KOHINOOR
ENERGY LIMITED

2018

HALF YEARLY REPORT

July-December (Un-Audited)

KOHINOOR
ENERGY LIMITED

CONTENTS

CORPORATE INFORMATION

Board of Directors

Mr. M. Naseem Saigol
Chairman / Non-Executive
Mr. S M Shakeel
Chief Executive Officer
Mr. Ichiro Kawano
Non-Executive
Mr. Hirotoshi Ugajin
Independent
Ms. Mariko Ueda
Independent
Mr. Shingo Ito
Independent
Mr. Faisal Riaz
Non-Executive

Company Secretary
Mr. Muhammad Asif

Audit Committee
Mr. Shingo Ito
Chairman
Mr. Hirotoshi Ugajin
Ms. Mariko Ueda

HR & Remuneration Committee
Mr. Shingo Ito
Chairman
Mr. S M Shakeel
Mr. Hirotoshi Ugajin
Ms. Mariko Ueda

Management
Mr. S M Shakeel
Chief Executive Officer
Mr. Ghazanfar Ali Zaidi
General Manager Technical
Mr. Muhammad Ashraf
Chief Financial Officer

Auditors
A. F. Ferguson & Co.
Chartered Accountants

Legal Advisor
LMA | Ebrahim Hosain

Bankers

Standard Chartered Bank (Pakistan) Limited
Bank Alfalah Limited
Askari Bank Limited
MCB Bank Limited
United Bank Limited
Faysal Bank Limited
AL Baraka Bank (Pakistan) Limited - (Islamic)
Meezan Bank Limited - (Islamic)
Habib Bank Limited - (Islamic)
National Bank of Pakistan - (Islamic)
BankIslami Pakistan Limited - (Islamic)

Registered Office
301, 3RD Floor, Green Trust Tower,
Blue Area Islamabad, Pakistan.
Tel : +92-51-2813021-2
Fax : +92-51-2813023

Project/Head Office
Post Office Raja Jang, Near Tablighi Ijtima,
Raiwind Bypass, Lahore, Pakistan.
Tel : +92-42-35392317
Fax : +92-42-35393415-7

Shares Registrar
M/S. Corplink (Pvt.) Ltd.
Wings Arcade, 1-K,Commercial, Model Town,
Lahore, Pakistan.
Tel : +92-42-35839182, 35887262, 35916719
Fax : +92-42-35869037

Lahore Office
17-Aziz Avenue, Unit # 4, Canal Bank,
Gulberg V, Lahore, Pakistan.
Tel : +92-42-35717861-2
Fax : +92-42-35715090

Company Registration No.
0032461 of 1993-94

Company NTN
0656788-6

Website
www.kel.com.pk

DIRECTORS' REVIEW

The Board of Directors present you the brief report together with the operational and financial results of the Company reviewed by the statutory auditors, for the 2nd quarter / half year ended December 31, 2018.

The Company is engaged in electricity generation from a furnace oil fired power plant having net capacity of 124 MW. Water and Power Development Authority (WAPDA) is the exclusive purchaser of the electricity being generated at the power plant. We report that during the half year under review, the plant on demand from WAPDA, operated at 44.92% capacity factor because of less demand from WAPDA and delivered 245,997 MWh of electricity, while during the corresponding half year the plant by operating at 60.64% capacity factor delivered 332,042 MWh of electricity.

We report that during the half-year under review, the sales revenue of the Company remained at Rs. 4.539 billion as compared to Rs. 3.890 billion during the corresponding period last year and the Company posted net profit after tax Rs. 420.68 million as compared to Rs. 309.84 million earned during the corresponding period last year. Increase in fuel oil prices attributed to the increase in sales revenue.

On account of major maintenance work we write to inform you that during the half year under review, two engines have been overhauled under 8k major maintenance program as compared with four engines overhauled as major maintenance during the corresponding period last year. All the maintenance work has been completed by our own in-house technical team and done within the budgeted numbers.

This is with respect to the matters related to disputes with WAPDA on 1) eligibility of indexation on non-escalable component of the capacity purchase price and 2) the imposition of liquidated damages as detailed in Notes 10.1.1 and 10.1.2 to the financial information, the status is same as reported to you earlier.

Moreover regarding the matter related to sales tax demand raised by the Federal Board of Revenue (the FBR) has been detailed in Note 10.1.3 to the financial information, the Honorable Lahore High Court vide its judgment dated Oct 31, 2016 has decided that case in favor of the Company. Subsequently FBR has filed an appeal with the Supreme Court of Pakistan. The management is of the view that there are meritorious grounds to defend the case therefore no provision for the demand has been made in this financial information.

Further we would like to report that due to delay in payments from the power purchaser (WAPDA) the trade debts are mounting up. The management is consistently pursuing the power purchaser, PPIB and the Ministry of Energy - Power Division for an early recovery of over dues. We write to inform you that in spite of heavy amount of overdue the Company is fully complying with all the dispatch instructions of the power purchaser solely in the best interest of the country.

We write to update you that during the last year one of the engines had to be shut down due to electrical malfunction of the generator. Consequent to successful repairing, the said generator was re-installed. We are pleased to inform you that as a part of arrangements with the plant insurer, a new generator has arrived and accordingly installed in replacement with the repaired generator. Resultantly, now the repaired one has been preserved at site as a reserve which can be used against any un-foreseen event if so occur in future. As reported earlier in the preceding annual financial statement that provisional amount of the repair of the generator has been received from the insurer; we update you that the final insurance claim has been submitted which is expected to be settled in the subsequent period.

We write to report that consequent to other business engagements Mr. Muhammad Asad Khan representative of Wartsila has relinquished the office of director of the Company and in his place the Board has appointed Mr. Faisal Riaz from Wartsila as director of the Company effective from January 07, 2019. The Board extends special thanks and gratitude to Mr. Asad Khan for his valuable services that he extended to the Company during his tenure, and extends warm welcome to Mr. Faisal as new director of the Company.

It takes pleasure to inform you that the Board in its meeting held on February 19, 2019 has declared an interim dividend of 15% (Rs. 1.50 per share) for the financial year 2018-19, for which the date of entitlement has been fixed as March 07, 2019.

The Board is thankful and acknowledges the consistent support being extended by the financial institutions, WAPDA, PSO, Wartsila and other suppliers as well as the valued shareholders of the Company. The Board also extends its appreciation to the management and employees of the Company for their continued efforts resulted in safe, efficient and reliable operations of the plant and we are confident that same spirit of their enthusiasm shall remain continued in the future.

For and on behalf of the Board

Lahore
February 19, 2019

S M Shakeel
Chief Executive Officer

Shingo Ito
Director

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF KOHINOOR ENERGY LIMITED REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

KOHINOOR
ENERGY LIMITED

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Kohinoor Energy Limited as at December 31, 2018 and the related condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity, and condensed interim statement of cash flows, and notes to the condensed interim financial statements for the six month period ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these interim financial statements based on our review. The figures of the condensed interim statement of profit or loss and other comprehensive income for the three month period ended December 31, 2018 and December 31, 2017 have not been reviewed, as we are required to review only the cumulative figures for the six month period then ended December 31, 2018.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter

We draw attention to notes 10.1.1 and 10.1.2 to the interim financial statements, which describe the uncertainties regarding the outcome of certain claims by WAPDA which have been disputed by the Company. Our conclusion is not qualified in respect of these matters.

The engagement partner on the review resulting in this independent auditor's review report is Hammad Ali Ahmad.

A. F. Ferguson & Co.
Chartered Accountants

Hammad Ali Ahmad
Partner

Lahore
February 27, 2019

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)

	Note	Un-audited December 31, 2018	Audited June 30, 2018
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
170,000,000 (June 2018: 170,000,000) ordinary shares of Rs. 10 each		1,700,000	1,700,000
Issued, subscribed and paid up capital			
169,458,614 (June 2018: 169,458,614) ordinary shares of Rs. 10 each		1,694,586	1,694,586
Un-appropriated profit		4,562,097	4,310,877
		6,256,683	6,005,463
CURRENT LIABILITIES			
Employee benefits		24,993	29,950
Short term finances - secured	8	5,074,681	5,285,780
Trade and other payables	9	162,037	84,120
Accrued finance cost		65,155	48,878
Unclaimed dividend		9,127	10,305
Provision for taxation - net		59,894	61,439
		5,395,887	5,520,472
CONTINGENCIES AND COMMITMENTS	10	-	-
		11,652,570	11,525,935

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Chief Executive Officer

Chief Financial Officer

	Note	Un-audited December 31, 2018	Audited June 30, 2018
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	3,576,424	3,491,232
Intangible assets		4,352	4,606
Long term loans and deposits		3,623	7,703
		3,584,399	3,503,541
CURRENT ASSETS			
Stores, spares and loose tools		303,140	305,767
Stock in trade		172,341	381,717
Trade debts		7,038,344	6,645,211
Loans, advances, deposits, prepayments and other receivables		465,747	535,126
Cash and bank balances	12	88,599	154,573
		8,068,171	8,022,394
		11,652,570	11,525,935

Director

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UN-AUDITED)

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2018

	Note	Three months ended		Six months ended	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
		(Rupees in thousand)			
Sales		1,555,201	1,613,836	4,538,790	3,890,299
Cost of sales	13	(1,181,644)	(1,347,472)	(3,752,221)	(3,325,852)
Gross profit		373,557	266,364	786,569	564,447
Administrative expenses		(78,131)	(68,185)	(144,667)	(137,919)
Other income	14	460	1,389	554	1,531
Profit from operations		295,886	199,568	642,456	428,059
Finance costs		(119,962)	(60,162)	(221,714)	(118,081)
Profit before taxation		175,924	139,406	420,742	309,978
Taxation		(35)	(95)	(63)	(138)
Profit for the period		175,889	139,311	420,679	309,840
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		175,889	139,311	420,679	309,840
Earnings per share - basic and diluted - Rupees		1.04	0.82	2.48	1.83

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Chief Executive Officer | **Chief Financial Officer** | **Director**

KOHINOOR ENERGY LIMITED

CONDENSED INTERIM STATEMENT OF CASH FLOW (UN-AUDITED)

FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

	Note	Six months ended December 31, 2018	Six months ended December 31, 2017
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	15	820,252	31,445
Employee benefits paid		(23,478)	(15,766)
Mark up on borrowings paid		(205,437)	(122,047)
Taxes paid		(1,608)	(3,292)
Net cash generated / (used in) from operating activities		589,729	(109,660)
Cash flows from investing activities			
Purchase of property, plant and equipment		(282,613)	(151,432)
Interest / mark up income received		554	462
Net decrease / (increase) in long term loans and deposits		4,080	(2,174)
Proceeds from sale of property, plant and equipment		4,011	5,236
Net cash used in investing activities		(273,968)	(147,908)
Cash flows from financing activities			
Dividend paid		(170,637)	(338,917)
Net cash used in financing activities		(170,637)	(338,917)
Net increase / (decrease) in cash and cash equivalents		145,124	(596,485)
Cash and cash equivalents at the beginning of the period		(5,131,207)	(3,433,752)
Cash and cash equivalents at the end of the period	16	(4,986,082)	(4,030,237)

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Chief Executive Officer **Chief Financial Officer** **Director**

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)

FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

	Share capital	Un-appropriated profit	Total
		(Rupees in thousand)	
Balance as on July 1, 2017	1,694,586	4,362,323	6,056,909
Final dividend for the year ended June 30, 2017 at the rate of Rs. 2.00 per share	-	(338,917)	(338,917)
Total comprehensive income for the period	-	309,840	309,840
Balance as on December 31, 2017	1,694,586	4,333,246	6,027,832
Interim dividend for the year ended June 30, 2018 at the rate of Rs. 1.50 per share	-	(254,187)	(254,187)
Interim dividend for the year ended June 30, 2018 at the rate of Rs. 1.00 per share	-	(169,459)	(169,459)
Total comprehensive income for the period	-	401,277	401,277
Balance as on June 30, 2018	1,694,586	4,310,877	6,005,463
Final dividend for the year ended June 30, 2018 at the rate of Rs. 1.00 per share	-	(169,459)	(169,459)
Total comprehensive income for the period	-	420,679	420,679
Balance as on December 31, 2018	1,694,586	4,562,097	6,256,683

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Chief Executive Officer | **Chief Financial Officer** | **Director**

1. Legal status and nature of business

Kohinoor Energy Limited (the 'Company') was incorporated in Pakistan on April 26, 1994 as a public limited company under the repealed Companies Ordinance, 1984 (the Ordinance) repealed with the enactment of the Companies Act, 2017 on May 30, 2017. The Company is listed on the Pakistan Stock Exchange. The principal activities of the Company are to own, operate and maintain a power plant of 124 MW capacity in Lahore and to sell the electricity produced therefrom to a sole customer, the Pakistan Water and Power Development Authority (WAPDA) under a Power Purchase Agreement (PPA), for a term of 30 years which commenced from June 19, 1997. The address of the registered office of the Company is 301, 3rd Floor, Green Trust Tower, Blue Area, Islamabad, Lahore Office is situated at 17-Aziz Avenue, Unit # 4, Canal Bank, Gulberg V, Lahore and the Company's power plant has been set up at Post Office Raja Jang, Near Tablighi Ijtima, Raiwind Bypass, Lahore.

2. Statement of Compliance

2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

3. Basis of preparation

3.1 The comparative condensed interim statement of financial position presented in these condensed interim financial statements has been extracted from the annual audited financial statements of the Company for the year ended June 30, 2018, whereas comparative condensed interim statement of profit or loss and comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been extracted from the condensed interim financial statements for the six months ended December 31, 2017.

The figures of the six months ended December 31, 2018 are being submitted to the shareholders, and have been subjected to limited scope review in accordance with Section 237 of the Companies Act, 2017.

3.2 These condensed interim financial statements do not include all information and disclosures required in the annual audited financial statements and therefore should be read in conjunction with the annual audited financial statements for the year ended June 30, 2018.

3.3 Standards, interpretations and amendments to published approved accounting standards that became effective during the year but are not relevant

There were certain new standards, amendments to the approved accounting standards and new interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The amendments and Interpretations which became effective during the current period are considered not to be relevant the to Company's operations and therefore are not detailed in these condensed interim financial statements.

3.4 Standards, amendments and interpretation to existing standards that are not yet effective but are applicable / relevant to the Company's operations

	Effective Date (annual periods beginning on or after)
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2019
IAS 19, 'Employee benefits'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax'	January 1, 2019

The management is in the process of assessing the impact of changes laid down by these standards on its condensed interim financial statements.

3.5 Deferement from applicability of IFRS 9, 'Financial Instruments'

The Securities and Exchange Commission of Pakistan ('SECP') through SRO 1007(I)/2017 dated October 4, 2017 had notified that IFRS 9, 'Financial Instruments' would be applicable for annual periods beginning on or after July 1, 2018, however, subsequent to reporting date, SECP through SRO 229(I)/2019 dated February 14, 2019 has notified the deferment of this standard to reporting period/year ending on or after June 30, 2019 (earlier application is permitted). Consequently, the company has not adopted this standard in the preparation of this condensed interim financial information for the half year ended December 31, 2018.

4. Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention, modified by capitalization of exchange differences in previous years, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

5. Functional and presentation currency

The condensed interim financial statements are presented in Pak Rupees which is the Company's functional and presentation currency.

6. Summary of significant accounting policies

The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are same as those applied in the preparation of the preceding annual audited financial statements of the Company for the year ended June 30, 2018, except for the following changes:

6.1 Revenue recognition

IFRS 15 'Revenue from contracts with customers' has become effective from accounting periods beginning on or after July 1, 2018. Accordingly, the Company has adopted this standard with effect from July 1, 2018.

IFRS 15 - 'Revenue from contracts with customers', replaces the previous revenue standards: IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on revenue recognition. Key changes in the new standard include a single five-step model for revenue recognition and establishes a comprehensive framework for recognition of revenue from contracts with customers based on a core principle that an entity should recognise revenue representing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The aforementioned changes are considered to be changes in accounting policy in accordance with IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors'. The impact of the same however, is not considered to be material to the condensed interim financial statements of the Company and accordingly comparatives have not been restated in this regards.

7. Accounting estimates and judgments

The preparation of these condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of assets and liabilities, incomes and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation are the same as those that applied to the annual audited financial statements for the year ended June 30, 2018.

8. Short term finances - secured

	Note	Un-audited December 31, 2018	Audited June 30, 2018
		(Rupees in thousand)	
Under mark up arrangements	8.1	2,128,781	3,590,533
Under arrangements permissible under Shariah	8.1	2,945,900	1,695,247
		5,074,681	5,285,780

8.1 Short term finances available from commercial banks under mark up arrangements amount to Rs. 7,410 million (June 30, 2018: Rs. 6,760 million), out of which finances available from Islamic banks under Islamic arrangements amount to Rs. 3,410 million (June 30, 2018: Rs. 2,780 million). The rates of mark up for finances under mark up arrangement ranged from 6.50 % to 11.40 % per annum (June 30, 2018: 6.46% to 7.67% per annum) and for finances under arrangement permissible under Shariah ranged from 6.35 % to 10.65 % per annum (June 30, 2018: 6.55% to 7.08% per annum) on the balances outstanding. The security and other agreements, negotiable instruments and documents to be executed by the Company in favor of the bank shall be in the form and substance satisfactory to the bank. The Company shall execute or cause to be executed all such instruments, deeds or documents, which the bank may in its sole discretion require.

8.2 Out of the aggregate running finances availed by the Company, Rs. 7,160 million (June 30, 2018: Rs. 6,260 million) are secured by joint pari passu charge and Rs. 250, million (June 30, 2018: Rs. 500 million) are secured by ranking charge on the current assets of the Company.

8.3 Of the aggregate facility of Rs. 875 million (June 30, 2018: Rs. 476.85 million) for opening letters of credit and Rs. 410 million (June 30, 2018: Rs. 207.05 million) for guarantees, the amount utilized as at December 31, 2018 were Rs. 78.270 million (June 30, 2018: Rs. 151.4 million) and Rs. 207.15 million (June 30, 2018: Rs. 207.05 million) respectively.

9. This includes Rs. 92.59 million advance received from the insurer on account of claim filed due to damage to a generator as disclosed in the preceding annual audited financial statements of the Company for the year ended June 30, 2018. The insurance claim has not yet been acknowledged by the insurer and the same is expected to be fully settled subsequent to the period.

10. Contingencies and commitments

10.1 Contingencies

10.1.1 During year ended June 30, 2010, WAPDA disputed the eligibility of indexation of non-escalable component (NEC) of the capacity purchase price relating to the period subsequent to the repayment of foreign currency loan taking the stance that under the Power Purchase Agreement (PPA) indexation is allowed until the repayment of foreign currency loan, and since the loan was fully repaid in September, 2008, therefore no indexation was to be allowed from September, 2008 onwards (Dispute 1). WAPDA had earlier paid Rs. 430.51 million relating to the period from September, 2008 to September, 2009 but subsequently withheld this amount in June, 2010 against the invoices of April, 2010 (Dispute 2).

Article XV of PPA requires that if a dispute arises the matter shall be decided by (i) mutual discussions, failing which (ii) through mediation by an expert and as a last resort through (iii) arbitration. During the year ended June 30, 2011, the management of the Company referred the matter to the expert. Consequently an expert was engaged with the consent of both the parties.

The expert had given his decision / recommendation on December 30, 2011 as follows:

(i) For Dispute 1, Company is not entitled to continued indexation of the NEC after repayment of foreign currency loans.

However, Management of the Company is of the view that under the terms of the PPA the Company is entitled to the continued indexation of the NEC even after repayment of foreign currency loans; and

(ii) For Dispute 2, the adjustment of Rs. 430.51 million is unlawful, therefore, WAPDA is required to pay this amount to the Company. WAPDA has waived its right to seek revision of such invoices in terms of section 9.7 (d) of the PPA since the invoices for the period from September 2008 to September 2009 were not disputed within the prescribed period of 180 days.

WAPDA had not accepted the decision / recommendation of the expert (on Dispute 2) .The management of the Company and legal advisor is of the opinion that the matter will be settled in Company's favor and consequently the Company has not provided for Rs. 430.51 million in these condensed interim financial statements. Indexation on non-escalable of capacity purchase price was not claimed by the Company subsequent to September 2009. Consequently, there is no implication in subsequent periods.

10.1.2 WAPDA has imposed Liquidated Damages (LD) on the Company amounting to Rs. 571.86 million (2018: Rs. 510.97 million) during the period from 2011 to 2018. The reasons of LDs are as follows:

i) Rs 353.85 million is because of failure to dispatch electricity due to WAPDA's non-payment of dues on timely basis and consequential inability of the Company to make advance payments to its fuel supplier - Pakistan State Oil Company Limited (PSO), that resulted in inadequate level of electricity production owing to shortage of fuel, and;

ii) Rs 218.01 million is due to incorrect calculation of LDs by WAPDA as while calculating the LDs, certain factors were ignored by WAPDA that were to be considered under the terms of Power Purchase Agreement (PPA).

The Company disputes and rejects the claim on account of LDs because under the terms of PPA, no LDs can be charged to the Company due to the reasons caused solely by the Power Purchaser i.e. WAPDA.

According to legal advisors of the Company, there are adequate grounds to defend the claim for such LDs, therefore no provision has been made in these condensed interim financial statements.

10.1.3 A sales tax demand of Rs. 505.41 million was raised against the Company through order dated August 29, 2014 by the Assistant Commissioner Inland Revenue ('ACIR') by disallowing input sales tax for the tax periods from August, 2009 to June, 2013. Such amount was disallowed on the grounds that the revenue derived by the Company on account of 'capacity purchase price' was against a non-taxable supply and thus, the entire amount of input sales tax claimed by the Company was required to be apportioned with only the input sales tax attributable to other revenue stream i.e. 'energy purchase price' admissible to the Company. Against the aforesaid order, the Company preferred an appeal before the Commissioner Inland Revenue (Appeals) ('CIR(A)') who vide its order dated November 6, 2014, upheld the ACIR's order on the issue regarding apportionment of input sales tax with the caveat that tax demand pertaining to period of show cause notice beyond the limitation of five years cannot be sustained and reduced from the tax demand. Subsequently, the Company preferred an appeal before the Appellate Tribunal Inland Revenue ('ATIR'). Additionally, the Company had filed an application with the Lahore High Court seeking a stay in recovery of tax arrears, default surcharge and penalty. The Lahore High Court, in its order dated December 31, 2014, stayed the recovery of the tax demand along with default surcharge and penalty till adjudication by the ATIR, subject to deposit of Rs. 10 million with the Tax Department which the Company duly submitted on January 7, 2015 and which has been refunded to the company during the current year. The ATIR vide its order dated May 4, 2015, upheld the CIR(A)'s order on the issue regarding apportionment of input sales tax. Thereafter, the Company filed an appeal against the decision of ATIR in the Lahore High Court.

The Lahore High Court vide its judgment dated October 31, 2016 has decided the case in favor of the Company. Subsequently, The Tax department being aggrieved, filed a leave for appeal before the Supreme Court of Pakistan. The management is of the view that there are meritorious grounds available to defend the foregoing demands in the Supreme Court of Pakistan. Consequently, no provision for such demand has been made in these condensed interim financial statements.

10.1.4 The Company has issued the following guarantees in favor of:

(i) Water and Power Development Authority (WAPDA) on account of liquidated damages, in case the Company fails to make available electricity to WAPDA on its request, amounting to Rs. 205 million (June 30, 2018: Rs. 205 million).

(ii) Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs. 2.15 million (June 30, 2018: Rs 2.15 million).

10.2 Commitments

(i) Letters of credit / Bank contracts other than capital expenditure are Rs. 10.15 million (June 30, 2018: Rs. 68.13 million).

(ii) Letters of credit / Bank contracts for capital expenditure Rs. 19.13 million (June 30, 2018: Rs. 131.35 million).

	Note	Un-audited December 31, 2018	Audited June 30, 2018
		(Rupees in thousand)	

11. Property, plant and equipment

	Note	Un-audited December 31, 2018	Audited June 30, 2018
Operating fixed assets	11.1	3,484,719	3,432,549
Stores held for capitalization		91,705	58,683
		3,576,424	3,491,232

11.1 Operating Fixed Assets

	Note	Un-audited December 31, 2018	Audited June 30, 2018
Opening net book value		3,432,549	3,600,913
Add: Additions during the period	11.1.1	253,716	218,989
		3,686,265	3,819,902
Less: Disposals during the period (at book value)	11.1.2	3,671	5,026
Transfers from operating fixed assets to Stores held for capitalization	11.1.3	4,125	-
Assets written off		-	10,892
Depreciation charged during the period		193,750	371,435
		201,546	387,353
		3,484,719	3,432,549

11.1.1 Additions during the period

	Un-audited December 31, 2018	Audited June 30, 2018
Plant and machinery	245,285	204,262
Electric appliances and equipment	990	184
Computers	160	1,117
Vehicles	7,281	13,426
	253,716	218,989

11.1.2 Disposals during the period

	Un-audited December 31, 2018	Audited June 30, 2018
Vehicles	3,671	5,026
	3,671	5,026

11.1.3 Transfers from operating fixed assets to stores held for capitalization

	Un-audited December 31, 2018	Audited June 30, 2018
Plant and machinery	4,125	-
	4,125	-

12. Cash and bank balances

	Note	Un-audited December 31, 2018	Audited June 30, 2018
Balance at banks on:			
Current accounts		15,915	101,353
Saving accounts			
-Under interest / mark up arrangements	12.1	21,472	21,797
-Under arrangements permissible under Shariah	12.1	50,414	30,127
		71,886	51,924
		87,801	153,277
Cash in hand		798	1,296
		88,599	154,573

12.1 The balance in savings bank accounts bear mark up at rates ranging from 4.00 % to 8.00 % per annum (June 30, 2018: 3.7% to 4.0% per annum) and balance in accounts under arrangements permissible under Shariah bear profit at the rates ranging from 2.55 % to 3.93 % per annum (June 30, 2018: 2.47% to 5.50%).

13. Cost of sales

	Un-audited Three months ended December 31, 2018	Un-audited Three months ended December 31, 2017	Un-audited Six months ended December 31, 2018	Un-audited Six months ended December 31, 2017
	(Rupees in thousand)			
Raw material consumed	988,343	1,120,263	3,296,072	2,837,368
Salaries, wages and benefits	54,679	52,325	117,625	121,329
Stores and spares consumed	13,072	59,358	88,468	133,180
Depreciation on operating fixed assets	96,131	88,970	190,024	179,181
Fee and subscription	938	1,467	1,936	1,934
Insurance	11,815	6,716	23,576	13,518
Travelling, conveyance and entertainment	3,360	3,444	8,135	6,433
Repairs and maintenance	3,265	3,788	10,278	7,575
Communication charges	272	433	609	1,369
Electricity consumed in-house	5,540	3,094	6,597	3,881
Environmental expenses	169	300	339	584
Assets written-off	-	3,551	-	10,891
Contracted services	3,483	3,071	7,409	7,271
Miscellaneous	577	692	1,153	1,338
	1,181,644	1,347,472	3,752,221	3,325,852

14. Other income

	Note	Un-audited Six months ended December 31, 2018	Un-audited Six months ended December 31, 2017
		(Rupees in thousand)	
Income on bank deposits	14.1	214	462
Profit on disposal of property, plant and equipment		340	1,069
		554	1,531

14.1 Income on bank deposits

Income on bank deposits under mark up arrangements	103	226
Income on bank deposits under arrangements permissible under Shariah	111	236
	214	462

15. Cash generated from operations

Profit before taxation	420,742	309,978
Adjustment for:		
Depreciation / amortization	194,003	183,147
Gain on disposal of property, plant and equipment	(340)	(1,069)
Fixed assets written-off during the period	-	10,891
Income on bank deposits	(554)	(462)
Provision for employee retirement benefits	18,521	16,520
Finance cost	221,714	118,081
	854,086	637,086

	Note	Un-audited Six months ended December 31, 2018	December 31, 2017
		(Rupees in thousand)	
Profit before working capital changes			
Effect on cash flow due to working capital changes:			
Decrease in stores, spares and loose tools		2,627	20,487
Decrease in stock in trade		209,376	39,871
Increase in trade debts		(393,133)	(560,199)
Decrease / (increase) in loans, advances, deposits, prepayments and other receivables		69,379	(82,890)
Increase / (decrease) in trade and other payables		77,917	(22,910)
		(33,834)	(605,641)
		820,252	31,445

16. Cash and cash equivalents

	Note	December 31, 2018	December 31, 2017
Cash and bank balances	12	88,599	74,128
Finances under mark up arrangements	8	(5,074,681)	(4,104,365)
		(4,986,082)	(4,030,237)

17. Transactions with related parties

The related parties comprise subsidiary companies, companies in which directors are interested, major shareholders, post retirement benefit plans and key management personnel, inclusive of directors, and their close family members. The Company in the normal course of business carries out transactions with various related parties. The period end balances and transactions with related parties, other than those which have been specifically disclosed elsewhere in these condensed interim financial statements are as follows:

Relationship with the company	Nature of transactions	Un-audited Half year ended December 31, 2018	December 31, 2017
		(Rupees in thousand)	
i) Associated undertakings and other related parties	Purchase of services	1,494	149
	Sharing of expenditure	-	86
	Purchase of goods	596	107
	Dividend paid	61,394	122,787
ii) Key management personnel	Salaries and other employee benefits	56,228	59,107
	Dividend paid	22,069	44,139
iii) Post retirement benefit plan	Expense charged	9,942	8,333

All transactions with related parties are carried out on mutually agreed terms and conditions.

	Un-audited December 31, 2018	Audited June 30, 2018
	(Rupees in thousand)	
Period end balances :		
Period end balances :		
Payable to related parties	251	-

18. Financial risk management

The Company's financial risk management objective and policies are consistent with that disclosed in annual audited financial statements for the year ended June 30, 2018.

19. Date of authorization for issue

This condensed interim financial statements was authorized for issue on February 19, 2019 by the Board of Directors of the Company.

20. Subsequent events

The Board of Directors have declared an interim dividend of Rs. 1.50 per share (June 30, 2018: Rs 1 per share), amounting to Rs. 254.187 million (June 30, 2018: Rs. 169.46 million) at their meeting held on Februay 19, 2019.

21. General

Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

Corresponding figures have been reclassified or rearranged, where necessary, for better and fair presentation. However, no significant reclassification / rearrangements were made during the period.

Chief Executive Officer | **Chief Financial Officer** | **Director**

"SAY NO TO CORRUPTION"

Contribution to Social Welfare

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