(109,228)	(54,704)
Sale proceeds from disposal of property, plant and equipment		1,608	5,607
Investments made during the period		(900,000)	(1,410,000)
Proceeds from encashment of short term investments		911,366	1,414,371
Net cash utilised in investing activities		(96,254)	(44,726)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowing		(680,931)	(605,397)
Finance cost paid		(240,769)	(335,435)
Dividends paid		(498,652)	(696,170)
Net cash utilised in financing activities		(1,420,352)	(1,637,002)
Net (decrease) / increase in cash and cash equivalents		(1,680,982)	2,872,388
Cash and cash equivalents at beginning of the year		(664,795)	(1,762,276)
Cash and cash equivalents at end of the year	31	(2,345,777)	1,110,112

The annexed notes from 1 to 39 form an integral part of these financial statements.

Chief Executive Officer

Director

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 The Company is an unlisted public limited company and was incorporated in Pakistan on February 28, 2006 under the Companies Ordinance, 1984. The Company is a subsidiary of Engro Powergen Limited which in turn is a wholly owned subsidiary of Engro Corporation Limited. The Company's registered office is located at 4th floor, Harbour Front Building, Plot Number HC-3, Block 4, Scheme Number 5, Clifton, Karachi.

1.2 The Company was established with the primary objective to undertake the business of power generation and sale. The Company has a 217.3 MW combine cycle power plant and commenced commercial operations on March 27, 2010. The electricity generated is transmitted to the National Transmission and Despatch Company (NTDC) under the Power Purchase Agreement (PPA) dated October 26, 2007. This agreement is for a period of 25 years.

1.3 The Company is in the process of listing of its shares on the Karachi Stock Exchange. The necessary legal formalities in this respect are in the finalization stages.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities at fair value and recognition of certain staff retirement and other service benefits at present value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance and the requirements of the said directives have been followed.

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(Amounts in thousand)

2.1.4 **Initial application of standards, amendments or an interpretation to existing standards**

a) **Standards, amendments to published standards and interpretations that are effective in 2014**

The new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2014 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

b) **Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company**

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2014 and have not been early adopted by the Company:

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015). This standard is yet to be notified by the SECP. IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characterstics of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, incase the fair value option is taken for financial liabilities, the part of a fair value change due to entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess of IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS when completed by the Board, however, the initial indications are that it may not affect the Company's financial statements significantly.

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2014). This standard is yet to be notified by the SECP. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The amendment only affects the disclosures in the Company's financial statements.

- IAS 24, 'Related party disclosures'(effective for the periods beginning on or after July 1, 2014).The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. The Company's current disclosures are in line with these requirements.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented here.

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(Amounts in thousand)

2.2 Property, plant and equipment

Except for freehold land and capital work in progress all assets are stated at cost less accumulated depreciation and impairment, if any. Freehold land is stated at cost. Capital work in progress is stated at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs. Self constructed assets include the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, costs of dismantling and removing the items and restoring of the site on which they are located and exchange losses as referred to in note 6. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Major components of an item of property, plant and equipment having different useful lives are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss.

Disposal of assets is recognised when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals or retirement of an asset are recognised in profit or loss.

Depreciation is charged to profit or loss using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life at rates given in note 4.1. Depreciation on additions is charged from the month following the month in which the asset is available for use and on disposals upto the month the asset was in use.

Assets residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

2.3 Intangible assets

a) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense in profit or loss when incurred. Costs directly attributable to identifiable software having probable economic benefits exceeding one year, are recognised as intangible assets. Direct costs include purchase costs (license fee) and related overheads.

Expenditure which enhances or extends the performance of the software programme beyond its original specification and useful life is capitalised.

Software costs and license fees capitalised as intangible assets are amortised to profit or loss from the date of use on a straight-line basis over a period of 4 years.

b) Right to use infrastructure facilities

Costs representing the right to use various infrastructure facilities are stated at historical cost. These costs are amortised to profit or loss over a period of 25 years.

(Amounts in thousand)

2.4 Impairment of non-financial assets

Property, plant and equipment's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sale and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Financial assets

2.5.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at 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. A financial asset is classified in this category 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 12 months after the end of the reporting period which are classified as non-current assets. The Company's loans and receivable comprise trade debts, loans, advances, other receivables and cash and cash equivalent in the balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are non derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

d) 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 the investment matures or management intends to dispose of it within 12 months of the end of the reporting date. There were no 'available-for-sale' financial assets at the balance sheet date.

2.5.2 Recognition and measurement

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 financial assets are recognised on the 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 to profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all 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 subsequently carried at amortised cost.

(Amounts in thousand)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss.

Gains and losses except impairment losses and foreign exchange gain and losses arising from changes in fair value of assets classified as available-for-sale are recognised in other comprehensive income until the financial asset is derecognised. When securities classified as available-for-sale are sold, the accumulated gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Interest on available-for-sale assets calculated using the effective interest method is recognised in profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when the Company's right to receive payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for assets carried at amortised cost, the loss is recognised in profit or loss. For available-for-sale financial assets, the cumulative loss is reclassified from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed.

2.6 **Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument at their fair value and in the case of a financial liability carried at fair value through profit or loss, the transaction cost incurred thereagainst is also charged to profit or loss. After initial recognition financial liabilities are measured at amortized cost using the effective interest method except financial liabilities at fair value through profit or loss which are measured at fair value.

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 or loss.

2.7 **Offsetting of financial assets and liabilities**

A financial asset and a financial liability are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.8 **Derivative financial instruments**

Derivatives, except a derivative that is a financial guarantee contract or a designated and effective hedging instrument, are classified as a financial asset or liability measured at fair value through profit or loss. Derivative financial instruments are initially recognised at fair value on the date derivative contract is entered into and subsequently re-measured at their fair value. Derivatives are carried as assets where fair value is positive and as liabilities where fair value is negative.

Fair value of derivatives embedded in financial instruments or non-derivative host contracts are separated from the host contract if the risks and economic characteristics of the embedded derivative are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

(Amounts in thousand)

If the fair value of an embedded derivative that is required to be separated cannot be reliably measured, the entire combined contract is measured at fair value through profit or loss.

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss together with any changes in the fair value of the hedged asset or liability.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. The gain or loss relating to the ineffective portion is recognised in profit or loss on an on going basis. The company assesses whether each derivative continues to be highly effective in offsetting changes in cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, cash flow hedge accounting is discontinued.

However, for the reasons explained in note 6 derivatives embedded in the Power Purchase Agreement have not been separated from the host contract and recognised accordingly in these financial statements.

2.9 **Inventory of fuel oil**

This is valued at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2.10 **Stores and spares**

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. For items which are slow moving and/ or identified as surplus to the Company's requirements, adequate provision is made for any excess book value over estimated residual value.

The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence, if any.

2.11 **Trade debts**

Trade receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method less provision for impairment. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written-off.

2.12 **Cash and cash equivalents**

Cash and cash equivalent in the statement of cash flows includes cash in hand and in transit, balances with banks on current, deposit and saving accounts, other short term highly liquid investments with original maturities of three months or less and short term borrowings other than term finance.

2.13 **Share capital**

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(Amounts in thousand)

2.14 **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is amortised over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 **Creditors, accrued and other liabilities**

These are recognised initially at fair value and subsequently measured at amortised cost. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

Creditors, accrued and other liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.16 **Provisions**

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 a reliable estimate can be made of the amount of obligation. Provisions are not recognised for future operating losses. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.17 **Taxation**

The Company's profits and gains from power generation are exempt from tax under clause 132 of Part I of the Second Schedule to the Income Tax Ordinance, 2001. The Company is also exempt from minimum tax on turnover under clause 11 A of part IV of the Second Schedule to the Income Tax Ordinance, 2001. However, the Company's income from other sources is subject to taxation.

2.18 **Retirement and other service benefits obligations**

2.18.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company has transfered assets and liabilities of its provident and gratuity fund, to the defined contribution provident and gratuity funds maintained and operated by its Ultimate Holding Company - Engro Corporation Limited (ECL), and has wound-up its own funds. Monthly contributions are made both by the Company and employees to the provident and gratuity funds maintained by ECL at the rate of 10% and 8.33 % of basic salary, respectively.

(Amounts in thousand)

2.18.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan, under which the Company has an obligation to provide the agreed benefits to its entitled employees. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by an actuary using the projected unit credit method. Actuarial valuation requires assumptions to be made of future outcomes which mainly include increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

The Company operates defined benefit funded gratuity scheme for its management and non-management employees.

Last year, the Company gave an option to its permanent employees to transfer from defined benefit gratuity fund to defined contribution gratuity fund maintained and operated by ECL. Out of total 106 employees, who were the members of defined benefit gratuity fund, 90 employees have opted for transfer of their balances and accordingly their balances have been transferred to the defined contribution gratuity funds maintained by ECL.

2.18.3 Compensated absences

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the reporting period.

2.19 **Foreign currency transactions and translation**

These financial statements are presented in Pakistan Rupees, which is Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except as referred to in note 2.22 and note 6.

2.20 **Revenue recognition on supply of electricity**

Revenue from the sale of electricity to National Transmission and Despatch Company (NTDC), the sole customer of the Company, is recorded on the following basis:

- Capacity revenue is recognised based on the capacity made available to NTDC; and
- Energy revenue is recognised based on the Net Electrical Output (NEO) delivered to NTDC.

Capacity and Energy revenue is recognised based on the rates determined under the mechanism laid down in the PPA.

2.21 **Interest on bank deposits and delayed payment income**

Interest income on bank deposits and delayed payment income on overdue trade receivables is recognised on accrual basis.

2.22 **Borrowing costs**

Borrowing costs are recognised as an expense in the period in which these are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalised as part of the cost of that asset. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

(Amounts in thousand)

2.23 **Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.24 **Transactions with related parties**

Sales, purchases and other transactions with related parties are carried out on terms and conditions agreed between the parties.

2.25 **Dividend and appropriation to reserves**

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 **Property, plant and equipment and intangible assets**

The Company reviews appropriateness of the rate of depreciation / amortisation, useful life and residual value used in the calculation of depreciation / amortisation. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

3.2 **Inventory of fuel oil and stores and spares**

The Company reviews the net realisable value of inventory of fuel oil and stores and spares to assess any diminution in the respective carrying value. Net realisable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

3.3 **Provision for retirement and other service benefit obligations**

The present value of the retirement and other service benefit obligations depends on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations.

(Amounts in thousand)

	June 30, 2014	December 31, 2013
	Rupees	

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2014	December 31, 2013
Operating assets, at net book value (note 4.1)	13,235,029	14,206,132
Capital work-in-progress (note 4.3)	8,627	106,293
Capital spares (note 4.4)	1,067,142	921,573
	14,310,798	15,233,998

4.1 Operating assets

	Freehold land	Plant & machinery	Buildings	Furniture, fixtures and equipments	Vehicles	Total
	Rupees					
As at January 1, 2013						
Cost	83,127	12,694,318	2,415,323	43,208	167,593	15,403,569
Accumulated depreciation	-	(1,247,387)	(205,520)	(21,030)	(52,979)	(1,526,916)
Net book value	83,127	11,446,931	2,209,803	22,178	114,614	13,876,653
Year ended December 31, 2013						
Opening net book value	83,127	11,446,931	2,209,803	22,178	114,614	13,876,653
Transfers from capital work-in-progress (note 4.3)	-	125,001	2,001	58,319	-	185,321
Capitalization of exchange loss (note 6)	-	922,426	-	-	-	922,426
Disposals						
Cost	-	(88,878)	-	(103)	(25,566)	(114,547)
Accumulated depreciation	-	13,126	-	32	14,535	27,693
	-	(75,752)	-	(71)	(11,031)	(86,854)
Depreciation charge	-	(591,168)	(74,835)	(13,649)	(11,762)	(691,414)
Net book value	83,127	11,827,438	2,136,969	66,777	91,821	14,206,132
As at January 01, 2014						
Cost	83,127	13,652,867	2,417,324	101,424	142,027	16,396,769
Accumulated depreciation	-	(1,825,429)	(280,355)	(34,647)	(50,206)	(2,190,637)
Net book value	83,127	11,827,438	2,136,969	66,777	91,821	14,206,132
Half year ended June 30, 2014						
Opening net book value	83,127	11,827,438	2,136,969	66,777	91,821	14,206,132
Transfers from capital work-in-progress (note 4.3)	-	23,316	419	2,440	-	26,175
Transfers from capital spares (note 4.4)	-	35,150	-	-	-	35,150
Capitalization adjustment for exchange gain (note 6)	-	(680,947)	-	-	-	(680,947)
Disposals (note 4.1.1)						
Cost	-	-	-	(75)	(3,238)	(3,313)
Accumulated depreciation	-	-	-	75	2,265	2,340
	-	-	-	-	(973)	(973)
Depreciation charge - net (note 4.2)	-	(277,137)	(37,432)	(7,885)	(28,054)	(350,508)
Net book value	83,127	10,927,820	2,099,956	61,332	62,794	13,235,029
As at June 30, 2014						
Cost	83,127	13,030,386	2,417,743	103,789	138,789	15,773,834
Accumulated depreciation	-	(2,102,566)	(317,787)	(42,457)	(75,995)	(2,538,805)
Net book value	83,127	10,927,820	2,099,956	61,332	62,794	13,235,029
Annual rate of depreciation		4% - 16%	2.5% - 8%	15% - 25%	19% - 23%	

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(Amounts in thousand)

4.1.1 The details of asset disposed off during the period is as follows:

Sold to	Mode of disposal	Cost	Accumulated depreciation	Net book value	Sale proceeds
		Rupees			
Office equipment					
Adamjee Insurance Co. Ltd	Insurance claim	75	75	-	-
Vehicles					
Adamjee Insurance Co. Ltd	Insurance claim	1,155	1,039	116	750
Mr. Sohail Ahmed	Under Company's policy	2,083	1,226	857	858
		3,313	2,340	973	1,608
December 31, 2013		114,547	27,693	86,854	90,403

	June 30, 2014	June 30, 2013
	Rupees	
4.2 The depreciation charge for the period has been allocated as follows:		
Cost of sales (note 22)	348,027	334,233
Administrative exepenses (note 23)	2,481	3,228
	350,508	337,461

4.3 **Capital work-in-progress**

	Plant & machinery	Buildings & civil works	Furniture, fixtures and equipments	Vehicles	Intangibles	Total
	Rupees					
Year ended December 31, 2013						
Balance as at January 1, 2013	5,130	816	48,198	-	3,014	57,158
Additions / (reclassifications) during the year	209,896	1,604	11,006	-	14,748	237,254
Transferred to intangibles (note 5)	-	-	-	-	(2,798)	(2,798)
Transferred to operating assets (note 4.1)	(125,001)	(2,001)	(58,319)	-	-	(185,321)
Balance as at December 31, 2013	90,025	419	885	-	14,964	106,293
Half year ended June 30, 2014						
Balance as at January 1, 2014	90,025	419	885	-	14,964	106,293
Additions / (reclassifications) during the period	103,913	1,493	4,848	-	(11,123)	99,131
Transferred to capital spares (note 4.4)	(170,622)	-	-	-	-	(170,622)
Transferred to operating assets (note 4.1)	(23,316)	(419)	(2,440)	-	-	(26,175)
Balance as at June 30, 2014	-	1,493	3,293	-	3,841	8,627

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(Amounts in thousand)

4.4 Capital spares

	June 30, 2014	December 31, 2013
	Rupees	
Balance at the beginning of period / year	921,573	926,939
Additions / (reclassification)	10,097	(5,366)
Transfers from Capital Work in Progress - Net (note 4.3)	170,622	-
Transfers to operating assets - Net (note 4.1 and 4.4.1)	(35,150)	-
Balance at the end of period / year	1,067,142	921,573

4.4.1 This represents the cost of capital spares transferred to operating assets amounting to Rs. 276,028 less the NBV of those replaced and issued for refurbishment to third parties amounting to Rs. 240,878.

5. INTANGIBLE ASSETS

	Computer software	Right to use infra-structure facilities (note 5.2)	Total
		Rupees	
As at January 1, 2013			
Cost	33,594	96,627	130,221
Accumulated amortisation	(23,515)	(13,608)	(37,123)
Net book value	10,079	83,019	93,098
Year ended December 31, 2013			
Opening net book value	10,079	83,019	93,098
Additions during the year (note 4.3)	2,798	-	2,798
Amortisation for the year	(8,064)	(3,865)	(11,929)
Closing net book value	4,813	79,154	83,967
As at January 1, 2014			
Cost	36,392	96,627	133,019
Accumulated amortisation	(31,579)	(17,473)	(49,052)
Net book value	4,813	79,154	83,967
Half year ended June 30, 2014			
Opening net book value	4,813	79,154	83,967
Amortisation for the period (note 5.1)	(2,281)	(1,985)	(4,266)
Closing net book value	2,532	77,169	79,701
As at June 30, 2014			
Cost	36,392	96,627	133,019
Accumulated amortisation	(33,860)	(19,458)	(53,318)
Net book value	2,532	77,169	79,701

	June 30, 2014	June 30, 2013
	Rupees	
5.1 Amortisation charge for the period has been allocated as follows:		
Cost of sales (note 22)	2,898	3,591
Administrative exepenses (note 23)	1,368	2,317
	4,266	5,908

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(Amounts in thousand)

5.2 The Company, instead of constructing its own facilities and in order to realise economies of scale has opted to obtain right to use Engro Fertilizers Limited's (an associated undertaking) various infrastructure facilities. This entitles the employees of the Company to full use of the Engro Fertilizers Limited's facilities, which are adjacent to the Company's Housing Colony in Dharki. The amount paid by the Company is being amortised over 25 years.

6. EMBEDDED DERIVATIVES

The Company's tariff, like other power companies, comprises of various price components with indexations falling within the ambit of embedded derivatives. Such embedded derivative as per International Accounting Standard (IAS) 39, 'Financial Instrument: Recognition and Measurement' need to be separated from the host contract and accounted for as derivative if economic characteristics and risks of the embedded derivatives are not closely related to the host contract.

The Company, had sought clarification from the Institute of Chartered Accountants of Pakistan (ICAP) in respect of the indexations pertaining to (i) US$/PKR exchange rate (applicable to Company's price components of debt, return on equity, return on equity during construction); and (ii) US CPI & US$/PKR exchange rate (applicable to Company's price components of fixed and variable operations and maintenance – foreign) whether these derivatives were closely or not closely related to the host contract.

In addition, the Company had also requested ICAP to prescribe a definite basis or guidelines for the valuation of such embedded derivatives considering the subjectivity involved therein if these were considered to be not closely related to the host contract. Further, as indexation of US$/PKR exchange rate related to debt component being not recognised separately as embedded derivative, the Company taking cognizance of the 'matching principle' requested the Securities and Exchange Commission of Pakistan (SECP) to allow deferment of recognising exchange loss on translation of borrowings under IAS 21 - Foreign Currency Transactions in the profit or loss till the clarification sought on the recognition of the foreign currency indexations from ICAP had been received.

On January 16, 2012, SECP vide SRO 24 (I) 2012 had granted waivers to all IPPs from the requirements of IFRIC 4 " Determining whether an arrangement contains a lease" and IFRIC 12 " Service Concession Agreements". Further, SECP through the aforementioned SRO has also allowed the IPPs to continue capitalising the exchange differences, and not to recognise embedded derivatives under IAS 39 where these are not closely related to the host contract. However, in case of such derivatives, for periods beginning on or after January 1, 2013, the companies are required to give "Additional Disclosure" in its statutory financial statements, as if the accounting for embedded derivatives had been adopted in preparing the financial statements.

In view of the above S.R.O, the Company has therefore capitalised exchange differences aggregating to Rs. 1,981,824 as at June 30, 2014 (December 31, 2013: Rs. 2,662,771), which includes exchange gain of Rs. 680,947 pertaining to current period (December 31, 2013: exchange loss of Rs. 922,426) in property, plant and equipment (note 4.1).

(Amounts in thousand)

	June 30, 2014	December 31, 2013
	Rupees	

7. LONG TERM LOANS AND ADVANCES
- Considered good

	June 30, 2014	December 31, 2013
Executives (notes 7.1 and 7.2)	33,823	26,781
Less: Current portion shown under current assets (note 11)	(10,913)	(9,840)
Balance as at end of the period / year	22,910	16,941

7.1 Reconciliation of the carrying amount of loans and advances

	June 30, 2014	December 31, 2013
Balance as at beginning of the period / year	26,781	23,179
Add: Disbursements	15,015	17,567
Less: Repayments/amortisation	(7,973)	(13,965)
Balance as at end of the period / year	33,823	26,781

7.2 Loans and advances include interest free investment loan plan to executives amounting to Rs. 23,799 (December 31, 2013: Rs. 18,926) repayable in equal monthly instalments over a three year period or in one lump sum at the end of such period. It also includes advances amounting to Rs. 10,505 (December 31, 2013: Rs. 7,855) for car earn out assistance, house rent, long term incentive and compensation car.

7.3 The maximum amount outstanding at the end of any month amounted to Rs. 34,304 (December 31, 2013: Rs. 24,625).

8. INVENTORIES

This comprises of High Speed Diesel (HSD) inventory required to be maintained for operating the power plant in case supply of gas is unavailable to the Company. As per clause (b) of section 5.14 of the Power Purchase Agreement (PPA), the Company is required to maintain HSD at a level sufficient for operating the power plant at full load for seven days. However, due to non payment of dues in full by NTDC, the Company is maintaining HSD inventory at a level sufficient for operating the power plant at full load for around five days.

9. STORES AND SPARES

	June 30, 2014	December 31, 2013
	Rupees	
Consumable stores	40,608	37,504
Spares (note 9.1)	342,428	330,174
	383,036	367,678

9.1 These include spares issued for refurbishment and returned for replacement to third parties amounting to Rs. 252 (December 31, 2013: Rs. 18,747).

(Amounts in thousand)

		June 30, 2014	December 31, 2013
		Rupees	
10.	**TRADE DEBTS - secured**		
	Considered good	3,374,149	476,333

10.1 Trade debts, including delayed payment charges (note 11.1), are secured by a guarantee from the Government of Pakistan under the Implementation Agreement and as such are considered good.

10.2 Trade debts include:

- Rs. 28,526 (December 31, 2013: Rs. Nil) which will be invoiced after the revised tariff has been notified in the official Gazzette of Government of Pakistan;
- Rs. 2,148,690 (December 31, 2013: Rs. 151,445) which are neither past due nor impaired; and
- Rs. 1,225,459 (December 31, 2013: Rs. 324,888) which are overdue but not impaired. The overdue receivables carry mark-up at the rate of KIBOR plus 4.5% per annum. The aging of such overdue receivables is as follows:

	June 30, 2014	December 31, 2013
	Rupees	
Upto 3 months	1,225,459	324,888
More than 3 months	-	-
	1,225,459	324,888

11.	**LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES - considered good**		
	Current portion of long term loans and advances to executives and other employees - considered good (note 7)	10,913	9,840
	Advances and deposits	4,274	9,167
	Prepayments	151,696	63,852
	Delayed payment charges (notes 11.1 and 11.2)	805,131	729,986
	Sales tax refundable (note 11.3)	97,636	30,043
	Receivable from associated undertakings:		
	- Engro Powergen Limited	1,695	8,821
	- Engro Fertilizers Limited	8	-
	- Engro Polymer & Chemicals Limited	17	6
	- Engro Corporation Limited	-	442
	- Sindh Engro Coal Mining Company Limited	655	906
	Security deposit	1,296	2,516
	Insurance claim receivable (note 25.1)	516,510	380,512
	Reimbursable cost from NEPRA in respect of		
	- Workers' profits participation fund (note 11.5)	127,608	267,525
	- Workers' welfare fund (note 18.3)	151,002	129,244
	Others (note 11.4)	429	590,870
		1,868,870	2,223,730

(Amounts in thousand)

11.1 This represents mark-up on overdue trade debts, as referred to in note 10.2, of which Rs. 744,365 (December 31, 2013: Rs. 684,508) is overdue.

	June 30, 2014	December 31, 2013
	----------Rupees----------	
11.2 The aging of over due delayed payment charges is as follows:		
Upto 3 months	15,265	40,929
3 to 6 months	44,592	580,029
More than 6 months	684,508	63,550
	744,365	684,508

11.3 As at December 31, 2013, Rs. 22,820 relating to provincial input tax paid on services has been claimed for the period from July 2013 to December 2013. Though, adjustment of provincial input tax has been disallowed by the Federal Board of Revenue (FBR), subsequent to changes made through Finance Act, 2013, however, the Company filed constitution petition in this respect before the Honourable Sindh High Court, where interim relief was granted to the Company.

During the period, the Federal Government vide its SRO 212 (I) /2014 dated March 26, 2014 has allowed the adjustment of provincial input tax paid on services with effect from July 1, 2013.

11.4 At December 31, 2013, the Company was required to pay for a minimum quantity of gas (take or pay gas) agreed under section 3.3 of the Gas Supply Agreement (GSA), which was adjusted against gas purchased subsequent to the payment made.

11.5 This includes invoiced amount of Rs. 73,213 (December 31, 2013: Rs. 194,601).

12. SHORT TERM INVESTMENTS

Represents amounts invested in mutual fund units in respect of Maintenance Reserve (note 16).

	June 30, 2014	December 31, 2013
	----------Rupees----------	
13. BALANCES WITH BANKS		
Deposit accounts		
Foreign currency (note 13.1)	2,645	2,816
Local currency (notes 13.2 and 13.3)	170,349	214,858
	172,994	217,674

13.1 Foreign currency deposits carry return at the rate of 0.05% (December 31, 2013: 0.25%) per annum.

13.2 Local currency deposits carry return at the rate of 7.25% (2013: 7%) per annum.

(Amounts in thousand)

14. SHARE CAPITAL

Authorized capital

June 30, 2014	December 31, 2013		June 30, 2014	December 31, 2013
(Number of shares)			Rupees	
330,000,000	330,000,000	Ordinary shares of Rs. 10 each	3,300,000	3,300,000

Issued, subscribed and paid-up capital

June 30, 2014	December 31, 2013		June 30, 2014	December 31, 2013
(Number of shares)			Rupees	
323,800,000	323,800,000	Ordinary shares of Rs. 10 each, fully paid in cash	3,238,000	3,238,000

14.1 As at June 30, 2014, associated undertakings comprising Engro Corporation Limited and Engro Powergen Limited held 32,000,000 (December 31, 2013: 32,000,000) and 272,000,000 (December 31, 2013: 272,000,000) ordinary shares respectively. Further 16,000,000 (December 31, 2013: 16,000,000) ordinary shares are held by International Finance Corporation. The remaining 3,800,000 shares (December 31, 2013: 3,800,000) are held by individuals who have been issued these shares under the employees' share option scheme.

15. SHARE PREMIUM

This represents the net share premium on issue of shares of the Company to International Finance Corporation in 2008 and to employees under the employees' share option scheme.

16. MAINTENANCE RESERVE

In accordance with the Power Purchase Agreement (PPA), the Company is required to establish and maintain a separate reserve fund (the Fund) with a depository institution for payment of major maintenance expenses. Any interest income resulting from the depository arrangements of the Fund is to remain in the Fund to the extent of any short fall from the contractual limit.

Under the PPA, 1/24th of the annual operating and maintenance budget of the Power Plant less fuel expenses is required to be deposited into the Fund on each capacity payment date until such reserve equals to nine such deposits. After the second agreement year and thereafter the Fund may be re-established at such other level that the Company and NTDC mutually agree.

In 2012, the Company due to uncertain cash flows resulting from delayed payments by NTDC has, as per flexibility available under the PPA, reduced the amount deposited to Rs. 50,000, which has been invested in mutual fund securities as at June 30, 2014 (note 12). Till such time the amount is deposited again to the required level, the Company has unutilized short term financing available to meet any unexpected maintenance requirement that may arise in the foreseeable future.

(Amounts in thousand)

	June 30, 2014	December 31, 2013
	Rupees	
17. BORROWING, secured		
Long term borrowing	9,672,643	10,992,086
Less: Current portion shown under current liabilities	1,374,867	1,405,632
	8,297,776	9,586,454

17.1 The Company entered into a financing agreement with a consortium comprising of international financial institutions amounting to US$ 144,000. The finance carries markup at the rate of six months LIBOR plus 3% payable semi-annually over a period of twelve years. The principal is repayable in twenty semi-annual instalments commencing from December 15, 2010. As at June 30, 2014, the outstanding balance of the borrowing was US$ 98,471 (December 31, 2013: US$ 105,015).

The borrowing is secured by an equitable mortgage on the immovable property and the hypothecation of current and future assets of the Company, except receivables from NTDC in respect of Energy Purchase Price. Further, the Company has also extended a letter of credit in favour of the senior lenders, as referred to in note 20.

	June 30, 2014	December 31, 2013
	Rupees	
18. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	1,121,486	294,178
Accrued liabilities (note 18.1)	866,784	1,142,526
Provision for insurance settlement (note 25.1)	105,591	-
Security deposits	566	566
Payable to associated undertaking		
- Engro Corporation Limited	3,806	-
- Engro Corporation Limited - Defined contribution gratuity fund	7,034	3,923
- Retirement benefit fund	1,612	1,598
Provision against		
- Sales tax recoverable	3,810	3,810
- HSD tariff adjustments	-	5,000
Withholding tax payable	1,591	4,719
Workers' profits participation fund (note 18.2)	54,396	7,924
Workers' welfare fund (note 18.3)	151,002	129,244
	2,317,678	1,593,488

18.1 Includes accrual of gas charges amounting to Rs. 748,901 (December 31, 2013: Rs. 94,116).

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(Amounts in thousand)

		June 30, 2014	December 31, 2013
		Rupees	
18.2	Workers' profits participation fund		
	Payable at the beginning of the period / year	7,924	104,730
	Allocation for the period / year (note 27)	54,396	72,924
		62,320	177,654
	Interest (note 26.1)	-	1,621
	Payment during the period / year	(7,924)	(171,351)
	Payable at the end of the period / year	54,396	7,924
18.3	Workers' welfare fund		
	Payable at the beginning of the period / year	129,244	100,074
	Allocation for the year (note 27)	21,758	29,170
	Payable at the end of the period / year	151,002	129,244

19. SHORT TERM BORROWINGS, secured

	June 30, 2014	December 31, 2013
Running finance utilized under mark-up arrangements	1,869,457	882,469
Short term finance	700,000	-
	2,569,457	882,469

19.1 The Company has Working Capital/Running Finance Facility Agreements with Allied Bank Limited, NIB Bank Limited, KASB Bank Limited, The Bank of Punjab, Habib Metropolitan Bank Limited, Soneri Bank Limited and Bank Al-Falah. In addition, the Company also has a Term Loan Agreement with Pak Kuwait Investment Company for a period of one year.

The available facilities under these mark-up arrangements aggregates to Rs. 3,350,000 (December 31, 2013: Rs. 3,150,000). The facilities carry mark-up at the rate of 3 months KIBOR plus 2% (December 31, 2013: 3 months KIBOR plus 2%). The facilities are secured by (i) lien over Energy Purchase Price (EPP) account and charge over present and future receivables from the Power Purchaser in respect of EPP; and (ii) first charge over current assets of the Company and subordinated charge over present and future plant, machinery, equipments and other movable assets and immovable properties of the Company. The use of these facilities are restricted for payments of operations and maintenance cost of the Power Plant and payments to fuel suppliers against purchase of fuel.

20. CONTINGENCIES AND COMMITMENTS

	June 30, 2014	December 31, 2013
	Rupees	
Contingent liabilities - guarantees (note 20.1)	2,496,126	2,496,126
Commitments in respect of :		
- letter of credit in favour of Company's senior lendors (note 20.2)	792,132	843,872
- others	78,766	133,271
	870,898	977,143

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(Amounts in thousand)

20.1 Represents bank guarantee provided to Sui Northern Gas Pipelines Limited (SNGPL) equivalent to the value of three months contractual quantities of gas, in accordance with the terms of Gas Supply Agreement between the Company and the SNGPL.

20.2 A Corporate Guarantee amounting to US$ 10,000 has been issued by Engro Corporation Limited, Holding company, in favour of the Company's bank to secure the repayment of foreign currency borrowings to its senior lenders.

20.3 Gas Infrastructure Development Cess (GIDC), which was enacted under the GIDC Act, 2011 on December 15, 2011, was not charged last year by SNGPL subsequent to the decision of the Peshawar High Court and Islamabad High Court, which had declared the levy of GIDC as unconstitutional. However, on December 30, 2013, the Honourable Supreme Court suspended the earlier decision of the Peshawar High Court. As a result, SNGPL on January 1, 2014 has invoiced to the Company the entire GIDC for the year ended December 31, 2013 amounting to Rs. 1,462,315.

During the period, the Company filed a writ petition against imposition of GIDC before the Honourable High Court of Lahore, based on which interim relief was granted for the period till December 2013. Accordingly SNGPL has charged GIDC on invoices for the period subsequent to December 2013. The Company has also included GIDC in invoices raised by it for the period subsequent to December 2013, which have been accepted by the NTDC.

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	
21. SALES		
Capacity purchase price	1,683,046	1,628,140
Energy purchase price (note 21.1)	4,833,075	3,550,811
	6,516,121	5,178,951

21.1 Energy purchase price is exclusive of sales tax of Rs. 683,550 (2013: Rs. 484,296) for current year sales invoices and Rs. 18,225 (2013: Rs. 129,730) in respect of prior period sales invoiced during the current year.

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	
22. COST OF SALES		
Gas and fuel oil consumed	4,398,578	3,235,385
Depreciation (notes 4.2)	348,027	334,233
Amortisation (note 5.1)	2,898	3,591
Salaries, wages and staff welfare (note 22.1)	160,817	141,776
Insurance	69,711	64,514
Traveling expenses	4,343	4,897
Repairs and maintenance	9,344	26,364
Purchased services (note 22.2)	12,068	14,246
Legal and professional services	8,440	3,576
Stores and spares consumed	15,062	10,814
Security	14,361	10,539
Communication and other office expenses	24,294	22,770
	5,067,943	3,872,705

22.1 Salaries, wages and staff welfare include Rs. 6,790 (2013: Rs. 6,424) in respect of staff retirement benefits.

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(Amounts in thousand)

22.2 This represents charges for services rendered by Engro Corporation Limited, Engro Fertilizers Limited and other associated undertakings, under respective service agreements.

	Half year ended June 30, 2014	Half year ended June 30, 2013
	——Rupees——	
23. ADMINISTRATIVE EXPENSES		
Salaries, wages and staff welfare (note 23.1)	36,639	25,022
Legal and professional services	11,238	2,608
Purchased services (note 23.2)	10,435	8,981
Communication and other office expenses	3,930	1,149
Contributions for corporate social responsibilities(note 23.3)	9,616	5,720
Depreciation (notes 4.2)	2,481	3,228
Amortisation (note 5.1)	1,368	2,317
Traveling expenses	1,458	2,880
Auditors' remuneration (note 23.4)	895	1,223
	78,060	53,128

23.1 Salaries, wages and staff welfare include Rs. 1,513 (2013: Rs. 1,134) in respect of staff retirement benefits.

23.2 This represents charges for services rendered by Engro Corporation Limited, Engro Fertilizers Limited and other associated undertakings, under respective service agreements.

23.3 This includes contribution paid to Engro Foundation amounting to Rs. 5,800 (2013: Rs. 4,000) and Engro Corporation Limited amounting to Rs. 3,360 (2013: Rs. 1,360), associated undertakings.

	Half year ended June 30, 2014	Half year ended June 30, 2013
23.4 Auditors' remuneration	——Rupees——	
Fee for:		
- Half yearly audit / review	500	250
- Quarterly review	195	-
- Other services	-	99
- Taxation services	100	800
Reimbursement of expenses	100	74
	895	1,223
24. OTHER EXPENSES		
Exchange loss	173	-
Provision for insurance settlement (note 25.1)	105,591	-
Loss on forward contract	-	12,395
	105,764	12,395

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(Amounts in thousand)

	Half year ended June 30,	Half year ended June 30,
	——Rupees——	
25. OTHER INCOME		
Financial assets:		
Gain on redemption of investments	11,366	4,371
Revaluation gain on investments in mutual fund	686	-
Non financial assets:		
Gain on disposal of property, plant and equipment	635	3,871
Insurance claim (note 25.1)	144,117	-
	156,804	8,242

25.1 Last year, on October 12, 2013, the plant was shut down due to breakdown in a machinery which was critical to the operations of the plant. After a series of repair activities the plant operations were resumed on December 27, 2013. The cost of new equipment, repair expenditure due to machinery breakdown and loss of profit due to business interruption are covered under the Company's insurance policy. The Insurance company has principally agreed to the settlement of repairs expenditure, cost of new equipment and business interruption loss suffered by the Company, upon submission of the claim alongwith necessary supports. Accordingly, as at December 31, 2013, the Company recorded receivable of Rs. 380,512 from the insurance company in respect of repairs expenditure and loss due to business interruption.

During the period, the Company purchased the new equipment i.e. Gas Turbine Gen Rotor. The cost (net off deductibles) of the equipment has been principally agreed to be reimbursed by the Insurance company amounting to Rs. 144,117 which has been recognised as insurance claim receviable. The Company has filed the insurance claim alongwith supporting documents with the Insurance company, which is under their review. Further, the Company has recognised a provision for settlement of claim (note 18), in respect of old equipment to be returned to the Insurance Company under the concept of subrogation.

	Half year ended June 30, 2014	Half year ended June 30, 2013
	——Rupees——	
26. FINANCE COST		
Interest / markup on:		
- long term borrowing	172,705	204,409
- short term borrowings (note 26.1)	88,256	144,822
Financial / bank charges	151,807	384,850
	412,768	734,081
Less:		
Interest income on bank deposits	(3,995)	(3,599)
Delayed payment charges - overdue trade debts	(75,532)	(527,355)
	333,241	203,127

26.1 Includes interest amounting to Rs. Nil (2013: 1,621) payable to Workers' profits participation fund.

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(Amounts in thousand)

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	

27. WORKERS' PROFITS PARTICIPATION FUND AND WORKERS' WELFARE FUND

Provision for :		
- Workers' profits participation fund	54,396	52,292
- Workers' welfare fund	21,758	20,917
	76,154	73,209
Recoverable from NTDC	(76,154)	(73,209)
	-	-

27.1 The Company is required to pay 5% of its profit to the Workers' profits participation fund and 2% of its profit to the Workers' welfare fund. However, such payment will not effect the Company's overall profitability as they are recoverable from NTDC as pass through items under the terms of the Power Purchase Agreement (PPA). The Company is currently contesting the applicability of Workers' Welfare Fund on its income at the Sindh High Court and Appellate Tribunal Inland Revenue.

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	

28. TAXATION - current

For the period (note 28.1)	40	18

28.1 Represents minimum tax charged at the rate of 1% (2013: 1%) on profit on bank deposits in accordance with Section 113 of the Income Tax Ordinance, 2001.

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	

28.2 Reconciliation of tax charge for the period is as follows:

Profit before taxation	1,087,917	1,045,838
Tax calculated at the applicable rate of 33% (2013: 34%)	359,013	355,585
Effect of exempt income (note 2.17)	(353,943)	(354,361)
Minimum tax on interest income	40	18
Prior year tax charge	-	-
Effect of losses utilised against income from other sources	(5,070)	(1,224)
Tax charge for the year	40	18

28.3 As at June 30, 2014 the Company has losses available for carry forward amounting to Rs. 1,983,843 (December 31, 2013: Rs. 3,084,660), representing unabsorbed tax depreciation.

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(Amounts in thousand except for earnings per share)

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	

29. EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	Half year ended June 30, 2014	Half year ended June 30, 2013
Profit for the year	1,087,877	1,045,820
	Number of shares	
Weighted average number of ordinary shares (in thousand)	323,800	323,800
	Rupees	
Earnings per share - basic and diluted	3.36	3.23

30. CASH GENERATED FROM OPERATIONS

	Half year ended June 30, 2014	Half year ended June 30, 2013
	Rupees	
Profit before taxation	1,087,917	1,045,838
Adjustment for non-cash charges and other items:		
- Depreciation (note 4.2)	350,508	337,461
- Amortisation (note 5.1)	4,266	5,908
- Gain on disposal of property, plant and equipment (note 25)	(635)	(3,871)
- Gain on redemption of investments (note 25)	(11,366)	(4,371)
- Loss on forward contracts (note 24)	-	12,395
- Reclassification of cash flow hedge to profit and loss	902	-
- Finance cost	265,022	353,293
Working capital changes (note 30.1)	(1,852,665)	2,818,196
	(156,051)	4,564,849

30.1 Working capital changes

	Half year ended June 30, 2014	Half year ended June 30, 2013
Decrease/(Increase) in current assets:		
Inventory and stores & spares - net	(34,261)	(63,122)
Trade debts	(2,897,816)	5,505,742
Loans, advances, deposits, prepayments and other receivables - net	354,860	238,071
	(2,577,217)	5,680,691
(Decrease)/Increase in current liabilities:		
Creditors, accrued and other liabilities	724,552	(2,864,882)
Retirement and other service benefits obligations	-	2,387
	(1,852,665)	2,818,196

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(Amounts in thousand)

	June 30, 2014	June 30, 2013
31. CASH AND CASH EQUIVALENTS	Rupees	
Balances with banks (note 13)	172,994	1,709,761
Short term investments	50,686	50,000
Short term running finance (note 19)	(2,569,457)	(649,649)
	(2,345,777)	1,110,112

32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements for remuneration, including all benefits, to the chief executive, directors and executives of the Company are given below:

	June 30, 2014			June 30, 2013		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	(Rupees)					
Managerial remuneration	6,215	-	45,879	5,784	-	41,972
Contribution for staff retirement benefits	589	-	6,011	652	-	5,976
Bonus	1,607	-	9,909	1,779	-	6,813
Other benefits	-	-	986	68	-	896
Fees	-	1,000	-	-	850	-
Total	8,411	1,000	62,785	8,283	850	55,657
Number of persons including those who worked part of the year	1	7	71	1	7	66

32.1 The Company also provides Company owned vehicles for the use of Chief Executive and certain executives of the Company.

(Amounts in thousand)

	June 30, 2014	December 31, 2013
	Rupees	

33. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets as per balance sheet

- Loans and receivables at amortised cost

	June 30, 2014	December 31, 2013
Loans,deposits and other receivables	1,066,230	1,538,877
Trade debts	3,374,149	476,333
Balances with banks	172,994	217,674
	4,613,373	2,232,884

- Short term investments at fair value

	June 30, 2014	December 31, 2013
Mutual fund units	50,686	-

Financial liabilities as per balance sheet

- Financial liabilities measured at amortised cost

	June 30, 2014	December 31, 2013
Borrowing	12,242,100	11,874,555
Creditors, accrued and other liabilities	2,106,879	1,442,791
Accrued interest/mark-up	61,984	41,792
	14,410,963	13,359,138

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

34.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost efficient funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

Risk management is carried out by the Company's Finance and Planning department under policies approved by the Board of Directors.

a) Market risk

i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risks exists due to the Company's exposure resulting from outstanding import payments, foreign currency loan liabilities and related interest payments.

The Company's exposure to currency risk is limited as the fluctuation in foreign exchange rates are recovered through adjustment in tariff as per the Power Purchase Agreement.

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(Amounts in thousand)

ii) Interest rate risk

Interest rate risk is 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's interest rate risk arises from borrowings. These are benchmarked to variable rates which expose the Company to interest rate risk. The Company's exposure to interest rate risk is limited as the unfavourable fluctuation in the interest rates of long term borrowings are recovered through adjustment in tariff as per the Power Purchase Agreement.

iii) Other price risk

Other price risk is 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 currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Company's exposure to other price risk is not significant as at December 31, 2013.

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits, bank guarantees and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings or mutual funds which in turn are deposited in financial institutions with high credit ratings. The maximum exposure to credit risk is equal to the carrying amount of financial assets. The Company maintains an internal policy to place funds with commercial banks having a minimum short term credit rating of A1+. The Company accepts bank guarantees of banks of reasonably high credit ratings as approved by the management. Trade debts are secured by a sovereign guarantee from the Government of Pakistan.

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as under:

	June 30, 2014	**December 31, 2013**
	Rupees	
Trade debts	3,374,149	151,554
Loans,deposits and other receivables	1,871,361	854,369
Short term investments	50,686	-
Balances with banks	172,994	217,674
	5,469,190	1,223,597

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(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no or negligible defaults in recent history, however, no losses incurred. The credit quality of Company's bank balances and short term investments can be assessed with reference to external credit ratings as follows:

Bank/Asset Management Company	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Burj Bank Limited	JCR-VIS	A1	A
First Habib Cash Fund	JCR-VIS	AA (f)	-

c) **Liquidity risk**

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to dynamic nature of the business, the Company maintains flexibility in funding by maintaining committed credit lines available.

The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

All the financial liabilities of the Company except for long term portion of borrowings are payable in one year form the balance sheet date.

34.2 **Capital risk management**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for share holders and benefit for other stake holders and to maintain an optimal capital structure to reduce the cost of capital.

The regulatory regime in which the Company operates, renders the value of the equity to a bond given the guaranteed IRR of 15% with an indexation allowed under the Power Purchase Agreement for changes in US $ / PKR exchange rate.

The Company manages its capital structure and make adjustments to it in the light of changes in economic conditions. To manage its capital structure, the Company may issue shares or use dividend policy to influence the retention rate.

The management at all times seeks to earn returns higher than its weighted average cost of capital, by increasing efficiencies in operations, so as to increase profitability.

(Amounts in thousand)

	June 30, 2014	December 31, 2013
	Rupees	
The proportion of debt to equity at the year end was:		
Total borrowings (notes 17 and 19)	12,242,100	11,874,555
Less: Balances with banks (note 13)	172,994	217,674
Net Debt	12,069,106	11,656,881
Total Equity	6,075,424	5,523,309
Total Capital	18,144,530	17,180,190
Gearing ratio	0.67	0.68

34.3 **Fair value of financial assets and liabilities**

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

35. NUMBER OF EMPLOYEES

	Number of employees		Average number of employees	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Management employees	69	69	69	70
Non- management employees	41	34	38	34
	110	**103**	**107**	**104**

36. CAPACITY AND PRODUCTION

	Half year ended June 30, 2014	Half year ended June 30, 2013
	(MWh)	
Maximum generation possible	926,472	923,964
Declared capacity billed	925,236	934,674
Net electrical output	903,404	796,297

Actual energy delivered by the plant is dependent on the load demanded by WAPDA and plant availability.

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(Amounts in thousand)

37. TRANSACTIONS WITH RELATED PARTIES

Related parties comprises of Engro Corporation Limited, Engro Powergen Limited and their associated undertakings. Related parties also includes directors, retirement benefits funds and key management personnel. Details of transactions with related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

Nature of relationship	Nature of transactions	Half year ended June 30, 2014	Half year ended June 30, 2013
		Rupees	
Holding Company			
	Purchase of services	27,862	21,404
	Payment for CSR	3,360	2,720
	Services rendered	26,266	19,594
Associated undertakings			
	Purchase of services	28,362	36,947
	Services rendered	6,821	7,729
	Payment for CSR	3,500	4,000
Key management personnel			
	Managerial remuneration (including bonus)	32,239	18,049
	Retirement benefit schemes	2,387	1,455
	Other benefits	4,362	150
Staff retirement funds			
	Contribution	16,606	16,021

38. CORRESPONDING FIGURES

Corresponding figures have been reclassified for better presentation, wherever considered necessary, the effects of which are not material.

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on ____________________ by the Board of Directors of the Company.

Chief Executive Officer

Director