



JAPAN POWER GENERATION LIMITED

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COMPANY INFORMATION

Board of Directors	<p>Mr. Jehangir Shah Brig. (R) Muhammad Mansur Aslam Mr. Kashif Muhammad Khan Mr. Khurram Faizyab Mr. Nafees Ahmed Mr. Parveiz Usman Brig. Naveed Ahsan Mr. Zafar Iqbal Ms. Parveen Akhter Mr. Ayaz Dawood Mr. Yousaf Hussain Mr. Muhammad Hanif Abbasi</p>	<p>Chairman, Nominee, Pak Oman Investment Company Limited Vice Chairman, Nominee, National Logistics Cell Nominee, Pak Oman Investment Company Limited Nominee, Pak Oman Investment Company Limited Nominee, Pak Oman Investment Company Limited Nominee, National Logistics Cell Nominee, National Logistics Cell Nominee, Saudi Pak Industrial and Agricultural Investment Company Limited Nominee, Saudi Pak Industrial and Agricultural Investment Company Limited Minority Nominee, Faysal Bank Limited Nominee, National Bank of Pakistan</p>
Chief Executive Officer	Mr. Khan Ahmed Saleem	
Company Secretary & Chief Financial Officer	Mr. Zain ul Abidin	
Company's Audit Committee	<p>Brig. (R) Muhammad Mansur Aslam - Chairman Mr. Ayaz Dawood Mr. Kashif Muhammad Khan Mr. Zafar Iqbal</p>	
Company's HR Committee	<p>Mr. Ayaz Dawood - Chairman Mr. Khurram Faizyab Mr. Nafees Ahmed Mr. Zafar Iqbal</p>	
Auditors	Hyder Bhimji & Co. Chartered Accountants	
Shares Registrar Office	<p>Hameed Majeed Associates (Pvt.) Limited. HM House, 7 - Bank Square, Lahore Tel: +92-42-37235081-2, Fax: +92-42-37358817</p>	
Legal Advisor	Faisal & Partners	
Bankers	Faysal Bank Limited	
Lending Bank Syndicate	<p>Faysal Bank Limited Askari Bank Limited National Bank of Pakistan Allied Bank Limited Samba Bank Limited NIB Bank Limited SILK Bank Limited Prudential Investment Bank Limited</p>	
Registered Office/Plant	<p>Near Jia Bagga Railway Station Chowk Araian Off Raiwind Road, Lahore Tel: +92-42-35835864-6 Fax: +92-42-35835860</p>	
Email	jpgl@brain.net.pk	
Website	www.jpglpk.com	

NOTICE OF 18TH ANNUAL GENERAL MEETING

Notice is hereby given that the 18th Annual General Meeting of Japan Power Generation Limited will be held on Friday, November 30, 2012 at 9:00 AM at registered office/plant located at Jia Bagga, off Raiwind Road, Lahore to transact the following business:

ORDINARY BUSINESS:

1. To confirm the minutes of the 17th Annual General Meeting of the Company held on Tuesday, November 24, 2011.
2. To receive, consider and adopt the audited financial statements of the company for the financial year ended June 30, 2012, together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors, M/s Hyder Bhimji & Co, Chartered Accountants, for the Company for the financial year ending June 30, 2013 and fix their remuneration.
4. To transact any other business that may be placed before the meeting with the permission of the Chair.

By order of the Board

Lahore
November 08, 2012

Zain ul Abidin
Company Secretary

NOTES

1. The Share Transfer Book of the Company will remain closed from November 21, 2012 to November 30, 2012 (Both days inclusive).
2. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote in his/her place. Proxies, complete in every respect, in order to be effective, must be received at the Registered Office of the Company located at Jia Bagga, off Raiwind Road, Lahore, not less than 48 hours before the time of holding the meeting.
3. Members are requested to promptly notify the Company any change in their addresses.
4. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in circular -1 dated January 20, 2000 issued by the SECP:

A. For Attending the Meeting

1. In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original National Identity Card (CNIC) or original Passport, Account and Participant's ID number at the time of attending the Meeting.
2. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies

1. In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirements.
2. The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
3. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
4. The proxy shall produce his original CNIC or original Passport at the time of the Meeting.
5. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors of your company are pleased to present the 18th Annual Report together with the audited financial statements of your company and auditors' report thereon for the year ended June 30, 2012.

PRINCIPAL ACTIVITIES:

The principal activity of the company is to own, operate and maintain an oil-fired power station with a net contracted capacity of 120.5 MW (gross capacity of 135 MW).

PLANT PERFORMANCE:

During the current financial year, the plant output decreased to 282,383 MWh as compared with 372,692 MWh for the previous year. It showed a decline of 25% in dispatch factor of the plant. The reason for such decline was due to shortage of fuel owing to lesser fuel advance from WAPDA. WAPDA is charging LD's for such decline in energy dispatch during the year. However, the company has disputed such LD's for the reason of non-provision of advance for the fuel, as per the arrangement reached in December 2009 to procure fuel. These disputes are more fully stated in note 20.1 & 20.4 to the Financial Statements.

FINANCIAL PERFORMANCE:

The key operating and financial data of the company with comparatives for the corresponding year is as follows:

Financial year ended June 30,	2012	2011
	<u>Rupees 'million'</u>	
Turnover	4,999.36	4,724.15
Cost of sales	(5,050.08)	(5,170.34)
Gross (loss)	(50.72)	(446.19)
Operating expenses	(227.48)	(114.71)
Operating (loss)	(278.20)	(560.90)
Other income	23.51	21.29
Financial and other costs	(1,122.95)	(962.15)
Provision for taxation	(2.46)	(1.73)
Net loss after taxation	(1,380.10)	(1,503.49)
Loss per share – basic and diluted	(8.84)	Rs. (9.64)

The turnover of the company increased during the year as compared to last year mainly due to;

- a) increase in capacity price payments due increase in capacity to 107MW (full year) in current year as compared to 65MW (4 months), 77MW (5 months) and 107MW (3 months) during the last year; and
- b) higher fuel prices.

However, this increase has been partially set off by lesser NEO delivered to WAPDA during the current year as compared to last year.

The cost of sales as a percentage of turnover decreased during the year as compared to last year due to decrease in consumption of spares and lube due to installation of anti-polishing rings and decrease in repair and maintenance cost as the plant was rehabilitated last year to achieve its full capacity. Accordingly, gross loss for the year decreased to Rs. 50.72 million as compared to Rs. 446.19 million for the last year.

Operating expenses increased during the year as compared to the last year mainly due to increase in fee paid to the Arbitration Lawyers and International Chamber of Commerce ("ICC") for arbitration proceedings who are handling the company's case in Singapore.

Other income increased in the current year as compared to last year due to increase in profits on bank deposits.

Finance cost has increased in the current year as compared to last year primarily due to increase in mark-up/ interest cost due to:

- a) increase in accumulated advances from WAPDA for purchase of fuel;
- b) inability to settle dues of lenders .

All these factors resulted in a net loss of Rs. 1,380.10 million as compared to a net loss of Rs. 1,503.49 million for the last year.

REASONS FOR NON-PAYMENT OF DIVIDEND AND DEBT OBLIGATIONS:

As detailed in note 1.2 to the financial statements, the company has incurred operating loss for the year amounting to Rs. 1,391 million (2011 : Rs. 1,503 million) and its accumulated loss has increased to Rs 5,419 million as at June 30, 2012, whereby it has negative equity and current assets ratio at that date.

The company's major loss contributing factors over the years have been shortfall in reimbursement from WAPDA of actual fuel cost incurred and excessive financial costs due to non-repayment of term loans/ finances both owing to tariff reductions in 1999.

Due to continued losses and consequential financial constraints, the Company is unable to discharge its debt obligations towards lenders. Knowing the Company's history and state of affairs, the lenders have not served any notice of default under the financing documents; and rather they are trying hard to arrive at a comprehensive solution of all the issues faced by the Company to make it a financially viable entity.

In addition to this, amounts from the Capacity Price Payments (CPP) were withheld by WAPDA to adjust these against its own disputed dues/ amount of fuel advances, which further increased the financial burden and resultant costs to the company. The disputed amounts have been explained in detail in notes 20.1 to 20.5 of these financial statements.

Due to the above stated situation the company is neither in a position to pay off its obligations towards lenders nor has ever declared dividend in any financial year.

COMMENTS ON THE AUDITORS' REPORT:

The management of the Company is of the considered view that they are justified to prepare these financial statements on historical cost basis, which depict the true and fair view of the Company's affairs as well as the value of its property, plant and equipment. Accordingly, the management does not agree with the Auditors' opinion as regard to the impairment of these assets. The crux of the matter is that the power plant of the Company is available for operation at full capacity.

As regard to the emphasis paragraphs of the Auditors' report, the detailed explanations have already been given in note 1.2 as well as note 20.1 to 20.5 of the financial statements.

EXTERNAL AUDITORS' APPOINTMENT:

The company's auditors M/s Hyder Bhimji & Co., Chartered Accountants shall retire at the conclusion of the 18th Annual General Meeting. The auditors have indicated their willingness to continue in office as auditors. The appointment in the office of the external auditors shall be made in the next AGM.

REMUNERATION OF CHIEF EXECUTIVE:

There was no change in the terms and conditions of the appointment of the Chief Executive Officer, except normal annual increment in the salary with the approval of the Board of Directors.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK:

- a) The Financial Statements, together with the Notes thereto, have been drawn up by the management in conformity with the Companies Ordinance, 1984. These statements present fairly the company's state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of account have been maintained by the company.
- c) Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in preparation of the financial statements.
- e) The system of internal controls is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations.
- h) The key operating and financial data of last six years is attached to the report.
- i) During the financial year under review the Board of Directors met six times and the attendance at the meetings was as follows:

Name	No. of Meetings Attended
Mr. Jehangir Shah	5
Mr. Parveiz Usman	-
Brig. (R) Mansur Aslam	6
Brig. (R) Muhammad Akhtar	-
Mr. Kashif Muhammad Khan	6
Mr. Khurram Faizyab	6
Mr. Nafees Ahmed	5
Mr. Zafar Iqbal	5
Mr. Muhammad Faisal Israr (Resigned)	3
Ms. Parveen Akhter (New appointment)	-
Mr. Ayaz Dawood	6
Mr. Bashir A Sheikh	6
Mr. Muhammad Hanif Abbasi	5

Leave of absence, where requested, was granted to the directors who could not attend the board meetings.

During the financial year ended June 30, 2012, one casual vacancy has been filled in the Board of Directors as per Section 180(2) of the Companies Ordinance 1984.

j) During the financial year the Audit Committee meetings held for 4 times and the attendance of the members were as follows:

Name	No. of Meetings Attended
Brig. (R) Mansur Aslam	4
Mr. Kashif Muhammad Khan	4
Mr. Zafar Iqbal	3
Mr. Ayaz Dawood	4

k) The Company, after getting approval from relevant authorities, has established Employees Gratuity Fund. Annual provision has been made on the basis of actuarial valuation to cover obligation under the scheme for all employees eligible to gratuity benefits. The value of the investments of Gratuity Fund as on June 30, 2012 was Rs. 10.716 million.

l) The Board has formed Audit Committee, comprising four members, all of whom are non-executive directors.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The company's Statement of Compliance with the Code of Corporate Governance is annexed with the report.

ETHICS AND BUSINESS CONDUCT

The company endeavors to conduct business honestly, in good faith and to comply with such regulations, codes, guidelines and procedures, which govern its business.

The relationship between the management and employees is exemplary. The directors are pleased to record their appreciation for the hard work and devotion to duty by all the employees.

ENVIRONMENT HEALTH AND SAFETY

We remain committed to ensure that the entire operations of the company conform to environment, health and safety standards. Personal safety of the employees has remained amongst the priority areas of the management. A dedicated team of professionals continuously review the environmental aspects that may have any significant impact on the environment. Similarly, all health and safety hazards having significant risks are also reviewed and are proactively addressed to avoid any untoward incident.

PATTERN OF SHAREHOLDING

Pattern of shareholding of the company as at June 30th 2012 along with the necessary information is attached to this report.

FUTURE PROSPECTS

The company has fully rehabilitated the plant with the advances provided by WAPDA/PEPCO, which helped the company in improving its Capacity Payments to contracted capacity. Furthermore, to improve the company's financial position and liquidity, the management has taken the following steps:

- i) The Company has identified steam turbines and signed contracts with vendors. The shipment of steam turbine has reached at plant. Opening of L/C for remaining equipment is also under process and will be established as soon as the funds are arranged. After opening of 2nd L/C that construction of the steam turbine project will start. The implementation is expected to be completed in 2013.
- ii) Filed petition for revision/enhancement of tariff structure before NEPRA, which has not been admitted for hearing by NEPRA. However, the company has taken heed of the advice of its legal advisors to take recourse of the Higher Court for such non admission of the petition.

The final hearing of the disputes by ICC was held in Singapore during the period from April 30, 2012 to May 04, 2012. The decision of the Tribunal is expected shortly.

The management is optimistic that as soon as the above stated steps are satisfactorily concluded, the Company's cash flows are likely to improve resulting in the Company becoming financially viable.

CONCLUSION

The company is proud of its employees for demonstrating commitment and loyalty with the company during this difficult period.

We also wish to thank our shareholders, lenders, business partners and vendors for their valuable support and cooperation that has enabled the company to effectively manage its operations.

Islamabad: **October 31, 2012**

**On behalf of the Board
Chief Executive Officer**

OPERATING AND FINANCIAL DATA

SIX YEARS SUMMARY

	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
DISPATCH LEVEL(%)	26.75	39.76	18.85	24.33	48.07	56.65
DISPATCH (MWh)	282,383	372,692	198,934	256,870	506,924	531,015
REVENUE (Rs. 000)						
Energy Purchase Price	4,212,304	4,071,936	1,981,217	2,644,434	3,583,596	2,694,553
Capacity Purchase Price	787,054	652,213	750,722	861,324	915,548	920,345
TOTAL REVENUE	4,999,358	4,724,149	2,731,939	3,505,758	4,499,144	3,614,898
Cost of Sales	(5,050,083)	(5,170,336)	(2,443,209)	(3,281,624)	(4,214,069)	(3,336,485)
GROSS (LOSS)/ PROFIT	(50,725)	(446,187)	288,730	224,134	285,075	278,413
PROFITABILITY (Rs. 000)						
Profit / (Loss) Before Tax	(1,377,643)	(1,501,755)	(450,729)	(593,000)	(162,114)	(216,444)
Provision for Taxation	(2,463)	(1,725)	(1,623)	(444)	(556)	(191)
PROFIT / (LOSS) AFTER TAX	(1,380,106)	(1,503,480)	(452,352)	(593,444)	(162,670)	(216,635)
FINANCIAL POSITION (Rs. 000)						
Non Current Assets	5,344,304	4,860,577	5,063,299	5,316,919	5,538,638	5,749,999
Current Assets	3,344,976	2,973,456	2,695,627	1,112,711	1,577,505	1,247,371
Less Current Liabilities	(7,871,403)	(5,917,375)	(3,720,732)	(1,905,488)	(1,624,257)	(1,248,390)
NET WORKING CAPITAL	(4,526,427)	(2,943,919)	(1,025,105)	(792,777)	(46,752)	(1,019)
CAPITAL EMPLOYED	(317,157)	1,477,471	3,578,217	4,043,429	4,990,438	5,226,798
Less Non Current Liabilities	(3,521,895)	(4,000,587)	(4,621,043)	(4,656,161)	(5,031,396)	(5,210,009)
SHAREHOLDERS' EQUITY	(3,839,052)	(2,523,116)	(1,042,826)	(612,732)	(40,958)	16,789
REPRESENTED BY (Rs. 000)						
Share Capital	1,560,376	1,560,376	1,560,376	1,560,376	1,476,188	1,476,188
Share deposit money	-	-	-	-	84,188	-
Accumulated Loss	(5,407,351)	(4,088,404)	(2,605,659)	(2,174,043)	(1,601,334)	(1,459,399)
Fair value reserve	7,923	4,857	2,457	935	-	-
	(3,839,052)	(2,523,171)	(1,042,826)	(612,732)	(40,958)	16,789
SHARE VALUE (RUPEES):						
Market Value	1.75	1.15	1.80	1.80	5.30	6.00
Breakup Value	(2.46)	(1.62)	(0.67)	(0.39)	(0.28)	0.11
RATIOS:						
Gross Profit to Sales (%)	(1.01)	(9.44)	10.57	6.39	6.34	7.70
Net Profit to Sales (%)	(27.61)	(31.83)	(16.56)	(16.93)	(3.62)	(5.99)
Earning per Share (Rupees)	(8.84)	(9.61)	(2.89)	(3.87)	(1.10)	(1.57)
Current Ratio (times)	0.42	0.50	0.72	0.58	0.97	1.00
Liquidity Ratio (times)	0.37	0.40	0.60	0.54	0.88	0.91

VISION STATEMENT

TO BECOME PARTNER IN PROGRESS OF THE COUNTRY

MISSION STATEMENT

- To be a company that endeavors to set the highest standards in corporate ethics.
- To achieve leadership through the use of technology and contribute to the development of the society.
- To transform the company into a modern corporate entity by achieving high standards of good governance.
- To earn better relationship with WAPDA by achieving production at optimum level and efficiency by lowering operating cost.
- To provide congenial working atmosphere to the employees by taking care of their career planning and adequately rewarding them for their contribution.
- To discharge social and cultural obligations towards the society as a patriotic and conscientious entity.

STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the CCG in the following manner:

- The company encourages the representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the Board includes:

Category	Names
Independent Director	N/A
Executive Directors	No
Non-Executive Directors	Mr. Jehangir Shah – Nominee, Pak Oman Investment Company Limited
	Mr. Parveiz Usman – Nominee, National Logistics Cell
	Brig. (R) Mansur Aslam – Nominee, National Logistics Cell
	Brig. (R) Muhammad Akhtar – Nominee, National Logistics Cell
	Mr. Kashif Muhammad Khan – Nominee, Pak Oman Investment Company Limited
	Mr. Khurram Faizyab – Nominee, Pak Oman Investment Company Limited
	Mr. Nafees Ahmed – Nominee, Pak Oman Investment Company Limited
	Mr. Zafar Iqbal – Nominee, Saudi Pak Industrial and Agricultural Investment Company Limited
	Ms. Parveen A Malik – Nominee, Saudi Pak Industrial and Agricultural Investment Company Limited
	Mr. Ayaz Dawood – Minority
	Mr. Yousaf Hussain – Creditors Nominee, Faysal Bank Limited
	Mr. Muhammad Hanif Abbasi – Creditors Nominee, National Bank of Pakistan

- The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
- All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
- A casual vacancy occurring on the board on April 30, 2012 was filled up by the directors on June 08, 2012.

5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company alongwith its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the date on which they were approved has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board has approved the appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
10. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
11. The financial statements of the company were duly endorsed by CEO and CFO before the approval of the board.
12. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
13. The company has complied with all the corporate and financial reporting requirements of the CCG.
14. The board has formed an audit committee. It comprises four members, all of whom are non-executive directors.
15. The meeting of the audit committee were held once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the Committee have been formed and advised to the committee for compliance.
16. The board has formed an HR and Remuneration Committee. It comprises four members, all of whom are non-executive directors and the chairman of the committee is also a non-executive director.
17. The board has set up an effective internal audit function through outsourcing to qualified and experienced personnel who are conversant with the policies and procedures of the company.
18. The statutory auditors of the company have confirmed that they have been given satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of their firms, their spouses and minor children do not hold shares of the company and that the firms and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing

- regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The 'closed period' prior to the announcement of interim/final results, and business decision, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchanges.
 21. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
 22. The related parties transactions have been placed before the audit committee and approved by Board of Directors to comply with the requirements of listing regulation of Karachi Stock Exchange (Guarantee) Limited.
 23. We confirm that all other material principles enshrined in the CCG have complied with except for the appointment of independent directors which shall be complied with at the time of re-election of the directors.

Islamabad
October 31, 2012

For and on behalf of the Board

KHAN A SALEEM
Chief Executive Officer

REVIEW REPORT TO THE MEMBERS
On Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Japan Power Generation Limited** ("the company") for the year ended June 30, 2012 to comply with the Listing Regulations of the respective stock exchanges, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, listing regulations require the company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the status of Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the company for the year ended June 30, 2012.

Lahore: October 31, 2012

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner – Syed Aftab Hameed, FCA

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Japan Power Generation Limited** as at June 30, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the 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 purpose 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) The company has suffered operating losses since the commencement of its commercial operations in the year 2000 and incurred gross loss for the last two years and loss for the year at Rs. 1.380 billion, whereby its accumulated loss of Rs. 5.407 billion as on June 30, 2012 has exceeded shareholders equity; and whereby its total liabilities have exceeded its total assets by Rs 3.839 billion, which has been exacerbated by a continuing huge adverse working capital ratio.

Further, the operations of the Company are dependent upon the funds received from WAPDA, which are provided on the basis of WAPDA's energy demand and therefore, the Company's power project is operated intermittently; i.e. at an average capacity utilization of 27% during the year.

Under these circumstances, the recoverable amount of property, plant and equipment has not been worked out to determine the likelihood of their impairment as recommended by IAS 36, "Impairment of Assets", and therefore this aspect remained unconfirmed and unverified.

- b) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

- c) in our opinion:
- i. the balance sheet and profit and loss account 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 further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the company's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- d) except for the effect of the matters stated in paragraphs (a) above, 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, cash flow statement and statement of changes in equity together with 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, 2012 and of the loss, its comprehensive loss, its cash flows and statement of changes in equity for the year then ended; and
- e) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion on the issue of going concern, we draw attention of the members towards:

- note 1.2 of the financial statements which indicates that the company incurred a net loss for the year to the sum of Rs. 1.380 billion, which increased accumulated loss to Rs. 5.407 billion as at June 30, 2012; and as of that date the Company's current liabilities exceeded its current assets by Rs. 4.526 billion. These conditions alongwith other matters as set forth in note 1.2, indicate the existence of a material uncertainty, which may cast significant doubt about the Company's ability to continue as a going concern.
- notes 20.1 and 20.2 of the financial statements which fully explain the disputes between the Company and WAPDA involving a significant amounts of claims and counter claims. There being no decision so far, the outcome of these disputes cannot be determined with any degree of certainty at this stage, although the management of the company and its legal advisors expect a favourable decision. Accordingly, the balances payable to/ receivable from WAPDA remained unconfirmed.

Lahore: October 31, 2012

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner - Syed Aftab Hameed, FCA

BALANCE SHEET AS AT JUNE 30, 2012

		2012 Rupees '000'	2011 Rupees '000'
Non current assets			
Property, plant and equipment	5	5,344,204	5,617,428
Long term deposits	6	100	100
		5,344,304	5,617,528
Current assets			
Stores and spares	7	111,007	106,378
Stock in trade	8	303,031	236,435
Trade debts	9	2,111,252	1,930,823
Advances, deposits, prepayments and other receivables	10	471,351	393,502
Tax refunds due from the Government	11	184,515	175,719
Cash and bank balances	12	163,820	130,599
		3,344,976	2,973,456
TOTAL ASSETS		8,689,280	8,590,984
Capital and reserves			
Authorized capital 160,000,000 (2011: 160,000,000) ordinary shares of Rs. 10 each		1,600,000	1,600,000
Issued, subscribed and paid-up capital	13	1,560,376	1,560,376
Accumulated loss		(5,407,351)	(4,088,404)
Fair value reserve		7,923	4,857
Shareholders' equity		(3,839,052)	(2,523,171)
Surplus on revaluation of property , plant and equipment	14	1,135,034	1,196,193
Non current liabilities			
Long term finances	15	3,518,216	3,989,871
Deferred liability	16.1	3,679	10,716
		3,521,895	4,000,587
Current liabilities			
Short term borrowings	17	168,200	168,200
Current portion of long term finances	15	1,698,310	1,509,315
Trade and other payables	18	3,654,937	2,377,447
Accrued markup	19	2,349,956	1,862,413
		7,871,403	5,917,375
Contingencies and commitments	20		
TOTAL EQUITY AND LIABILITIES		8,689,280	8,590,984

The annexed notes 1 to 37 form an integral part of these financial statements.

Lahore: October 31, 2012

Chief Executive

Chairman / Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2012

	<u>Note</u>	<u>2012</u> Rupees '000'	<u>2011</u> Rupees '000'
Sales - net	21	4,999,358	4,724,149
Cost of sales	22	<u>(5,050,083)</u>	<u>(5,170,336)</u>
Gross loss		(50,725)	(446,187)
Operating expenses			
Administrative and general expenses	23	<u>(227,476)</u>	<u>(114,713)</u>
Operating loss		(278,201)	(560,900)
Other operating income	24	<u>23,506</u>	<u>21,290</u>
		(254,695)	(539,610)
Finance and other cost			
Finance cost	25	<u>(1,122,948)</u>	<u>(962,145)</u>
Net loss before taxation		(1,377,643)	(1,501,755)
Provision for taxation			
Current - on other operating income		<u>(2,463)</u>	<u>(1,725)</u>
Net loss after taxation		<u>(1,380,106)</u>	<u>(1,503,480)</u>
		<u>Rupees</u>	
Loss per share - basic and diluted	26	<u>(8.84)</u>	<u>(9.64)</u>

Appropriations are reflected in the statement of changes in equity.

The annexed notes 1 to 37 form an integral part of these financial statements.

Lahore: October 31, 2012

Chief Executive

Chairman / Director

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2012

	<u>Note</u>	<u>2012 Rupees '000'</u>	<u>2011 Rupees '000'</u>
Net loss after taxation		(1,380,106)	(1,503,480)
Other comprehensive income			
Actuarial gains recognised during the year	16.1	3,066	2,400
Total comprehensive loss for the year		<u>(1,377,040)</u>	<u>(1,501,080)</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

Lahore: October 31, 2012

Chief Executive

Chairman / Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	<u>Note</u>	<u>2012</u> <u>Rupees '000'</u>	<u>2011</u> <u>Rupees '000'</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Cash inflow after working capital changes	27	991,620	375,010
Finance cost paid		(635,405)	(312,370)
Gratuity paid		(10,347)	(62)
Income tax paid		(1,762)	(2,210)
Net cash inflow from operating activities		344,106	60,368
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(23,023)	(52,089)
Addition in capital work in progress		(5,221)	(3,207)
Proceeds from sale of property, plant and equipment		19	28
Net cash outflow from investing activities		(28,225)	(55,268)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of long term finances		(282,660)	(48,404)
Repayment of short term borrowings		-	(46,800)
Net cash outflow from financing activities		(282,660)	(95,204)
Net increase / (decrease) in cash and cash equivalents		33,221	(90,104)
Cash and cash equivalents at the beginning of year		130,599	220,703
Cash and cash equivalents at the end of year	12	163,820	130,599

The annexed notes 1 to 37 form an integral part of these financial statements.

Lahore: October 31, 2012

Chief Executive

Chairman / Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2012

	Share capital	Accumulated loss	Fair value reserve	Total
	Rupees '000'	Rupees '000'	Rupees '000'	Rupees '000'
Balance as at June 30, 2010	1,560,376	(2,605,659)	2,457	(1,042,826)
Incremental depreciation on revaluation of property, plant & equipment	-	20,735	-	20,735
Total comprehensive loss for the year	-	(1,503,480)	2,400	(1,501,080)
Balance as at June 30, 2011	1,560,376	(4,088,404)	4,857	(2,523,171)
Incremental depreciation on revaluation of property, plant & equipment	-	61,159	-	61,159
Total comprehensive loss for the year	-	(1,380,106)	3,066	(1,377,040)
Balance as at June 30, 2012	1,560,376	(5,407,351)	7,923	(3,839,052)

The annexed notes 1 to 37 form an integral part of these financial statements.

Lahore: October 31, 2012

Chief Executive

Chairman / Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

1 Legal Status and Nature of Business

- 1.1** Japan Power Generation Limited was incorporated in Pakistan on September 29, 1994 as public limited company under the Companies Ordinance, 1984 and its shares are quoted on Lahore and Karachi Stock Exchanges. The registered office and plant of the company is situated at Near Jia Bagga Railway Station, Chowk Araian, Off Raiwind Road, Lahore. The principal business of the company is to generate and supply electric power to WAPDA. The company commenced commercial operations from March 15, 2000.
- 1.2** The company has incurred operating loss for the year amounting to Rs. 1.380 billion (2011: Rs. 1.503 billion) and its accumulated loss has increased to Rs 5.407 billion as at June 30, 2012, whereby it has negative equity and adverse current ratio at that date. The Company's major loss contributing factors over the years have been shortfall in reimbursement from WAPDA of actual fuel cost incurred and excessive financial costs due to non-repayment of term loans/ finances both owing to tariff reductions agreed with WAPDA in 1999. In addition to this, amounts from the Capacity Price Payments (CPP) were withheld by WAPDA to adjust these against its own disputed dues / amount of fuel advances, which further increased the financial burden and resultant costs to the Company. The disputes with WAPDA and the disputed amounts have been explained in detail at notes 20.1 to 20.5 of these financial statements.

In order to mitigate the above stated situations, the Company has fully rehabilitated the plant with the advances provided by WAPDA, which has helped the Company in improving its Capacity Payments to contracted capacity for the period under review. Further to improve the Company's financial position and liquidity, the management has also taken the following steps:

- i) Commenced implementation of steam turbine project to generate electricity by recovering waste heat from exhaust of engines, which will reduce fuel loss. The shipment of steam turbine has reached at plant. Opening of L/C for another for remaining equipment is also under process and will be established as soon as the funds are arranged. After that construction of the steam turbine project will start. After the implementation, which is expected to be completed by mid of 2013, the project will start generating electricity.
- ii) Filed petition for revision/enhancement of tariff structure before NEPRA, which has not been admitted by NEPRA. However, the Company is in the process of filing a petition before High Court to get directions for NEPRA to admit and decide the tariff revision petition.

The plant remained operational since February 2010 and continued to supply electricity to WAPDA. However, these operations are dependent on fuel advances provided by WAPDA. WAPDA has been providing fuel advance as per the arrangement reached in December 2009 to procure fuel and lube oil on a regular basis and it is expected that WAPDA would continue to financially support the Company in foreseeable future due to dire need of the electricity in the country.

Further, the lending institutions are taking keen interest in the long term sustainability of the Company and have taken up the matter at their highest level. Recently, the Presidents of the major lending institutions including Faysal Bank Limited, National Bank of Pakistan and Silk Bank Limited as well as top management of some of the remaining lending institutions met to discuss the way forward for future operations of the company (JPGL). Various options are under their serious consideration including financing of steam turbines and conversion of debt into equity.

Considering the above stated factors and arrangements, coupled with the continued support of the WAPDA, lenders and expected favorable outcome of the above mentioned disputes, the management of the Company considers that the going concern assumption used in the preparation of these financial statements is appropriate.

2 Basis of Preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or the directives of the Companies Ordinance, 1984 shall prevail.

2.2 Standards, Interpretations and amendments to published approved accounting standards adopted during the year

The Company has adopted the following new and amended IFRS and IFRIC interpretation which become effective during the year:

IAS-1	Presentation of Financial Statements-Amendments to revise the way other comprehensive income is presented
IAS-12	Income Taxes (Amendment)-Deferred Tax on investment property
IAS-24	Related Party Disclosures (Revised)
IFRIC-14	Prepayments of Minimum Funding Requirement (Amendment)

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project as detailed below. Such improvements are mostly effective for accounting periods beginning on or after 01 January 2013. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

2.3 Standards, interpretations and amendments to approved accounting standards that are issued but not yet effective

The following revised standards, amendments and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned against the respective standard or interpretation:

Standard or Interpretation	Effective date (periods beginning on or after)
IFRS-7 Financial Instruments: Disclosure - Amendments enhancing disclosure about transfers of financial instruments	January 01, 2013
IAS - 19 Employee Benefits-Amended Standard resulting from the post-employment benefits and termination benefits projects	January 01, 2013
IAS-27 Consolidated and Separate Financial Statement	January 01, 2013
IAS-28 Investment in Associates and Joint Venture	January 01, 2013
IAS-32 Financial Instruments: Presentation - Amendments relating to offsetting of financial assets and liabilities	January 01, 2014

The company expects that the adoption of the above standards and interpretations will not have any material impact on its financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

	IASB Effective date (periods beginning on or after)
IFRS-9 Financial Instruments	January 01, 2015
IFRS-10 Consolidated Financial Statements	January 01, 2013
IFRS-11 Joint Arrangements	January 01, 2013
IFRS-12 Disclosure of Interest in Other Entities	January 01, 2013
IFRS-13 Fair Value Measurement	January 01, 2013

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for staff retirement benefits that are measured at present value. The company's significant accounting policies are stated in note 4. In these financial statements, except for cash flow statement, all the transactions have been accounted for on accrual basis.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions effect only that period, or in the period of revision and future periods if revisions effect both current and future periods.

Significant areas requiring the use of the management estimates in these financial statements relate to the useful life of the depreciable assets, provision for doubtful debts on account receivables and staff retirement benefits. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year. The areas involving higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Staff retirement benefits - (note 4.1)
- b) Provision for taxation - (note 4.2)
- c) Useful life and residual values of property, plant and equipment - (notes 4.3 and 5)

4 Summary of Significant Accounting Policies

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

4.1 Staff retirement benefits - defined benefit plan

The company operates an approved funded defined benefit gratuity scheme covering all permanent employees with qualifying service period of six months. The scheme is based on the last drawn salary. The provision which is charged to income is made annually to cover the obligation on the basis of actuarial valuation. The defined benefit asset or liability comprises the present value of defined benefit obligation less unrecognized past service cost. The most recent actuarial valuation of the scheme was carried out as at June 30, 2012. The actuary used the „Projected Unit Credit Method“ relying on the following significant assumptions:

	<u>2012</u>	<u>2011</u>
Discount rate	12.5%	14%
Expected rate of salary increase	12.5%	13%
Expected return on plan assets	9.5%	-
Average expected remaining working life of employees	15 years	16 years

Actuarial gains and losses are recognized in accordance with the recommendations of the actuary.

4.2 Taxation

The company's profit 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 15 of Part - IV of the Second Schedule to the Income Tax Ordinance, 2001. Tax on income from sources not covered under the above clauses is determined in accordance with the normal provisions of the Income Tax Ordinance, 2001.

4.3 Property, plant and equipment - owned, tangible

Operating assets

Operating fixed assets except land are stated at cost / revalued amount less accumulated depreciation and accumulated impairment losses, if any. Free hold land is stated at revalued amount.

Depreciation on operating fixed assets is charged to profit on straight line method so as to write off the historical cost of an asset over its estimated useful life at the annual rates mentioned in note 5 of the financial statements. Depreciation on additions to property, plant and equipment is charged from the month in which an asset is available for use while no depreciation is charged for the month in which asset is disposed off.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset, when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the company. Every other subsequent expenditure is recognized as an expense in the period in which it is incurred. Gains and losses on deleted assets are included in the profit and loss account.

Capital work in progress

Capital work-in-progress represents expenditure on property, plant and equipment in the course of construction and installation. Transfers are made to relevant category of property, plant and equipment as and when assets are available for intended use. Capital work in progress is stated at cost, less any identified impairment loss.

Stores held for capitalization

These are stated at cost.

4.4 Surplus on revaluation of property, plant and equipment

The incremental depreciation of surplus on revaluation of building & civil works and plant & machinery is transferred to revaluation reserves. The same amount of incremental depreciation is also transferred to accumulated loss through statement of changes in equity.

4.5 Stores, spares and stock in trade

These are valued at lower of cost and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less estimated cost necessary to make the sale. Cost is calculated as follows:

Stores and spares	Moving average basis
Stock in trade	
Residual fuel oil (RFO)	First in first out basis
High speed diesel (HSD)	Moving average basis
Lube oil	Moving average basis
Chemicals and other lubricants	Moving average basis

Items in transit are valued at cost, comprising invoice values plus other related charges incurred thereon.

4.6 Trade debts and other receivables

These are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amount at the year end. Other receivables are recognised at nominal amount which is the fair value of the consideration to be received in future. Bad debts are written off when identified.

4.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash equivalents are short term highly liquid instruments that are readily convertible to known amounts of cash, which are subject to insignificant changes.

4.8 Trade and other payables

Liabilities in respect of trade and other payables are carried at cost, which is the fair value of the consideration to be paid in future for goods and services received.

4.9 Foreign currency translation

Foreign currency transactions are converted into Pak Rupees at the rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies at the year-end are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. All exchange differences are charged to income currently.

4.10 Provisions

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

4.11 Contingencies and commitments

Capital commitments and contingencies, unless those are actual liabilities, are not incorporated in the accounts.

Contingent liabilities are disclosed when:

- There is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events wholly within the control of the company.
- There is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

4.12 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to profit and loss account whenever incurred.

4.13 Related party transactions

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the company to do so.

4.14 Recognition and measurement

All financial assets and liabilities are recognized at cost when the company becomes a party to the contractual provisions of the instrument. The financial instruments include long term deposits, trade debts, receivables, cash and cash equivalents, long and short term financing, trade and other payables. Any gain or loss on subsequent re-measurement to fair value of a financial asset and a financial liability is taken to profit and loss account on occurrence. The particular measurement method adopted is disclosed in individual policy statements associated with each item.

Off-setting of financial assets and financial liabilities

A financial asset and a financial liability is offset against each other and the net amount is reported in the balance sheet if the company has a legally enforceable right to set off the recognized amount and intends either to settle on net basis or realize the asset and settle the liability simultaneously.

4.15 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment loss is recognized in the profit and loss account.

4.16 Revenue recognition

Energy sale is recognized on transmission of electricity to WAPDA, whereas revenue on account of Capacity Purchase Price (CPP) is recognized when invoiced. Profit on bank deposits is recognized on receipt basis.

5 Property, plant and equipment

Note	2012 Rupees '000'	2011 Rupees '000'
5.1	5,301,675	5,576,913
5.2	36,116	34,102
	6,413	6,413
	<u>5,344,204</u>	<u>5,617,428</u>

5.1 Operating assets

PARTICULARS	2012					2011					
	As at July 01, 2011	Additions	Deletions	Revaluation surplus	As at June 30, 2012	Rate (%)	As at July 01, 2011	Deletions	Charge for the year	As at June 30, 2012	WRITTEN DOWN VALUE AS AT JUNE 30, 2012
Owned											
Land - freehold	69,409	-	-	-	69,409		-	-	-	-	69,409
Buildings and civil works on freehold land	372,901	5,684	-	-	378,585	3.3 ~ 4.40	137,632	-	12,660	150,292	228,293
Plant and machinery	7,810,949	16,207	-	-	7,827,156	3.3 ~ 4.40	2,542,755	-	286,995	2,829,750	4,997,406
Workshop equipment	16,085	-	-	-	16,085	10	16,085	-	-	16,085	-
Weighbridge	1,175	-	-	-	1,175	10	1,175	-	-	1,175	-
Furniture and fixtures	1,600	603	-	-	2,203	10	1,428	-	104	1,532	671
Electric installations	1,556	302	(51)	-	1,807	10	1,200	(51)	101	1,250	557
Office equipment	1,811	2,209	(170)	-	3,850	10	993	(170)	217	1,040	2,810
Laboratory equipment	2,184	-	-	-	2,184	10	1,146	-	218	1,364	820
Computers	2,013	456	(67)	-	2,402	30	1,450	(67)	445	1,828	574
Tubewell	1,723	194	-	-	1,917	10	1,723	-	19	1,742	175
Railways sidings	6,650	-	-	-	6,650	10	6,650	-	-	6,650	-
Vehicles	3,042	575	-	-	3,617	20	1,948	-	709	2,657	960
2012 Rupees 000s	8,291,098	26,230	(288)	-	8,317,040		2,714,185	(288)	301,468	3,015,365	5,301,675

PARTICULARS	2011					2010					
	As at July 01, 2010	Additions	Deletions	Revaluation surplus	As at June 30, 2011	Rate (%)	As at July 01, 2010	Deletions/ adjustments	Charge for the year	As at June 30, 2011	WRITTEN DOWN VALUE AS AT JUNE 30, 2011
Owned											
Land - freehold	68,446	-	-	963	69,409		-	-	-	-	69,409
Buildings and civil works on freehold land	368,414	-	-	4,487	372,901	3.3 ~ 4.40	125,292	-	12,340	137,632	235,269
Plant and machinery	7,011,390	48,058	-	751,501	7,810,949	3.3 ~ 4.40	2,298,686	-	244,069	2,542,755	5,268,194
Workshop equipment	16,085	-	-	-	16,085	10	16,085	-	-	16,085	-
Weighbridge	1,175	-	-	-	1,175	10	1,175	-	-	1,175	-
Furniture and fixtures	1,586	14	-	-	1,600	10	1,333	-	95	1,428	172
Electric installations	1,513	43	-	-	1,556	10	1,096	-	104	1,200	356
Office equipment	1,292	519	-	-	1,811	10	854	-	139	993	818
Laboratory equipment	2,032	152	-	-	2,184	10	206	-	206	1,146	1,038
Computers	2,078	307	(372)	-	2,013	30	1,351	(372)	471	1,450	563
Tubewell	1,723	-	-	-	1,723	10	1,723	-	-	1,723	-
Railways sidings	6,650	-	-	-	6,650	10	6,650	-	-	6,650	-
Vehicles	3,042	-	-	-	3,042	20	1,354	-	594	1,948	1,094
2011 Rupees 000s	7,485,426	49,093	(372)	756,951	8,291,098		2,456,539	(372)	258,018	2,714,185	5,576,913

5.2 Capital work in progress

The movement in this head is as under:

Description	Note	Opening balance	Additions	Transfers	Closing balance
Land		15,720	-	-	15,720
Buildings and civil works		-	6,020	(5,684)	336
Plant and machinery - Steam turbine		-	4,885	-	4,885
Plant and machinery - Cylindrical liner		3,207	-	(3,207)	-
Expenses towards expansion project	5.2.1	15,175	-	-	15,175
2012 Rupees 000s		34,102	10,905	(8,891)	36,116
2011 Rupees 000s		34,312	43,548	(43,758)	34,102

5.2.1 These include :

	Note	2012 Rupees '000'	2011 Rupees '000'
Fees paid to NEPRA		4,403	4,403
Fees and subscription		7,312	7,312
Travelling and conveyance		1,939	1,939
Legal, professional and consultancy charges		1,514	1,514
Other expenses		7	7
		15,175	15,175

5.3 The depreciation charge for the year has been allocated to:

Cost of sales	22	299,892	256,615
Administrative and general expenses	23	1,576	1,403
		301,468	258,018

5.4 As at 30 June 2012, undepreciated balance of revaluation surplus included in the carrying value of operating assets, amounted to Rs. 1,135.036 million (2011: Rs. 1,196.193 million).

5.5 Had there been no revaluation, the carrying amount of revalued assets as on June 30, 2012 would have been as follows:

	Cost	Accumulated Depreciation	Written Down Value 2012	Written Down Value 2011
Land - freehold	16,979	-	16,979	16,979
Buildings and civil works on freehold land	372,991	149,771	223,220	229,909
Plant and machinery	6,585,312	2,665,438	3,919,874	4,129,790
Rupees 000s	6,975,282	2,815,209	4,160,073	4,376,678

5.6 The detail of fixed assets disposed off during the year is as follows:

Description	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Profit / (Loss)	Mode of Sale	Particulars of Buyer
Electric installation							
Exhaust fan	4	4	-	1	1	Negotiation	Ch. Waris, Lahore
Air conditioner	47	47	-	9	9	Negotiation	Ch. Waris, Lahore
Office equipment							
Photocopy machine	125	125	-	6	6	Negotiation	Ch. Waris, Lahore
UPS	11	11	-	-	-	Negotiation	Ch. Waris, Lahore
Fax machine	34	34	-	1	1	Negotiation	Ch. Waris, Lahore
Computers							
Printer	23	23	-	1	1	Negotiation	Ch. Waris, Lahore
Computer	44	44	-	1	1	Negotiation	Ch. Waris, Lahore
2012 Rupees 000s	288	288	-	19	19		
2011 Rupees 000s	372	372	-	28	28		

	Note	2012 Rupees '000'	2011 Rupees '000'
6 Long term deposits			
Central Depository Company of Pakistan (CDC)		<u>100</u>	<u>100</u>
7 Stores and spares			
Stores		350	757
Spares		<u>110,657</u>	<u>105,621</u>
		<u>111,007</u>	<u>106,378</u>
8 Stock in trade-raw materials			
Residual fuel oil (RFO) - including in-transit Rs. 62.558 million (2011:Rs. 62.366 million)		258,197	209,922
High speed diesel (HSD)		27,441	7,543
Lube oil - including in-transit Rs. 4.311 million (2011:Rs. nil)		12,827	15,320
Chemicals and other lubricants		<u>4,566</u>	<u>3,650</u>
		<u>303,031</u>	<u>236,435</u>
9 Trade debts - considered good		<u>2,111,252</u>	<u>1,930,823</u>
These are receivable from WAPDA and are fully secured.			
10 Advances, deposits, prepayments and other receivables			
Advances - unsecured and considered good			
Against salaries to:			
Chief Executive	10.1	1,954	3,274
Executives	10.1	2,277	3,159
Employees		334	377
		<u>4,565</u>	<u>6,810</u>
To employees against expenses		42	78
To suppliers		4,341	8,656
To Pakistan State Oil Co. Ltd. (PSO)		79,823	182,136
To others	10.2	<u>122,712</u>	<u>20,143</u>
		<u>211,483</u>	<u>217,823</u>
Deposits		6	6
Prepayments		1,352	955
Other receivables			
Claims receivable		2,406	2,740
Liquidated damages recoverable from WAPDA		171,976	171,978
Receivable from Faysal Bank limited	10.3	<u>84,128</u>	-
		<u>258,510</u>	<u>174,718</u>
		<u>471,351</u>	<u>393,502</u>
10.1	The highest aggregated balances at the end of any month during the year in case of Chief executive & Executives of the company are Rs. 1.954 million and Rs. 2.277 million respectively (2011: Rs. 3.274 million and Rs. 3.159 million respectively)		
10.2	This amount includes Rs. 121.839 million (2011: Rs. 12.798 million) of letters of credit margin deposited with Faysal Bank Limited.		
10.3	This amount was paid by the WAPDA to Faysal Bank Limited against CPP invoices as per an arrangement between GOP and the Lenders to IPPs, and is receivable/ adjustable in due course of time.		
11 Tax refunds due from the Government			
Sales tax refundable		184,060	174,563
Income tax refundable		455	1,156
		<u>184,515</u>	<u>175,719</u>
12 Cash and bank balances			
Cash in hand		436	554
Cash with banks			
In current accounts		994	8,028
In saving accounts		<u>162,390</u>	<u>122,017</u>
		<u>163,384</u>	<u>130,045</u>
		<u>163,820</u>	<u>130,599</u>

13 Issued, subscribed and paid up capital

2012	2011		2012	2011
Number of Shares	Number of Shares	Note	Rupees '000'	Rupees '000'
133,200,000	133,200,000	Ordinary shares of Rs. 10 each, issued for cash	1,332,000	1,332,000
22,837,591	22,837,591	Ordinary shares of Rs. 10 each, issued for consideration other than cash	228,376	228,376
156,037,591	156,037,591		1,560,376	1,560,376

14 Surplus on revaluation of property, plant and equipment

Opening balance	1,196,193	459,977
Add: Surplus on revaluation of property, plant and equipment on June 30, 2011	-	756,951
Less: Incremental depreciation on revalued property, plant and equipment for the year transferred to accumulated loss	(61,159)	(20,735)
	1,135,034	1,196,193

The latest revaluation was carried out as at June 30, 2011 by an independent valuer - Messrs Surval. The basis used for revaluation was as under:

Description	Basis
Land - freehold	Market value of land in surroundings
Buildings and civil works on freehold land	Replacement cost (i.e. depreciated market value)
Plant and machinery	Incremental markets rates for similar kind of plant and machinery

15 Long term finances
Syndicated term finance agreement - II

15.1

Banking companies

Faysal Bank Limited	935,018	935,018
National Bank of Pakistan	761,721	761,720
Askari Bank Limited	914,474	914,474
Allied Bank Limited	635,572	635,572
NIB Bank Limited	343,000	343,000
SILK Bank Limited	185,897	185,898
Samba Bank Limited	533,161	533,161
	4,308,843	4,308,843

Non-banking financial institution

Prudential Investment Bank Limited	52,092	52,093
	4,360,935	4,360,936

Morabaha finance agreement - II

Banking company - Faysal Bank Limited	15.2	761,372	761,372
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Advance from WAPDA for purchase of spares

15.3

	94,219	376,878
	5,216,526	5,499,186

Less: Current and overdue portion shown under current liabilities
Overdue portion

Syndicated term finance agreement - II	1,044,329	722,997
Morabaha finance agreement - II	182,329	126,227
	1,226,658	849,224

Current maturity

Syndicated term finance agreement - II	321,332	321,332
Morabaha finance agreement - II	56,101	56,101
Advance from WAPDA for purchase of spares	94,219	282,658
	471,652	660,091
	1,698,310	1,509,315
	3,518,216	3,989,871

15.1 Syndicated term finance agreement - II

Syndicated loan II under financing arrangement was restructured on June 28, 2006 effective from April 01, 2006 as Syndicated Term Finance Agreement II. Under the new arrangement, the syndicate has agreed to purchase all the fixed and current assets of the company at the purchase price of Rs. 4,360.936 million and sell the same to the company at marked up price of Rs. 9,724.887 million. The principal is repayable in two phases. Phase-I as per repayment schedule A, comprises of 38 equal installments due from June 30, 2009 to September 30, 2018, while Phase-II represents the remaining principal, as per repayment schedule B, and consists of 16 equal installments due from June 30, 2022 to March 31, 2026. The facility carries mark up @ three months KIBOR plus 0.25% per annum payable on a quarterly basis.

15.2 Morabaha finance agreement - II

As part of the restructuring arrangement of existing loans, a morabaha finance agreement was signed with Faysal Bank Limited whereby the Bank agreed to purchase the goods at a purchase price of Rs. 761.372 million and sell the same to the company at a price of Rs. 1,697.859 million. The principal is repayable in two phases. Phase-I as per repayment schedule A, comprises of 38 equal installments due from June 30, 2009 to September 30, 2018, while Phase-II represents the remaining principal, as per repayment schedule B, and consists of 16 equal installments due from June 30, 2022 to March 31, 2026. The facility carries mark up @ 3 months KIBOR plus 0.25% per annum payable on a quarterly basis.

All the above finance arrangements are secured by a first pari passu fixed charge as a hypothecation over the company's entire present and future fixed and current assets, a mortgage by deposit of title deeds over its land and building and by pledge of the new management's shareholding.

15.3 This represents an advance amounting to Rs. 471.097 million (including mark up during grace period) from WAPDA against the procurement of spares parts in lump-sum. It is unsecured and carries markup ranging from 16.00% to 18.00% (2011: 16.50% to 18.00%) per annum. It is adjusted against company's Capacity Purchase Price (CPP) invoices in 20 equal installments starting from February, 2011 i.e. after 12 months from the date of disbursement of advance by WAPDA.

16 Deferred Liability - Provision for Staff Gratuity
Funded defined benefit plan

	2012 Rupees '000'	2011 Rupees '000'			
16.1 Movement during the year in the net liability recognized in the financial statements is:					
Opening net liability	10,716	7,733			
Add: amount recognized during the year	6,376	5,445			
Less: actuarial gains recognised during the year - other comprehensive income	(3,066)	(2,400)			
	<u>3,310</u>	<u>3,045</u>			
	14,026	10,778			
Less: contribution paid to the fund during the year	(10,136)	-			
Less: benefits paid on behalf of fund during the year	(211)	(62)			
Closing net liability	<u>3,679</u>	<u>10,716</u>			
16.2 The amount recognized in balance sheet is as follow:					
Present value of defined benefit obligation	16,681	10,441			
Fair value of any plan assets	(10,636)	-			
Unrecognized actuarial (losses) / gains	(2,366)	275			
Total balance sheet liability	<u>3,679</u>	<u>10,716</u>			
16.3 The actuarial expense recognized in the profit and loss account is:					
Current service cost	2,594	2,146			
Interest cost	1,436	899			
Expected return on plan assets	(720)	-			
	<u>3,310</u>	<u>3,045</u>			
16.4 Historical Information					
As at June 30,	2012	2011	2010	2009	2008
	Figures in Rupees 000s				
Present value of defined obligation	16,681	10,441	7,492	5,061	2,699
Experience adjustment arising on plan liabilities (gain)/losses	2,567	(34)	(177)	163	(329)

17 Short term borrowings

	Note	2012 Rupees '000'	2011 Rupees '000'
Related Parties			
National Logistics Cell	17.1	68,200	68,200
Pak Oman Investment Company Limited	17.2	68,200	68,200
Saudi Pak Industrial and Agricultural Investment Company Limited	17.3	31,800	31,800
		168,200	168,200

17.1 This amount represents loan obtained from National Logistics Cell to meet working capital expenditure of the company. It is unsecured and carries markup @ 14% per annum payable in lump sum at the time of maturity of the loan.

17.2 This amount represents a finance facility obtained from Pak Oman Investment Company Limited. Under this arrangement, the lender has agreed to purchase fixed assets of the company at the purchase price of Rs. 75.000 million and sell the same to the company at a marked up price of Rs. 85.500 million to be paid through a single installment on maturity / demand. This facility is secured against second charge over present and future fixed assets of the company with 25% margin of the marked up price. It carries markup @ 14% per annum.

17.3 This amount represents a finance facility obtained from Saudi Pak Industrial and Agricultural Investment Company Limited. Under this arrangement, the lender has agreed to purchase fixed assets of the company at the purchase price of Rs. 35.000 million and sell the same to the company at a marked up price of Rs. 41.689 million. The principal is repayable on demand. It carries markup @ 6 months KIBOR plus 4% per annum (Ask Side) with a cap of 14 % per annum, payable quarterly. This loan is secured against hypothecation charge on all fixed assets of the company with 25% margin of the marked up price.

18 Trade and other payables

Creditors		60,923	45,510
Accrued liabilities		9,954	9,895
Advance from WAPDA for purchase of fuel	18.1	3,579,656	2,317,645
Infrastructure tax payable		4,397	4,397
Income tax deducted at source payable		7	-
		3,654,937	2,377,447

18.1 This includes an advance amounting to Rs. 2,847.668 million (2011: 1,757.849 million) under new arrangement with WAPDA w.e.f. February 06, 2010 against the procurement of fuel up to Rs. 800 million per month and is adjustable against company's Energy Purchase Price (EPP) invoices. It is unsecured and carries markup ranging from 16.00% to 18.00% (2011: 16.50% to 18.00%) per annum. It is adjusted against company's EPP billings to WAPDA.

19 Accrued markup

Banking companies		2,064,022	1,535,817
Related parties		86,146	62,534
WAPDA - spares advance		1,074	4,646
WAPDA - fuel advance		198,714	259,416
	19.1	2,349,956	1,862,413

19.1 This includes overdue markup aggregating to Rs. 2,302.851 million (2011: Rs. 1,733.721)

20 Contingencies and commitments
Contingencies:

20.1 As reported in last year's annual report, the company is contingently liable for the liquidated damages claimed by WAPDA for the period from July 1, 2001 to February 05, 2010 to the tune of Rs. 2,117.281 million, out of which WAPDA has arbitrarily deducted an amount of Rs. 1,064.917 million mostly from company's capacity invoices. The company has disputed the liquidated damages and its arbitrary deduction by WAPDA from the company's capacity invoices.

20.2 WAPDA disputed payments of Rs. 384.032 million relating to indexation of non-escalable components of capacity purchase price (CPP) made to the company from March 14, 2004 to March 13, 2006 and has disputed further an amount of Rs. 791.366 million against the company's CPP invoices for the period from March 14, 2006 to June 30, 2012. The total disputed amount comes to Rs. 1,175.397 million against which WAPDA has arbitrarily withheld an amount of Rs. 827.184 million from the company's CPP invoices up till June 30, 2012.

20.3 These disputes were referred to a mutually agreed Expert, as per the Dispute Resolution Mechanism provided in the Power Purchase Agreement (the "PPA"), who gave his "recommendations" that fully support the company's position. Both Parties initialed a Settlement Agreement based on the Expert's recommendations, but WAPDA failed to formally sign the same. Therefore, neither the recommendations of the Expert nor the Settlement Agreement was implemented by WAPDA and therefore, WAPDA is in breach of the terms of the PPA. Under these circumstances, the company was not able to continue its operations and had to shut down its plant in the last week of December 2008 until February 05, 2010.

In January 2009, the company referred the matter to the International Court of Arbitration under the International Chamber of Commerce's (the "ICC") Rules as per the provisions of the PPA for the implementation of the Settlement Agreement or the Expert's recommendations. On June 29, 2010, the Arbitral Tribunal passed a partial award in favor of the company and directed WAPDA to deposit Rs. 7.693 million against the disputed amount of NEC component of CPP invoice of March 2006 in an escrow account as a security for the company's claim. During the year, the Company at the advice of its foreign legal advisors / QC has changed the stance to further strengthen its case, which, however, cost additional legal and professional charges. The final hearing of the disputes by ICC was held in Singapore during the period from April 30, 2012 to May 04, 2012. The decision of the Tribunal is expected by the end of October 2012. The management of the company is optimistic about the outcome of the arbitration.

- 20.4** After the shut-down of the complex from December 24, 2008 to February 5, 2010, both parties agreed to an arrangement to resume the operations from February 6, 2010. As per the new arrangement, WAPDA agreed to provide an advance to the company for purchase of lube and fuel. However, WAPDA started raising LD invoices for the periods during which the plant could not deliver energy to WAPDA's system mainly due to shortage of fuel supply for which funds were to be provided by WAPDA as per the new arrangement. Such claim of LDs amounted to Rs. 750.572 million up till June 30, 2012, which is disputed by the company. Once the Arbitration Award is announced which is expected to be in favor of the company, the LDs claim would also be accordingly resolved.
- 20.5** As per the terms of the new arrangement with WAPDA/PEPCO, the Plant was completely overhauled and was tested at full capacity of 120.5 MW in March 2011 in the presence of expert team members of WAPDA and JPGL. The plant was again tested at the capacity of 120.5 MW in August 2012. However, WAPDA accepted the generating capacity of only 107 MW and disputed the capacity of 13.5 MW before the Arbitration Tribunal. The company has contested WAPDA's acceptance of lower capacity and has reserved the right to claim 13.5 MW capacity after resolution of the disputes, which amounted to Rs. 107.826 million until June 30, 2012.
- 20.6** The company is also contingently liable for infrastructure fee/cess amounting to Rs. 4.396 million imposed by the Sindh Government under the provision of Sindh Finance (Amendment) Ordinance, 2001. The company had filed appeal that was pending before the Honourable Division Bench of the Sindh High Court; and the Bench passed an order staying the recovery of the impugned cess on furnishing of a bank guarantee (non-encashable till the pendency of the suit) by the company to the satisfaction of the Excise department. The Division Bench of the Honourable Sindh High Court had decided the case in favour of the company on September 17, 2008, so far as the above said levy is concerned. However for the subsequent period the case has been decided against the company for which the company has no liability at the moment. So in order to avoid the future complication, the company has filed an appeal before the Supreme Court of Pakistan challenging the part of judgment that was against the company, while the Sindh Government has also filed an appeal against this judgment challenging the decision made against it. These cross appeals were pending adjudication at the terminal date.

Commitments in respect of :

- 20.7** Contracts for capital expenditure at the terminal date were in the sum of Rs. 435.220 million (2011: Rs. nil).
- 20.8** Letters of Credit and purchase commitments for capital expenditure were in the sum of Rs. 110.622 million at the terminal date (2011: Rs. nil).
- 20.9** Letters of Credit and purchase commitments other than capital expenditure were in the sum of Rs. nil at the terminal date (2011: Rs. 18.576 million).

	Note	2012 Rupees '000'	2011 Rupees '000'
21 Sales - net			
Energy payments		4,886,396	4,801,104
Capacity payments		787,054	652,213
		5,673,450	5,453,317
Less: sales tax		674,092	729,168
		4,999,358	4,724,149
22 Cost of sales			
Fuel and oils consumed		4,555,511	4,506,018
Salaries, wages and benefits	22.1	18,036	16,555
Operating and maintenance fee		77,316	67,200
Stores and spares consumed		62,227	235,551
Electricity consumed in-house		2,508	2,843
Communication charges		2,490	2,427
Repair and maintenance		7,151	60,726
Power generation licensing expenditure		1,097	969
Insurance		23,855	21,432
Depreciation	5.3	299,892	256,615
		5,050,083	5,170,336

22.1 Salaries, wages and benefits include Rs. 2.766 million (2011: Rs. 2.223 million) for staff gratuity.

	Note	2012 Rupees '000'	2011 Rupees '000'
23 Administrative and general expenses			
Salaries and benefits	23.1	33,492	21,785
Plant security services		3,107	2,775
Staff transportation		2,215	1,855
Traveling and conveyance		7,726	4,408
Rent, rates and taxes		426	367
Postage and courier		134	104
Telephone, mobile and telex		1,366	1,193
Printing and stationery		1,006	782
Vehicle running and maintenance		1,147	758
Entertainment		1,152	939
Legal, professional and consultancy charges		167,647	72,903
Registrar services		186	276
Fee and subscription		490	405
Auditors' remuneration	23.2	2,574	2,473
Charity and donation		-	200
Advertisement		103	135
Insurance		114	74
Repair and maintenance		2,413	1,308
Newspaper and periodicals		5	5
Liquidated damages		597	565
Depreciation	5.3	1,576	1,403
		<u>227,476</u>	<u>114,713</u>

23.1 Salaries and benefits include Rs. 3.610 million (2011: Rs. 3.222 million) for staff gratuity. These also include payment made to Mr. Nadeem Babar (Ex. CEO of the company) as exgratia in full and final settlement of his compensation claim.

23.2 Auditors' remuneration

Audit fee	550	500
Review engagement	220	200
Tax and advisory services	1,727	1,703
Out of pocket expenses	77	70
	<u>2,574</u>	<u>2,473</u>

24 Other operating income

Income from financial assets

Profit on bank deposits	7,037	4,929
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Income from non-financial assets

Sale of sludge / scrap	16,450	16,333
Gain on disposal of property, plant and equipment	5.6	19
	<u>23,506</u>	<u>21,290</u>

25 Finance cost

Interest / mark up on:

Long term finances -

Syndicated and Morabaha finance agreement - II	25.1	528,206	524,264
Advance from WAPDA for purchase of spares		38,093	75,055

Short term borrowings -

Banking companies		-	1,350
Related parties		23,612	23,877

Advance from WAPDA for purchase of fuel

Bank fee and other charges		5,155	5,166
		<u>1,122,948</u>	<u>962,145</u>

25.1 It includes late payment damages @ 4% per annum per day on quarterly outstanding installment of mark up on these finances, which amounted to Rs. 65.482 million (2011: Rs.45.943 million).

	Note	2012 Rupees '000'	2011 Rupees '000'
26 Loss per share-basic and diluted			
Net loss for the year		<u>(1,380,106)</u>	<u>(1,503,480)</u>
Weighted average number of ordinary shares in thousands		<u>156,038</u>	<u>156,038</u>
Loss per share (basic & diluted)		<u>(8.84)</u>	<u>(9.64)</u>
27 Cash inflow after working capital changes			
Net loss before taxation		(1,377,643)	(1,501,755)
Adjustment for non-cash and other items:			
Depreciation		301,468	258,018
Gain on disposal of property, plant and equipment		(19)	(28)
Provision for gratuity		6,376	5,445
Finance cost		1,122,948	962,145
		<u>1,430,773</u>	<u>1,225,580</u>
Operating profit / (loss) before working capital changes		53,130	(276,175)
Working capital changes:			
(Increase) / decrease in current assets			
Stores and spares		(4,629)	(48,192)
Stock in trade		(66,596)	(56,624)
Trade debts		(180,429)	(132,515)
Advances, deposits, prepayments and other receivables		(77,849)	(28,640)
Tax refunds due from government		(9,497)	(101,477)
Increase / (decrease) in current liabilities			
Trade and other payables		1,277,490	1,018,633
		<u>938,490</u>	<u>651,185</u>
		<u>991,620</u>	<u>375,010</u>
28 Plant capacity and actual production			
Installed annual capacity in MWh		<u>1,055,580</u>	<u>1,055,580</u>
Actual energy delivered in MWh		<u>282,383</u>	<u>372,692</u>

Utilization of available capacity depends on the load demanded as well as advance payments made by WAPDA to PSO, for supply of furnace oil to the Company, as per arrangement finalised with the Authority (WAPDA) at the time of restart of plant on February 06, 2010.

29 Maturity of assets and liabilities

		2012					
		Up to one month	One month to three months	Three months to one year	One year to five years	Five years and above	Total
	Rupees in 000s					
Financial assets							
Long term deposits		-	-	-	-	100	100
Trade debts		429,964	237,062	1,444,226	-	-	2,111,252
Advances, deposits, prepayments and other receivables		229	-	380,126	-	-	380,355
Tax refunds due from the government		-	-	184,060	-	-	184,060
Cash and bank balances		163,819	-	-	-	-	163,819
		594,012	237,062	2,008,412	-	100	2,839,086
Financial liabilities							
Long term finances		1,250,211	141,468	306,630	1,509,733	2,008,484	5,216,526
Short term borrowings - Secured		-	-	168,200	-	-	168,200
Trade and other payables		17,240	331,060	3,306,937	-	-	3,654,937
Accrued markup		27,804	-	2,322,152	-	-	2,349,956
		1,295,255	472,528	6,103,919	1,509,733	2,008,484	11,389,619
		2011					
		Up to one month	One month to three months	Three months to one year	One year to five years	Five years and above	Total
	Rupees in 000s.....					
Financial assets							
Long term deposits		-	-	-	-	100	100
Trade debts		578,829	76,585	1,275,409	-	-	1,930,823
Advances, deposits, prepayments and other receivables		7,322	5,476	174,724	-	-	187,522
Tax refunds due from the government		-	37,791	137,928	-	-	175,719
Cash and bank balances		130,599	-	-	-	-	130,599
		716,750	119,852	1,588,061	-	100	2,424,763
Financial liabilities							
Long term finances		872,779	141,468	495,069	1,603,952	2,385,918	5,499,186
Short term borrowings - Secured		-	-	168,200	-	-	168,200
Trade and other payables		543,681	996,092	837,674	-	-	2,377,447
Accrued markup		16,009	1,429	1,844,975	-	-	1,862,413
		1,432,469	1,138,989	3,345,918	1,603,952	2,385,918	9,907,246

29.1 The effective profit rates for the monetary financial assets and liabilities are mentioned in respective notes of these financial statements.

30 Financial risk management

30.1 This note presents information about the company's exposure to each of the below mentioned risks, the company's objectives, policies and processes for measuring and managing risks, and the company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors of the company "the Board" has overall responsibility for the establishment and oversight of the company's risk management framework. The Board is responsible for developing and monitoring the company's risk management policies.

The company's risk management policies are established to identify and analyze the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The company's Audit Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company.

30.2 The company has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Mark up rate risk

(a) Credit risk and concentration of credit risk

The credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The maximum exposure to credit risk is presented by the carrying amount of each financial asset. All the trade receivables are due from WAPDA and are secured by sovereign guarantee of the Government of Pakistan. Out of the total financial assets of Rs. 2,839.086 (2011: Rs. 2,424.763) million, the financial assets which are subject to credit risk amounted to Rs. 2,839.151 (2011: Rs. 2,424.209) million.

Credit risk related to receivables

The management monitors and limits company's exposure to credit risk through monitoring of clients' credit exposure, reviews and conservative estimates of provisions for doubtful receivables, if any.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Financial assets	Note	2012 Rupees '000'	2011 Rupees '000'
Long term deposits	6	100	100
Trade debts	9	2,111,252	1,930,823
Advances, deposits, prepayments and other receivables	10	380,355	187,522
Tax refunds due from the Government	11	184,060	175,719
Bank balances	12	163,384	130,045
		2,839,151	2,424,209

Geographically all credit exposure is concentrated in Pakistan.

The maximum exposure to credit risk for trade debts at the reporting date by type of customer is from WAPDA

	2,111,252	1,930,823
--	------------------	------------------

Cash at bank Financial institution	Agency	Ratings			
		Long term	Short term		
Faysal Bank Limited	PACRA	AA	A1+	163,384	123,012
The Bank of Punjab	PACRA	AA-	A1+	-	7,033
				163,384	130,045

(b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash i.e. the availability of funding to an adequate amount of committed obligations of the business. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The maturity profile of the company's financial liabilities based on the contractual amounts is disclosed in note 29 to the financial statements.

(c) Mark up rate risk

Mark up rate risk is the risk that the value of financial instruments will fluctuate due to change in market mark up rates. The effective mark up rates as at June 30, 2012 for the company's financial instruments are given in the relevant notes except for trade debts, liquidated damages, deposits in PLS account for which effective rates are given as follows:

		<u>2012</u>	<u>2011</u>
<u>Financial assets</u>			
Trade debts-interest charged after 25 days of the invoice delivered to WAPDA.	Variable	REPO+2%	REPO+2%
Deposits in PLS accounts	Variable	As determined by the bank.	As determined by the bank.
<u>Financial liabilities</u>			
Liquidated damages-interest is payable after 25 days of invoice received from WAPDA	Variable	REPO+2%	REPO+2%
Short term borrowings	Variable	6 months KIBOR plus 2%	6 months KIBOR plus 2%
Long term finances - Syndicated and morabaha	Variable	three months KIBOR plus 0.25%	three months KIBOR plus 0.25%
WAPDA Spares / Fuel advance	Variable	REPO+4%	REPO+4%

30.3 Foreign exchange risk management

Foreign exchange risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, there are no such receivables or payables in foreign currency at the terminal date (2011: Rs. nil).

30.4 Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in profit rates at the reporting date would not affect profit or loss thereof.

30.5 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. Fair value is determined on the basis of objective evidence at each reporting date.

31 Capital Management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the company's business. The Board of Directors monitors the return on capital employed, which the company defines as operating income divided by total capital employed.

The Company's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- b) to provide an adequate return to shareholders

The company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may, issue new shares, or sell assets to reduce debt. The company generally monitors capital on the basis of the debt-equity ratio calculated as a ratio of total debt to net shareholders equity in the normal circumstances.

32 Related party disclosures

A. Related parties with whom company had transactions

The related parties comprise fellow subsidiaries, associated undertakings, key management personnel and post retirement benefit plan. The company in the normal course of business carried out certain transactions with related parties. The related parties with whom the company had executed transactions during the year are comprised of :

Semi Autonomous Bodies

National Logistics Cell

Development Financial Institutions (DFIs)

Pak Oman Investment Company Limited

Saudi Pak Industrial and Agricultural Investment Company Limited

Others

Key management personnel

Post retirement benefit plan

B. Disclosure of balances between company and related parties

Amounts due to related parties / associated undertakings at the terminal date are given below:

Name of the party	Nature of balance	2012	2011
		Rupees '000'	Rupees '000'
National Logistics Cell	Short term borrowings - Unsecured	68,200	68,200
Pak Oman Investment Company Limited	Short term borrowings - Secured	68,200	68,200
Saudi Pak Industrial and Agricultural Investment Company Limited	Short term borrowings - Secured	31,800	31,800
Post retirement benefit plan	Gratuity payable	3,679	10,716
		171,879	178,916
National Logistics Cell	Accrued mark up on outstanding balance	37,804	28,230
Pak Oman Investment Company Limited	Accrued mark up on outstanding balance	32,748	23,174
Saudi Pak Industrial and Agricultural Investment Company Limited	Accrued mark up on outstanding balance	15,594	11,130
		86,146	62,534

C. Disclosure of transactions between company and related parties

The related parties with whom the company had made transactions during the year are comprised of:

Name of the party	Nature of transaction	2012	2011
National Logistics Cell	Mark up on outstanding balance	9,574	9,877
	Re-payment against principal balance	-	6,800
Pak Oman Investment Company Limited	Mark up on outstanding balance	9,574	9,548
Saudi Pak Industrial and Agricultural Investment Company Limited	Mark up on outstanding balance	4,464	4,452
Post retirement benefit plan	Expense charged	6,376	5,445
		29,988	36,122

33. Remuneration of chief executive, directors and executives

The aggregated amounts charged in the accounts for the year for remuneration, including benefits to chief executive, directors and executives of the company are as follows:

	Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	Rupees in '000					
Managerial Remuneration	10,610	9,824	-	-	14,524	12,887
Perquisites and benefits						
Medical	119	120	-	-	257	206
Gratuity	1,212	1,221	-	-	1,957	1,792
Other benefits	436	404	-	-	489	221
	<u>12,377</u>	<u>11,569</u>	<u>-</u>	<u>-</u>	<u>17,227</u>	<u>15,106</u>
Number of persons	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>6</u>

33.1 Board meeting fee was not paid to any director.

33.2 Company maintained vehicle and mobile telephone costing Rs. 0.877 million is provided to the chief executive of the company only.

33.3 There was no change in the terms and conditions of appointment of the Chief Executive Officer, except normal annual increment in the salary as approved by the Board of Directors.

34. Environmental risk exposure

The company is fully compliant with the environmental regulations.

35. Waiver from application of IFRIC - 4 "Determining Whether an Arrangement Contains a Lease"

The Securities and Exchange Commission of Pakistan (SECP) granted waiver from the application of International Financial Reporting Interpretation Committee (IFRIC) - 4 "Determining Whether an Arrangement Contains a Lease" to all companies including Power Sector Companies. However, the SECP made it mandatory to disclose the impact on the results of the application of IFRIC - 4.

Under IFRIC - 4, the consideration required to be made by lessees (WAPDA and NTDC) for the right to use the asset is to be accounted for as finance lease under IAS - 17 "Leases". If the Company were to follow IFRIC - 4 and IAS - 17, the effect on the financial statements would be as follows:

	2012 Rupees '000'	2011 Rupees '000'
Decrease in accumulated loss at the beginning of the year	3,098,276	2,748,199
Decrease in loss for the year	261,982	350,077
Decrease in accumulated loss at the end of the year	<u>3,360,259</u>	<u>3,098,276</u>

36. Date of Authorization

These financial statements were authorized for issue on October 31, 2012 in accordance with the resolution of the Board of Directors.

37. General

37.1 Correspondence figures have been rearranged and reclassified, wherever necessary for the purposes of better comparison and presentation. However no major reclassification were made in the corresponding figures.

37.2 Figures in these financial statements have been rounded off to the nearest of thousands rupees, unless otherwise stated.

Lahore: October 31, 2012

Chief Executive

Chairman / Director

Japan Power Generation Limited Pattern of Shareholding as on June 30, 2012

Number of Shareholders	Shareholding		Total Number of Shares Held	Percentage of Total Capital
	From	To		
99	1	100	2,715	0.00
419	101	500	195,174	0.13
444	501	1000	438,010	0.28
922	1001	5000	2,930,457	1.88
346	5001	10000	2,985,318	1.91
129	10001	15000	1,724,208	1.10
100	15001	20000	1,890,182	1.21
74	20001	25000	1,777,574	1.14
53	25001	30000	1,519,539	0.97
17	30001	35000	568,758	0.36
28	35001	40000	1,086,710	0.70
16	40001	45000	702,252	0.45
51	45001	50000	2,523,751	1.62
13	50001	55000	682,531	0.44
10	55001	60000	586,180	0.38
5	60001	65000	315,703	0.20
5	65001	70000	350,000	0.22
11	70001	75000	816,000	0.52
10	75001	80000	789,156	0.51
6	80001	85000	502,098	0.32
2	85001	90000	180,000	0.12
3	90001	95000	284,150	0.18
31	95001	100000	3,094,000	1.98
4	100001	105000	416,800	0.27
5	105001	110000	537,331	0.34
2	110001	115000	223,062	0.14
7	115001	120000	834,500	0.53
3	120001	125000	367,757	0.24
2	125001	130000	259,209	0.17
4	130001	135000	535,012	0.34
4	135001	140000	560,000	0.36
1	140001	145000	142,500	0.09
5	145001	150000	750,000	0.48
1	150001	155000	150,500	0.10
2	155001	160000	314,327	0.20
1	160001	165000	160,500	0.10
2	165001	170000	340,000	0.22
1	170001	175000	171,000	0.11
1	175001	180000	180,000	0.12
1	180001	185000	180,160	0.12
1	190001	195000	194,000	0.12
8	195001	200000	1,596,447	1.02

Number of ShareHolders	Shareholding		Total Number of Shares Held	Percentage of Total Capital
	From	To		
1	215001	220000	219,132	0.14
1	225001	230000	230,000	0.15
2	230001	235000	468,217	0.30
2	235001	240000	476,562	0.31
2	250001	255000	502,607	0.32
1	255001	260000	260,000	0.17
1	260001	265000	260,500	0.17
1	265001	270000	266,500	0.17
1	270001	275000	270,500	0.17
1	275001	280000	275,500	0.18
1	280001	285000	285,000	0.18
2	295001	300000	600,000	0.38
1	320001	325000	323,001	0.21
1	345001	350000	350,000	0.22
1	350001	355000	355,000	0.23
1	360001	365000	363,000	0.23
1	445001	450000	450,000	0.29
1	485001	490000	489,000	0.31
1	490001	495000	493,000	0.32
7	495001	500000	3,500,000	2.24
1	545001	550000	550,000	0.35
3	595001	600000	1,800,000	1.15
1	605001	610000	610,000	0.39
1	615001	620000	620,000	0.40
1	655001	660000	658,000	0.42
1	690001	695000	695,000	0.45
1	720001	725000	725,000	0.46
1	895001	900000	900,000	0.58
1	995001	1000000	1,000,000	0.64
1	1095001	1100000	1,100,000	0.70
1	1195001	1200000	1,200,000	0.77
1	1205001	1210000	1,208,500	0.77
1	1295001	1300000	1,300,000	0.83
1	1545001	1550000	1,550,000	0.99
1	3295001	3300000	3,300,000	2.11
2	3395001	3400000	6,800,000	4.36
1	3735001	3740000	3,738,814	2.40
1	3805001	3810000	3,806,236	2.44
1	3995001	4000000	4,000,000	2.56
1	4230001	4235000	4,231,872	2.71
1	7055001	7060000	7,059,238	4.52
1	7765001	7770000	7,765,963	4.98
1	8940001	8945000	8,940,811	5.73
1	17620001	17625000	17,622,878	11.29
1	30560001	30565000	30,560,189	19.59
2,907	<-----Total----->		156,037,591	100.00

**CATEGORIES OF SHAREHOLDERS
(Section 236(1) and 364)
AS ON JUNE 30, 2012**

CATEGORIES OF SHAREHOLDERS	NO. OF SHAREHOLDERS	TOTAL SHARES HELD	PERCENTAGE
A) Directors/Chief Executive Officer and their spouse and minor Children			
Mr. Ayaz Dawwod	1	500	0.0003
B) Sponsoring Companies, Associated Companies, Undertakings and related parties			
Pak Oman Investment Company Limited	1	30,560,189	19.5851
National Logistics Cell	2	26,563,689	17.0239
Saudi Pak Industrial & Agricultural Investment Company Limited.-CAD	2	11,572,199	7.4163
Patagonia Corporation (Pvt.) Ltd.	1	4,231,872	2.7121
(The directors are nominees of Institutions)			
TOTAL: -	6	72,927,949	46.7374
C) NIT and ICP	0	0	-
D) Banks, Development Finance Institutions & Non- Banking Finance Companies, Insurance Companies, Takaful, Madarabas and Pension Funds,	11	428,099	0.2744
E) Insurance Companies			
F) Joint Stock Companies	62	6,306,557	4.0417
G) Modarabas and Mutual Funds	2	7,064,238	4.5273
H) Others	27	11,750,974	7.5309
I) General Public	2,799	57,559,274	36.8881
TOTAL: -	2,907	156,037,591	100.0000
Shareholding Detail of 10% or more:			
Pak Oman Investment Company Limited	1	30,560,189	19.5851
National Logistic Cell	2	26,563,689	17.0239
		57,123,878	36.6090

FORM OF PROXY

Folio No:

Shares held

I/We _____
_____ being s shareholder(s) of
JAPAN POWER GENERATION LIMITED and entitled to vote hereby
appoint _____ of my/our proxy to attend and
vote for me/us on my/our behalf at the 18th Annual General Meeting of the Company to be held at
registered office/plant located at Jia Bagga, Off Raiwind Road, Lahore on Friday, 30th November
2012 at 9:00AM. and every adjournment thereof.

As witness my/our hand this _____ day of _____ 2012.

Signature

Revenue
Stamp

Note:

Signature must be in accordance with the specimen signature registered with the company. This Form of Proxy, completed, must be deposited at the company registered office at Jia Bagga, Off Raiwind Road, District Lahore at least 48 hours before the time for holding the meeting.