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CORPORATE INFORMATION

Board of Directors

Mr. M. Naseem Saigol
Chairman
Mr. S M Shakeel
Chief Executive Officer
Mr. Tatsuo Hisatomi
Mr. Shinichi Ushijima
Mr. Hirotooshi Ugajin
Mr. Mikihiro Moriya
Independent
Mr. Muhammad Asad Khan
Nominee of Wartsila Finland Oy

Company Secretary

Mr. Muhammad Asif

Audit Committee

Mr. Mikihiro Moriya
Chairman
Mr. S M Shakeel
Mr. Tatsuo Hisatomi
Mr. Hirotooshi Ugajin

HR & Remuneration Committee

Mr. Mikihiro Moriya
Chairman
Mr. S M Shakeel
Mr. Tatsuo Hisatomi
Mr. Hirotooshi Ugajin

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

Bankers

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

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

Website

www.kel.com.pk

DIRECTORS' REVIEW

The Board of Directors takes pleasure to present you the review report on financial and operational performance and interim accounts of Kohinoor Energy Limited (the Company) for the 1st quarter ended September 30, 2017.



The Company is engaged in electricity generation from a furnace oil fired power plant having a net capacity of 124 MW. The Company has entered into an exclusive power purchase agreement with The Water and Power Development Authority (WAPDA) for sale of electricity being generated at the plant. During the period of 1st quarter the power plant by operating at 75.59% capacity factor delivered 206,969 MWh of electricity to WAPDA while during the corresponding quarter of last year, the plant by operating at 76.43% capacity delivered 209,246 MWh of electricity to WAPDA.

The sales revenues of the Company for the quarter under review stood at Rs. 2.276 billion as compared to Rs 1.910 billion for the corresponding quarter of the last year. During the quarter under review the Company earned a net profit after tax of Rs. 170.53 million and demonstrated earning per share (EPS) of Rs. 1.01 as compared to net profit after tax of Rs. 191.06 million and EPS of Rs. 1.13 demonstrated during the corresponding period last year. Increase in maintenance cost on account of certain parts

which were replaced due to completion of their operational life, have slightly impacted the profits.

With respect to the disputes with WAPDA on 1) eligibility of indexation on non-escalable component of the capacity purchase price and 2) the imposition of liquidated damages and; the matter relating sales tax demand by FBR, the status is the same as reported earlier.

During the quarter under review two engines surpassed 108k operational hours and have been overhauled under 8k major maintenance program; while during the same quarter of the previous year there were also two engines which were overhauled under 8k maintenance. As reported earlier the maintenances have successfully been carried out by our own in-house team. All of the maintenance work has been performed as per the schedules and budget.

We report that the Company in compliance with instructions from power purchaser (WAPDA), is providing the electricity at its available capacity. However the Company is facing delay in payments from WAPDA. Resultantly the overdue amount payable by the power purchaser is still on higher level. In this regard the management is interacting with the WAPDA, PPIB and the Ministry of Water & Power for early recoveries of the overdue invoices.

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

For and on behalf of the Board

Lahore
October 19, 2017


S M Shakeel
Chief Executive Officer


Tatsuo Hisatomi
Director

BALANCE SHEET

	Note	September 2017	June 2017
(Rupees in thousand)			
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized capital 170,000,000 (June 2017: 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 2016: 169,458,614) ordinary shares of Rs. 10 each		1,694,586	1,694,586
Unappropriated profit		4,193,935	4,362,323
		<u>5,888,521</u>	<u>6,056,909</u>
CURRENT LIABILITIES			
Employee benefits		13,028	9,611
Short term finances - secured		3,585,870	3,578,671
Trade and other payables		150,663	196,859
Accrued finance cost		20,076	33,361
Dividend payable		338,917	-
		<u>4,108,554</u>	<u>3,818,502</u>
CONTINGENCIES AND COMMITMENTS	4	-	-
		<u>9,997,075</u>	<u>9,875,411</u>

The annexed notes 1 to 10 form an integral part of these financial statements.


Chief Executive


Director

AS ON SEPTEMBER 30, 2017 (Un-Audited)

	Note	September 2017	June 2017
(Rupees in thousand)			
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	3,635,191	3,664,894
Intangible assets		4,984	5,111
Long term loans and deposits		13,493	10,935
		<u>3,653,668</u>	<u>3,680,940</u>
CURRENT ASSETS			
Stores, spares and loose tools		331,811	344,483
Stock-in-trade		214,963	234,340
Trade debts		5,172,580	4,910,059
Loans, advances, deposits, prepayments and other receivables		588,158	531,629
Advance Tax - net		32,021	29,041
Cash and bank balances		3,874	144,919
		<u>6,343,407</u>	<u>6,194,471</u>
		<u>9,997,075</u>	<u>9,875,411</u>



Chief Financial Officer

PROFIT AND LOSS ACCOUNT

FOR THE QUARTER ENDED SEPTEMBER 30, 2017 (Un-Audited)

	Note	July to September	
		2017	2016
		(Rupees in thousand)	
Sales		2,276,463	1,910,705
Cost of sales	6	(1,978,380)	(1,625,242)
Gross profit		298,083	285,463
Administration and general expenses		(69,734)	(63,326)
Other operating income		142	915
Profit from operations		228,491	223,052
Finance costs		(57,919)	(31,705)
Profit before tax		170,572	191,347
Taxation		(43)	(284)
Profit for the period		170,529	191,063
Earnings per share - basic and diluted	Rupees	1.01	1.13

The annexed notes 1 to 10 form an integral part of these financial statements.


Chief Executive


Director


Chief Financial Officer

STATEMENT OF COMPREHENSIVE INCOME

FOR THE QUARTER ENDED SEPTEMBER 30, 2017 (Un-Audited)

	Note	July to September	
		2017	2016
Profit for the period		170,529	191,063
Other comprehensive income		-	-
Total comprehensive income for the quarter		<u>170,529</u>	<u>191,063</u>

The annexed notes 1 to 10 form an integral part of these financial statements.


Chief Executive


Director


Chief Financial Officer

CASH FLOW STATEMENT

FOR THE QUARTER ENDED SEPTEMBER 30, 2017 (Un-Audited)

	Note	July to September	
		2017	2016
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	8	1,233	341,049
Staff retirement benefits paid		(749)	(917)
Finance costs paid		(70,842)	(35,547)
Taxes paid		(3,023)	(2,759)
Net cash from operating activities		(73,381)	301,826
Cash flows from investing activities			
Purchase of property, plant and equipment		(73,067)	(2,605)
Interest/mark-up income received		142	12
Net increase in long term loans, advances and deposits		(2,558)	(787)
Sale proceeds of property, plant and equipment		3,377	2,635
Net cash used in investing activities		(72,106)	(745)
Cash flows from financing activities			
Increase / (Decrease) in short term financing		7,199	(301,859)
Decrease in long term financing		-	(30,413)
Dividend paid		(2,757)	(195)
Net cash used in financing activities		4,442	(332,467)
Net increase/(decrease) in cash and cash equivalents		(141,045)	(31,386)
Cash and cash equivalents at beginning of the period		144,919	33,615
Cash and cash equivalents at the end of the period		3,874	2,229

The annexed notes 1 to 10 form an integral part of these financial statements.


Chief Executive


Director


Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

FOR THE QUARTER ENDED SEPTEMBER 30, 2017 (Un-Audited)

	Share capital	Un-appropriated profit (Rupees in thousand)	Total
Balance as on July 1, 2016	1,694,586	4,397,095	6,091,681
Final dividend for the year ended June 30, 2016 at the rate of Rs 1.75 per share	-	(296,553)	(296,553)
Total comprehensive income for the period	-	191,063	191,063
Balance as on September 30, 2016	1,694,586	4,291,605	5,986,191
Interim dividend for the year ended June 30, 2017 at the rate of Rs 1.75 per share	-	(296,553)	(296,553)
Interim dividend for the year ended June 30, 2017 at the rate of Rs 1.50 per share	-	(254,187)	(254,187)
Total comprehensive income for the period (Oct-16 to Jun-17)	-	621,458	621,458
Balance as on June 30, 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 quarter	-	170,529	170,529
Balance as on September 30, 2017	1,694,586	4,193,935	5,888,521

The annexed notes 1 to 10 form an integral part of these financial statements.


Chief Executive


Director


Chief Financial Officer

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE QUARTER ENDED SEPTEMBER 30, 2017 (Un-Audited)

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 and its shares are quoted on Pakistan Stock Exchange. The principal activity of the company is 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 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 registered office of the company is located in Islamabad.

2. Basis of preparation

This condensed interim financial information is un-audited and has been prepared in accordance with the section 237 of Companies Act, 2017 and International Accounting Standard (IAS) 34 - 'Interim Financial Reporting'. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements for the year ended June 30, 2017.

3. Significant Accounting Policies

The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of preceding annual published financial statements of the company for the year ended June 30, 2017.

4. Contingencies and commitments

4.1 Contingencies

- 4.1.1** 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).

The management of the Company is of the view that under the terms of the PPA (i) the Company is entitled to the continued indexation of the NEC after repayment of foreign currency loans; and (ii) the invoice receiving party may serve a dispute notice to the other party at any time prior to 180 days of receipt of such invoice. Since the invoices for the period from September 2008 to September 2009 were not disputed within the prescribed period of 180 days therefore WAPDA has waived its right to seek revision of such invoices in terms of section 9.7 (d) of the PPA.

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 30 June 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 which states that the adjustment of Rs. 430.51 million is unlawful, therefore, WAPDA is required to pay this amount to the Company.

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 financial statements.

- 4.1.2** WAPDA has imposed Liquidated Damages (LD) on the Company amounting to Rs. 478.31 million (2016: Rs. 415.44 million) during the period from 2011 to 2017. 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 124.46 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 financial statements.

It is also pertinent to mention here that recently in a similar case pertaining to 'capacity payments' of other Independent Power Producers (falling under the 1994 and 2002 power policy), the experts gave the decision in favor of the Independent Power Producers.

4.1.3 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. 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 financial statements.

4.2 Commitments

(ii) Commitment regarding letter of credit/bank contracts other than capital expenditure Rs. 10 million (June 30, 2017: Rs.18.10 million)

(iii) Commitment regarding letter of credit for capital expenditure Rs. 41 million (June 30, 2017: Rs. 49.62 million)

	Note	September 2017	June 2017
(Rupees in thousand)			
5. Property, plant and equipment			
Operating fixed assets	5.1	3,548,261	3,600,913
Stores held for capital expenditures		86,930	63,981
		<u>3,635,191</u>	<u>3,664,894</u>
5.1 Operating fixed assets			
Opening net book value		3,600,913	3,852,559
Additions (At cost)		50,119	118,466
		<u>3,651,032</u>	<u>3,971,025</u>
Disposals (at NBV)		(3,377)	(4,994)
Assets Write-offs (at NBV)		(7,340)	(5,071)
Depreciation charge		(92,054)	(360,047)
		<u>(102,771)</u>	<u>(370,112)</u>
Closing net book value		<u>3,548,261</u>	<u>3,600,913</u>
		July to September	2016
		2017	2016
(Rupees in thousand)			
Raw material consumed		1,717,105	1,406,666
Salaries, wages and benefits		69,004	53,944
Fee for Produce of Energy (FPE)		-	1,925
Stores and spares consumed		73,822	55,852
Depreciation/amortization		90,211	87,018
Capitalised stores write off		7,340	-
Insurance		6,802	7,512
Traveling, conveyance and entertainment		2,989	3,645
Repair and maintenance		3,787	3,525
Electricity consumed in-house		787	91
Miscellaneous		6,533	5,064
		<u>1,978,380</u>	<u>1,625,242</u>

7. Related party transactions

Relationship with the company

- i. Associated undertakings
- ii. Key management personnel
- iii. Post employment benefit plan

Nature of transactions

- Purchase of goods and services
- Share of expenses
- Salaries and other employee benefits
- Expense charged

		July to September	
		2017	2016
		(Rupees in thousand)	
		54	195
		57	93
		28,854	25,192
		4,166	4,827
		<u>33,131</u>	<u>30,307</u>
		September	June
		2017	2017
		(Rupees in thousand)	
	Payable to related parties	13	70

Period end balances

Payable to related parties

8. Cash generated from operations

- Profit before tax
- Adjustments for:
 - Depreciation/amortization
 - Write off machinery parts
 - Gain on disposal of property, plant and equipment
 - Interest income
 - Provision for retirement benefits
 - Finance cost
- Profit before working capital changes

Effect on cash flow due to working capital changes

- Stores and spares
- Stock in trade
- Trade debts
- Other receivables
- Creditors, accrued and other liabilities

		July to September	
		2017	2016
		(Rupees in thousand)	
	Profit before tax	170,572	191,347
	Adjustments for:		
	Depreciation/amortization	92,180	88,920
	Write off machinery parts	7,340	-
	Gain on disposal of property, plant and equipment	-	(903)
	Interest income	(142)	(12)
	Provision for retirement benefits	4,166	4,827
	Finance cost	57,557	31,346
	Profit before working capital changes	<u>331,673</u>	<u>315,525</u>
	Effect on cash flow due to working capital changes		
	Stores and spares	12,672	(2,691)
	Stock in trade	19,377	(49,667)
	Trade debts	(262,521)	(140,318)
	Other receivables	(56,529)	214,698
	Creditors, accrued and other liabilities	(43,439)	3,502
		<u>(330,440)</u>	<u>25,524</u>
		<u>1,233</u>	<u>341,049</u>

9. Date of authorization for issue

These financial statements were authorized for issue on October 19, 2017 by the Board of Directors of the company.

10. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However no significant re-arrangements were made during the period.


Chief Executive


Director


Chief Financial Officer