

**INVESTORS ARE STRONGLY ADVISED IN THEIR OWN INTEREST TO CAREFULLY READ  
THE CONTENTS OF THE OFFER FOR SALE DOCUMENT, ESPECIALLY THE RISK FACTORS  
HIGHLIGHTED IN PARA 4.12, BEFORE MAKING ANY INVESTMENT DECISION**

**OFFER FOR SALE OF 88,025,000 SHARES  
OF**



**KOT ADDU POWER COMPANY LIMITED**

**At an Offer Price of PKR 30/- per share  
(Including Premium of PKR 20/- per share)**

**By**

**Privatisation Commission, Government of Pakistan  
On behalf of  
Pakistan Water and Power Development Authority**

**Public Subscription  
From xxx, 2005 to xxx, 2005**

**Date of Publication of this Offer for Sale Document is xxx, 2005**

**THIS IS NOT A PROSPECTUS BY KOT ADDU POWER COMPANY LIMITED (THE COMPANY)  
BUT AN OFFER FOR SALE BY THE PRIVATISATION COMMISSION, GOVERNMENT OF  
PAKISTAN ON BEHALF OF WAPDA (THE OFFERER) OUT OF WAPDA'S SHAREHOLDING IN  
THE COMPANY**

**Lead Manager to the Offer**

**Global**

**Global Securities Pakistan Limited**

## **GLOSSARY OF TECHNICAL TERMS AND ABBREVIATIONS**

CDA	Central Depository Act, 1997	
CDC	The Central Depository Company of Pakistan Limited	
CDS	Central Depository System	
CECB	Central Electricity Generating Board, UK	<i>Offer for Sale of Shares</i>
Company	Kot Addu Power Company Limited	
CPP	Capacity Purchase Price, means an element of tariff payable by WAPDA to KAPCO as defined in the "Power Purchase Agreement"	
DISCOs	Distribution Companies	
EPP	Energy Purchase Price, means an element of tariff payable by WAPDA to KAPCO as defined in the "Power Purchase Agreement"	
Escalable	Means indexed to the US Consumer Price Index and Rupee-US Dollar Exchange Rate	
FO	Furnace Oil	
GENCOs	Generation Companies	
GSA	Gas Supply Agreement	
GW	Gigawatt, means a unit of power equal to 1,000 MW	
GWH	Giga Watt Hours, means a unit of energy equal to 1,000 MWH	
GOP	Government of Pakistan	
HRSG	Heat Recovery Steam Generator	
HSD	High Speed Diesel	
IDC	Initial Dependable Capacity	
IPPs	Independent Power Producers	
IPR	International Power plc	
ISE	Islamabad Stock Exchange (Guarantee) Limited	
KAPCO	Kot Addu Power Company Limited	
KSE	Karachi Stock Exchange (Guarantee) Limited	
KESC	Karachi Electric Supply Corporation Limited	
KW	Kilowatt, means a unit of power equal to 1,000 watt	
KWH	Kilowatt Hours, means a unit of energy equal to 1,000 watt hours	
LM	Lead Manager	
Loan Note Liability	Liability of KAPCO with respect to the Note Agreement signed with WAPDA as part of consideration for the purchase of Kot Addu Gas Turbine Power Station on June 27, 1996 with principal of Rs. 27,010 million and amended on April 20, 2002	
LSE	Lahore Stock Exchange (Guarantee) Limited	
LSFO	Light Sulphur Furnace Oil	
MW	Megawatt, means a unit of power equal to 1,000 KW	
MWH	Megawatt Hours, means a unit of energy equal to 1,000 KWH	
mmcf	Million cubic feet of gas per day, means a unit of gas volume per unit of time	
NEPRA	The National Electric Power Regulatory Authority	
NIC	National Identity Card	
Non-escalable	Means fixed in Rupee terms and not indexed to US Consumer Price Index and Rupee-US Dollar Exchange Rate	
NPKAL	National Power (Kot Addu) Limited	
NTDC	National Transmission & Dispatch Company Limited	
OEM	Original Equipment Manufacturer	
Offer	Offer for Sale of 88,025,000 ordinary shares of the Company by the Privatisation Commission, Government of Pakistan on behalf of WAPDA (the "Offerer") out of WAPDA's shareholding in the Company through the Stock Exchanges	
Offerer	Privatisation Commission, Government of Pakistan on behalf of WAPDA	
OFSD	Offer for Sale Document	
Oman	The Sultanate of Oman	
OSA	Oil Supply Agreement	
Ordinance	The Companies Ordinance, 1984	
PC	The Privatisation Commission	
PEPCO	The Pakistan Electric Power Company Limited	
PPA	Power Purchase Agreement dated June 27, 1996 and as amended by the First Amendment dated October 3, 2000 and the Second Amendment dated April 20, 2002	
PPIB	Private Power Infrastructure Board	
PSO	Pakistan State Oil Company Limited	
SECP	Securities & Exchange Commission of Pakistan	
SCRA	Special Convertible Rupee Accounts	
SNGPL	Sui Northern Gas Pipelines Limited	
T & D	Transmission & Distribution	
Transferred employees of KAPCO	Defined under the Officers Agreement dated 27 June 1996 and the Staff Agreement dated June 27, 1996 as all regular employees of WAPDA who were transferred to the Company on June 27, 1996 and who are still regular employees	3



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## **PART 1            APPROVAL AND CLEARANCE**

### **1.1 Approval of the Securities & Exchange Commission of Pakistan ("SECP")**

Approval of the SECP has been obtained for the issue, circulation and publication of this Offer for Sale Document ("OFSD") as required under Section 62, read with Section 57 and Section 61 of the Companies Ordinance, 1984 (the "Ordinance").

**It must be distinctly understood that in giving this approval, the SECP does not take any responsibility for the financial soundness of any scheme stated herein or for the correctness of any of the statements made or opinions expressed with regard to them.**

**The SECP has not evaluated the quality of the offer, including the justification of the premium, and its approval of the offer should not be construed as any commitment in respect of the same. The public/investors should conduct their own independent investigation and analysis regarding the quality of the offer before subscribing.**

### **1.2 Clearance of the Offer for Sale Document by Stock Exchanges**

The OFSD has been cleared by the Karachi Stock Exchange (Guarantee) Limited ("KSE"), Lahore Stock Exchange (Guarantee) Limited ("LSE") and Islamabad Stock Exchange (Guarantee) Limited ("ISE"), (collectively referred to as the "Stock Exchanges"), in accordance with requirements under their respective Listing Regulations. **While clearing the OFSD, the Stock Exchanges neither guarantee the correctness of the contents of the OFSD nor the viability of Kot Addu Power Company Limited ("KAPCO" or the "Company").**

**The Stock Exchanges have not evaluated the quality of the offer, including the justification of the premium, and their clearance of the OFSD should not be construed as any commitment in respect of the same. The public/investors should conduct their own independent investigation and analysis regarding the quality of the offer before subscribing.**

### **1.3 Filing of Offer for Sale Document and other documents with the Registrar of Companies**

On behalf of the Offerer, the Company has filed with the Registrar of Companies, Companies Registration Office ("CRO"), Islamabad, as required under Sections 57(3) & (4) of the Ordinance, a copy of this OFSD signed on behalf of the Offerer, together with the following documents attached thereto:

- a) A letter dated October 27, 2004 from the auditors of the Company, A. F Ferguson & Co, Chartered Accountants, consenting to the publication of their name in the OFSD, as required under Section 55 of the Ordinance, which contains in Part 5 hereof certain statements and reports issued by them as experts (which consent has not been withdrawn).
- b) Copies of material contracts and agreements mentioned in Part 7 of this OFSD as required under Section 57 (4) of the Ordinance

- c) Written confirmations of the Auditor to the Company, Legal Advisor of the Company and Bankers to the Offer mentioned in this OFSD consenting to act in their respective capacities, as required under Section 57(5) of the Ordinance.
- d) Consent of Directors and Chief Executive of the Company who have consented to their respective appointments being made and having been named or described as such Directors and Chief Executive in this OFSD, as required under section 57(3) of the Ordinance read with sub-clause (1) of clause (4) of Section 1, of Part 1 to the Second Schedule of the Ordinance.

#### **1.4 Listing on the Stock Exchanges**

Applications have been made to KSE, LSE and ISE for permission to deal in and for quotation of shares of the Company.

In accordance with the “Regulations for Future Trading in Provisionally Listed Companies” of the KSE, LSE and ISE, the Company shall stand listed provisionally for trading and for the quotation of its shares on the Stock Exchanges from the date of publication of the OFSD or a date as may be specified by the Stock Exchanges.

If for any reason, the application(s) for formal listing is/are not accepted by any of the Stock Exchanges (KSE, LSE and ISE), the Offerer undertakes that a notice to that effect will be immediately published in the press, and thereafter to refund application money to the applicants in pursuance of this OFSD, as required under the provisions of Section 72 of the Ordinance.

## PART 2 SHARE CAPITAL AND RELATED MATTERS

### 2.1 Share Capital

No. of Shares		Rupees in Thousand		
		Face Value	Premium	Total
<b>AUTHORIZED</b>				
3,600,000,000	Ordinary shares of Rs. 10/= each	36,000,000	-	36,000,000
<b>ISSUED, SUBSCRIBED AND PAID-UP</b>				
<b>Issued for Cash</b>				
253,000	Ordinary shares of Rs. 10/= each	2,530	-	2,530
<b>Issued for consideration other than Cash<sup>1</sup></b>				
880,000,228	Ordinary shares of Rs. 10/= each	8,800,002	-	8,800,002
880,253,228 <sup>2</sup>	<b>TOTAL</b>	8,802,532		8,802,532
<b>Ordinary Share Capital</b>				
The existing issued, subscribed and paid-up capital of the Company is held by:				
563,362,062	Water and Power Development Authority (WAPDA)	5,633,621	-	5,633,621
316,891,159	National Power (Kot Addu) Limited	3,168,912	-	3,168,912
7	Directors of the Company	-	-	-
880,253,228	<b>TOTAL</b>	8,802,532	-	8,802,532
88,025,000	Present Offer to the General Public including transferred employees of KAPCO, by the Privatisation Commission, Government of Pakistan on behalf of WAPDA at Rs.30/= per share including premium of Rs.20/= per share *	880,250	1,760,500	2,640,750
8,802,500	Transferred employees of KAPCO as defined under the Officers Agreement and Staff Agreement	88,025	176,050	264,075
61,617,500	Resident Pakistani Investors	616,175	1,232,350	1,848,525
17,605,000	Non-Resident Pakistani Investors	176,050	352,100	528,150

\* This is an “Offer for Sale” of 88,025,000 ordinary shares of the Company by the Privatisation Commission, Government of Pakistan on behalf of WAPDA (the “Offerer”) out of WAPDA’s shareholding in the Company through the Stock Exchanges and in case of over subscription, the

<sup>1</sup> WAPDA transferred its Kot Addu Gas Turbine Power Station comprising of 15 turbines and associated facilities to KAPCO in consideration for 880,000,228 shares of KAPCO. GOP subsequently privatized KAPCO through international competitive bidding for 26% shares of KAPCO which were held by WAPDA. National Power plc, now International Power plc, was the successful bidder and these shares were transferred to its wholly owned subsidiary, National Power Kot Addu Limited (“NPKAL”). Later NPKAL acquired further 10% shareholding in KAPCO. (for details please refer to part 4.3)

<sup>2</sup> As on 30<sup>th</sup> June 2004



Offerer shall exercise the green shoe option and offer upto 70,420,000 additional ordinary shares out of WAPDA's shareholding in the Company. Out of the green shoe option the transferred employees of KAPCO will be entitled to a maximum of 8,802,500 shares.

In terms of WAPDA's contractual obligations under the Officers Agreement dated 27 June 1996 and the Staff Agreement dated June 27, 1996, all regular employees of WAPDA who were transferred to the Company on June 27, 1996 and who are still regular employees of KAPCO are entitled to 10% of the Offer (8,802,500 shares) and in the event that the green shoe option is exercised by the Offerer, then the transferred employees of KAPCO will also be entitled to an additional 10% shares of the green shoe and shares offered to WAPDA employees (8,802,500 shares). If the employees do not exercise their option to purchase 10% shares of the Offer and additional 10% shares of the green shoe and shares offered to WAPDA employees, then such shares shall be available to the General Public.

As per the Listing Regulations of the Stock Exchanges, allocation to employees of a company shall not exceed 5% of the public offer. A relaxation from the requirement of the said regulation has been obtained by the Company from the Stock Exchanges vide letters no. KSE/GEN-10222 dated December 30, 2004, LSE/(115)14107 dated December 31, 2004 and ISE-DCA/2005/147 dated January 18, 2005. A relaxation from the requirement of the said regulation has also been obtained from the SECP vide letter no. SMD/CO.62/4/2004 dated January 31, 2005.

The allocation of shares to non-resident Pakistani investors shall not exceed 20% of the Offer. In case of over/under subscription of shares by resident and/or non-resident Pakistani investors, the investors of oversubscribed category will be allocated the shares of undersubscribed category, provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.

Prior to the Offer, WAPDA has set aside 17,605,000 shares for WAPDA employees. The method of allocation of these shares is currently being worked out between WAPDA and the PC however, each WAPDA employee shall not be eligible for more than 500 shares.

## Opening and Closing of Subscription List

**THE SUBSCRIPTION LIST WILL OPEN INSHA-ALLAH FOR [xxxxx (XXX) DAYS] AT THE COMMENCEMENT OF BANKING HOURS ON FEBRUARY XX, 2005 AND WILL CLOSE ON FEBRUARY XX, 2005 AT THE CLOSE OF BANKING HOURS.**

## 2.2 Investors Eligibility

The following categories of investors are eligible to subscribe for the shares offered to the general public:

**a) Pakistani investor** includes:

- i. Pakistani citizen resident in Pakistan;
- ii. Companies, bodies corporate or other legal entities incorporated or established in Pakistan (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
- iii. Provident/pension/gratuity funds/trusts, (subject to the terms of their respective Trust Deeds and existing regulations); and
- iv. Branches in Pakistan of companies and bodies corporate incorporated outside Pakistan.

**b) Non-resident Pakistani investor** includes:

- i. Pakistani citizen resident outside Pakistan; and
- ii. Persons holding two nationalities including Pakistani nationality.

## 2.3 Facilities available to Non-Resident Pakistani Investors

There is a separate application form and application instructions (see Part 9) for non-resident Pakistani investors who may subscribe through the following modes:

- i. **Subject to relevant approvals from the regulatory authorities in Kingdom of Bahrain ("Bahrain"), Qatar, Sultanate of Oman ("Oman") and United Arab Emirates ("UAE"), non-resident Pakistani investors resident in Bahrain<sup>3</sup>, Qatar<sup>4</sup>, Oman<sup>5</sup>, and the UAE<sup>6</sup> may subscribe through overseas Bankers to the Offer in these countries. For information of the non-resident Pakistanis, the list of authorized banks would be published after publication of the OFSD and before closing of the subscription in the newspapers of each of these countries and would also be available on the websites of the Lead Manager and the Offerer.**
- ii. Non-resident Pakistani investors may subscribe using their Special Convertible Rupee Accounts ("SCRA"), as set out under Chapter 20 of the State Bank of Pakistan's Foreign Exchange Manual.

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<sup>3</sup> Subject to the approval of the Bahrain Monetary Authority

<sup>4</sup> Subject to the approval of the Qatar Central Bank

<sup>5</sup> Subject to the approval of the Oman Central Bank

<sup>6</sup> Subject to the approval of the UAE Central Bank

- iii. The allocation of shares to non-resident Pakistani investors shall not exceed 20% of the Offer

#### **2.4 Offer Price, Minimum Amount of Application and Basis of Allocation of Shares**

- a) This offer is being made at a price of Rs.30/- per ordinary share of Rs.10/- each inclusive of premium of Rs.20/- per share.
- b) **Applications must be made for subscription of 500 shares only and the amount payable with each application will be Rs. 15,000/- (inclusive of transfer fee) both in case of physical transfer and transfer under book-entry system.**
- c) **Applications for shares below or above 500 shares shall not be entertained.**
- d) **FICTITIOUS AND MULTIPLE APPLICATIONS (MORE THAN ONE APPLICATION BY A SINGLE APPLICANT) ARE PROHIBITED AND SUCH APPLICANTS' MONEY SHALL BE LIABLE TO CONFISCATION UNDER SECTION 18-A OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969.**
- e) 20% of the Offer is reserved for non-resident Pakistani investors, who may apply for shares through applications, which shall be for 500 shares only.
- f) If the shares to be offered to the general public are sufficient for the purpose to accommodate all the applications, then all applications shall be accommodated.
- g) In case of over/under subscription of shares by resident and/or non-resident Pakistani investors, the investors of oversubscribed category will be allocated the shares of undersubscribed category, provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.
- h) In case of under subscription of shares offered to the transferred employees of KAPCO, the investors of oversubscribed category i.e., either resident and/or non-resident Pakistani investors will be allocated the remaining shares. First preference of allocation from the undersubscribed employee category will be given to the resident Pakistani investors. Provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.
- i) If the Offer is oversubscribed, the shares shall be allocated by conducting computer balloting in the presence of representatives of the Stock Exchanges
- j) Allocation of shares shall be subject to scrutiny of applications for subscription.
- k) Applications, which do not meet with the aforementioned requirements, or applications which are incomplete, will be rejected.
- l) This is an "Offer for Sale" of 88,025,000 ordinary shares of the Company by the Offerer out of WAPDA's shareholding in the Company through the Stock Exchanges. In case of over

subscription, the Offerer shall exercise the green shoe option and offer upto 70,420,000 additional ordinary shares out of WAPDA's shareholding in the Company.

## **2.5 Refund of Subscription Money to Unsuccessful Applicants**

On behalf of the Offerer, the Company shall take a decision within ten (10) days of the closure of the subscription list as to which applications have been accepted or are successful and refund the money in case of unaccepted or unsuccessful applications within ten (10) days of the date of such decision, as required under the provisions of Section 71 of the Ordinance.

As per sub-section (2) of Section 71 of the Ordinance, if the refund as required by sub-section (1) of Section 71 of the Ordinance is not made within the time specified therein, the Offerer shall be liable to repay the money with surcharge at the rate of one and a half percent, for every month or part thereof from the expiration of the 15<sup>th</sup> day and, in addition, to a fine not exceeding Rs.5,000/- and in the case of continuing offence to a further fine not exceeding Rs.100/- for every day after the said 15<sup>th</sup> day on which the default continues. Provided that the Offerer shall not be liable if it proves that the default in making the refund was not due to any misconduct or negligence on its part.

## **2.6 Issue & Dispatch of Share Certificates**

On behalf of the Offerer, the Company will dispatch physical share certificates to the successful transferees or credit the shares to the respective CDS account within 30 days from the date of close of subscription list, as per Listing Regulations of the Stock Exchanges.

Shares will be transferred either in scripless form in the CDS of Central Depository Company of Pakistan Limited ("CDC") or in the shape of physical scrips on the basis of option exercised by the successful applicants. Shares in physical scrips shall be dispatched to the Bankers to the Offer within thirty (30) days from the date of close of subscription list, whereas scripless shares shall be directly credited through book-entry into the respective CDS accounts of the transferees maintained with CDC.

The applicants, who opt for receipt of shares in scripless form in the CDS, should fill in the relevant columns of the Application Form. In order to exercise the scripless option, the applicant should also have a CDS account on the subscription date.

If the Company makes default in complying with the requirements of Listing Regulations of the Stock Exchanges, it shall pay to the Stock Exchanges a penalty of Rs.500 per day during which the default continues. The Stock Exchanges may also notify the fact of such default and the name of the Company by notice and also by publication in their Ready Board Quotation.

## **2.7 Transfer of Shares**

### **2.7.1 Physical Scrips**

The Directors of the Company shall not refuse to transfer any fully paid shares unless the transfer deed is for any reason defective or invalid under the provisions of Section 77 of the Ordinance, provided that the Company shall within 30 days from the date on which the instrument of transfer

was lodged with it, notify the defect or invalidity to the transferee who shall, after the removal of such defect or invalidity be entitled to re-lodge the transfer deed with the Company.

### **2.7.2 Under Book-Entry System**

The shares maintained within the CDS in the book-entry form shall be transferred in accordance with the provisions of the Central Depositories Act, 1997 ("CDA") and the CDC Regulations.

## **2.8 Shares Issued During Preceding Years**

<b>Issued to</b>	<b>Date of Issue</b>	<b>No. of Shares Issued</b>	<b>Consideration</b>
WAPDA	27 <sup>th</sup> June 1996	880,000,228	WAPDA Kot Addu Gas Turbine Power Station transferred to KAPCO in consideration for these shares

## **2.9 Principal purpose of the Offer for Sale**

The purpose of this offer is to invite the General Public to subscribe to the Company's shares for broadening the ownership base, further strengthening the capital market and passing the benefits of privatisation to the common man.

### **2.10 Interest of Shareholders**

None of the holders of the issued shares of the Company have any special or other interest in the property or profits of the Company other than as holders of the ordinary shares in the capital of the Company.

### **2.11 Dividend Policy**

The rights in respect of capital and dividends attached to each ordinary share would be the same. The Company in a general meeting may declare dividends but no dividends shall exceed the amount recommended by the Directors. Dividend, if declared in the general meeting, shall be paid according to the terms of the provisions of the Ordinance.

The Directors may from time to time pay to the members such interim dividends as appear to the Directors to be justified by the profits of the Company. No dividends shall be paid otherwise than out of the profits of the Company for the year or any other undistributed profits. No unpaid dividend shall bear interest or mark-up against the Company.

### **2.12 Eligibility for Dividend**

The shares of the Company comprising the present Offer shall rank pari passu with the existing ordinary shares in all matters including the right to such bonus or right issue and dividend, as may be declared by the Company subsequent to the date of this OFSD.

### **2.13 Deduction of Zakat**

Income distribution will be subject to the deduction of Zakat at source pursuant to such of the provisions of the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) as may be applicable from time to time.

### **2.14 Withholding Tax on Dividend**

Dividend distribution to shareholders other than public companies and insurance companies will be subject to withholding tax @ 7.5% specified in Clause 17 of Part 2 of the Second Schedule to the Income Tax Ordinance, 2001 and in terms of the provisions of section 5 & 8 of the said Ordinance, such deductions at source from dividend shall be deemed to be final discharge of tax liability in respect of such dividend. Dividends received by Public Companies and Insurance Companies shall be subject to withholding tax at the rate of 5% of dividends specified in Part 1, Division III of the First Schedule to the said Ordinance.

### **2.15 Capital Value Tax on Purchase and Withholding Tax on Sale of Shares**

The Stock Exchanges have issued a notice regarding the applicability of new taxes through the Finance Act 2004. Following charges will be in effect from July 1, 2004:

- a) 0.01% Capital Value Tax will be charged on purchase of all shares, modaraba certificates, instrument of redeemable capital as defined in the Ordinance
- b) 0.005% Withholding Tax will be charged on sales of all shares, modaraba certificates, instrument of redeemable capital as defined in the Ordinance

### **2.16 Exemption from Capital Gains**

Capital gains derived from the sale of listed securities are not liable to income tax at present pursuant to Clause (110) of Part I of Second Schedule of the Income Tax Ordinance, 2001. This exemption is currently available up to tax year ending 30 June 2007.

### **2.17 Taxation**

**Income of the Company derived from the power station is exempt from income tax under clause 138 of the Part-I of the Second Schedule to the Income Tax Ordinance, 2001. Income derived from power station is exempt from tax upto June 27, 2006.**

**The Company is also exempt from minimum tax under clause 13(A) of Part IV of the Second Schedule of the Income Tax Ordinance, 2001 for the period it continues to be entitled to exemption under clause 138 of the Part I of the Second Schedule i.e. upto June 27, 2006. However, full provision is made in the profit and loss account on income from sources not covered under the above clauses at current rates of taxation after taking into account tax credits and rebates available, if any.**

### **2.18 Deferred Taxation**

The Company's operational income is exempt from income tax for a period of 10 years from 28<sup>th</sup> June 1996 to 27<sup>th</sup> June 2006. There is no need to provide for timing differences in the Company's accounts as there are no reversals of timing differences. However, after expiry of tax holiday the Company will account for taxable temporary differences using the balance sheet liability method.

## **2.19 Justification of Premium**

The Cabinet Committee on Privatisation has, inter alia, decided that the offer price for the divestment of 88,025,000 ordinary shares of the Company by the Offerer out of WAPDA's shareholding in the Company being offered to the general public with a green shoe option of additional 70,420,000 ordinary shares, on a best effort basis, be fixed at PKR 30/-. The premium of PKR 20/- per share on PKR 10/- per share par value is adequately justified, based on the following considerations:

### **a) Technical Features**

- i. KAPCO is the largest Independent Power Producer in Pakistan. The plant comprises of 10 multi-fuel fired gas turbines and 5 steam turbines.
- ii. KAPCO is the only IPP in Pakistan to have multi-fuel turbines with the capacity to produce electricity using natural gas, furnace oil and High Speed Diesel (HSD).
- iii. Of the 10 gas turbines, 8 can produce electricity using natural gas, furnace oil and HSD and 2 can produce electricity using natural gas and HSD.

### **b) Cost Efficient Power Generation**

- i. The proportion of power generation using gas has increased from 53.1% in 2001 to 72.1% in 2004.
- ii. As gas is a cheaper fuel than furnace oil, the cost of production is much lower for KAPCO than IPPs using furnace oil.
- iii. Gas is a cheaper fuel than furnace oil, therefore with an increased availability of gas and with no foreign exchange impact whilst using gas, WAPDA is expected to be more inclined to utilize KAPCO's generation thereby increasing capacity utilization.

### **c) Market Valuation**

- i. Sector Price to Earnings ("PE") multiple is 6.7 and the PE of KAPCO based on the Offer price of Rs. 30/- per share is 3.8x, which translates into a 43.2% discount to sector P/E.<sup>7</sup>
- ii. Sector dividend yield is 9.8% and dividend yield of KAPCO based on the Offer Price and FY04 dividends is 21.6%, which is 2.2 times higher than the sector dividend yield.<sup>8</sup>

**Note:** The Company has paid extraordinary dividends of 114% and 164% for FY 2002 and FY 2003, respectively.

<sup>7</sup> Based on market prices of February 1, 2005

<sup>8</sup> Base on market prices of February 1, 2005

These extraordinary dividend payouts reflect the terms of the Principal Agreement dated April 20, 2002 and the understanding of the parties, whereby the amount due from WAPDA to KAPCO as a consequence of the settlement was offset against future WAPDA dividends.

Investors should note that these dividend payments arose due to extraordinary circumstances and such high payouts are unlikely to recur in future.

**d) Stable Earnings**

- i. KAPCO tariff is segregated in capacity and energy components. Capacity component has further two components: Escalable and Non-Escalable. Escalable component covers the fixed costs and an implicit return whereas Non-Escalable component covers the principal repayment and interest payment on the Loan Note Liability. Energy component covers the fuel costs and variable operations & maintenance costs. If WAPDA decreases its electricity off take from KAPCO, the Company's fixed costs, implicit return and principal and interest payments would still be covered through the capacity payment thereby ensuring a stable dividend stream for the investors.



**PART 3 COMMISSION, BROKERAGE AND OTHER EXPENSES****3.1 Underwriting**

Underwriting is required for public offerings where a premium is being charged under the provisions of rule 9 of the Companies (Issue of Capital) Rules, 1996. This Offer for Sale has not been underwritten. A relaxation from the requirements of the said rule has been obtained by the Offerer from the SECP vide letter no. SMD/CO.62/4/2004, dated October 12, 2004.

**3.2 Commission to the Bankers to the Offer**

A commission at the rate of 0.25% of the amount collected on transfer in respect of successful applicants will be paid by the Offerer to the Bankers to the Offer for services to be rendered by them in connection with this Offer for Sale.

**3.3 Brokerage**

The brokerage will be payable at the rate of 1% of the value of shares including premium, actually sold through the members of the KSE, LSE and ISE. Brokerage will be paid by the Offerer.

**3.4 Expenses of the Offer for Sale of Shares**

The expenses of this Offer for Sale are estimated not to exceed Rs.81.216 million of which Listing Fees and CDC Charges are borne by the Company while expenses to the Offer shall be borne by the Offerer.

Break-up of these expenses is as follows:

<b>Expense</b>	<b>Rupees</b>
Commission to the Bankers to the Offer @ 0.25%*	11,883,375
Brokerage to the members of Stock Exchanges @ 1.00%*	47,533,500
Listing Fees and CDC Charges	5,223,000
Securities & Exchange Commission of Pakistan Fee	100,000
Stamp Duty on issue of shares of physical share certificates	176,050
Publication and printing of OFSD & Application Forms	825,000
Printing of share certificates and transfer deeds	900,000
Computer Balloting	3,575,000
Advertising & Marketing etc.	10,000,000
Miscellaneous	1,000,000
<b>Total</b>	<b>81,215,925</b>

\* Represents maximum possible expenses relating to the subscription amount inclusive of green shoe option.

## PART 4 HISTORY AND PROSPECTS

### 4.1 Industry Overview<sup>9</sup>

The power generation sector in Pakistan is divided between the public and private sector, with private sector owning the IPPs setup under the Power Policy. The power sector of Pakistan supplies electricity to over 13.9 million consumers countrywide and has a total installed generation capacity of 19,478 MW. WAPDA, Karachi Electric Supply Corporation (“KESC”), Karachi Nuclear Power Plant (“KANUPP”) and Chashma Nuclear Power Plant (“CHASHNUPP”) are the four main public sector organizations, involved in power generation, transmission and distribution of electricity in the country. WAPDA and KESC also purchase electricity from the IPPs having a total power generation capacity of 5,824 MW.

Power Generation (GWH)	Hydel	Thermal	Nuclear	Total
WAPDA	26,844	20,972	-	47,816
KESC	-	9,724	-	9,724
IPPs	-	19,749	-	19,749
KANUPP	-	-	236	236
CHASHNUPP	-	-	1,524	1,524
<b>Total</b>	<b>26,844</b>	<b>50,445</b>	<b>1,760</b>	<b>79,049</b>

Source: National Transmission and Dispatch Company

Currently, Pakistan generates total electricity of 79,049 GWH of which approximately 64% is produced by thermal power plants. Power generation is mainly in the public sector, where there are two vertically integrated utilities namely WAPDA and KESC. WAPDA and KESC enjoy a monopoly throughout the country for transmission and distribution. WAPDA is the major player and supplies electricity to the entire country except for Karachi and its surrounding areas, where KESC is the sole supplier.

WAPDA's thermal power generation is mainly based on its steam turbo-generators and gas turbines installed at different power stations located in Sindh, Punjab and Balochistan provinces. WAPDA gives first priority to hydel power generation because of its relatively low cost, but the availability of hydel power generation is dependent on the rainfalls in the monsoons and snowfalls during the winters. Any shortage of water forces WAPDA to increase utilization of gas and coal as the source of fuel. In case demand exceeds the capacity of hydel, gas and coal based generation, then Furnace Oil (“FO”) and High Speed Diesel (“HSD”) fired power plants are used by WAPDA. Therefore, WAPDA prioritizes the total capacity based on the cost of power generation.

In the early eighties, following a review of the electricity demand patterns and lack of funds available for investment in the public sector, the GOP decided to invite private sector to invest in power generation. In November 1985, the GOP announced measures to encourage private sector participation in the power sector. The 1,292 MW Hub Power Project (“HUBCO”) was initiated at the same time, which was the first private sector power project of its size. There are in total 16 commissioned IPPs (including KAPCO) in the country, 14 of which were setup under the 1994 Power Policy with the combined capacity of 3,036 MW (Pakistan Energy Yearbook 2003). Other

<sup>9</sup> Economic Survey 2003-04

than Tapal Energy and Gul Ahmed Energy which supply electricity to KESC the remaining 14 IPPs, including KAPCO and HUBCO, supply power to WAPDA.

Following the power sector reforms, the Power Wing of WAPDA has been restructured into fourteen public limited companies, i.e. nine distribution companies ("DISCOs"), four power generation companies ("GENCOs") and the National Transmission and Dispatch Company ("NTDC"). The Pakistan Electric Power Company Limited ("PEPCO") oversees all these corporatized entities. DISCOs and GENCOs are expected to be privatized over the next few years.

## 4.2 Regulatory Authority

The National Electric Power Regulatory Authority ("NEPRA") is the power sector regulatory authority and was established on January 13, 1998. NEPRA is responsible for regulating the power sector and developing and implementing the regulatory system according to requirements and obligations of the NEPRA Act.

Under the NEPRA Act, NEPRA has the responsibility to:

- a) Determine tariffs and other terms and conditions for the supply of electricity by generation, transmission, and distribution companies; and recommend these to GOP for notification.
- b) Prescribe procedures and standards to determine or revise tariffs, terms, and conditions for generation, transmission, interconnection, distribution, and supply to consumers by licensees, subject to the need to protect consumers from monopolistic prices; and consider the research, development, and capital investment programs of licensees, as well as the economic and social policy objectives of GOP.
- c) Issue and modify licenses.
- d) Prescribe and enforce performance standards.
- e) Levy and prescribe fines.
- f) Review the organizational affairs of licensees and encourage uniform industry standards.

NEPRA is also responsible for ensuring the sustainable development of the country's power sector; this includes preserving a critical balance between power demand and supply.

## 4.3 Company History and Shareholder Information

Kot Addu power plant was established by WAPDA in 1985. It is a multi-fuel fired power station located in Kot Addu, District Muzaffargarh, Punjab. In April 1996, Kot Addu Power Company Limited ("KAPCO" or the "Company") was incorporated as a public limited company under the Ordinance with the objective of acquiring Kot Addu power plant from WAPDA. As such, the principal activities of the Company are to own, operate and maintain the Kot Addu power plant. On June 27, 1996, following international competitive bidding by the PC, the management of KAPCO was transferred to National Power (now International Power) of UK, which acting through its subsidiary National Power (Kot Addu) Limited ("NPKAL"), bought 228,865,840 shares representing a 26% stake in KAPCO for US\$ 215 million (Rs. 7,700 million i.e. Rs 33.64 per share)<sup>10</sup>. Later, NPKAL bought a further 88,025,322 representing 10% shareholding in the company for US\$ 76

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<sup>10</sup> Based on data provided by the Privatisation Commission

million (Rs. 2,722 million i.e. Rs. 30.92 per share)<sup>11</sup> increasing its total shareholding to 36%. The majority shareholder in the Company is WAPDA with a stake of 64%.

International Power plc ("IPR") was formerly named National Power plc, an entity created in March 1990 as part of the privatisation of the UK's Central Electricity Generating Board ("CEGB"). IPR is an international wholesale power generator and developer with interests in 16 countries across four continents, including its shareholding in the Company. It also has a shareholding in Hubco, and through a subsidiary has an operations and maintenance contract with Hubco.

IPR's operating power plants have a total capacity of 26,317 MW gross or 15,519 MW net. It currently has further capacity of 4,560 MW gross, or 1,349 MW net under construction in Australia, the UAE, Malaysia and Saudi Arabia and is in the process of developing power projects in Italy. Its net capacity in operation and under construction is 16,868 MW.

It generates electricity from gas, oil and coal, and also engages in complimentary activities such as mining coal and transporting gas by pipeline in Australia, desalinating water in the Middle East and providing steam for district heating systems in Europe. Much of the power it generates is sold to single customers under fixed price long term offtake agreements. It also sells power through competitive merchant markets.

It is headquartered in London and for reporting purposes organizes its business into five segments: North America, Europe, the Middle East, Australia and Asia. The Company falls within the Asia business segment.

**Following the listing of the Company's shares, NPKAL will (subject to various restrictions in the Shareholders' Agreement between WAPDA, NPKAL and the Company) be able to dispose of its shares in the Company. Although NPKAL currently has a 36% shareholding in the Company, the Company does not have any information as to NPKAL's future intentions with respect to its shareholding in the Company, or its contribution to the Senior Management of the Company through the arrangements in respect of the appointment of the CEO.**

KAPCO is being managed through suites of agreements signed between the Company and its Customer ("WAPDA"), shareholders, GOP, and fuel suppliers. These include:

- a) Power Purchase Agreement that governs the Tariff Structure applicable on WAPDA
- b) Oil Supply Agreement with Pakistan State Oil Company Limited ("PSO") and Gas Supply Agreement with Sui Northern Gas Pipelines Limited ("SNGPL")
- c) Shareholders Agreement dated January 11, 2005 relating to the ownership and management of KAPCO
- d) Note Agreement that governs the principal and interest payment by KAPCO to WAPDA on the loan note.

KAPCO is the first company in Pakistan to be awarded three accreditations simultaneously with the Integrated Management System ("IMS"). For its achievement in areas of quality environment and safety, KAPCO was awarded in July 2004 certificates of:

- a) ISO 9001:2000 – Quality Management
- b) ISO 14001:1996 – Environment Management

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<sup>11</sup> Based on data provided by the Privatisation Commission

c) OHSAS 18001:1999 – Occupational Health and Safety Management

The two principal shareholders, WAPDA and NPKAL, have entered into a new Shareholders Agreement, to which the Company is also a party, which governs the management of the Company, and contains various other provisions, including restrictions on share transfers by each of them. WAPDA and NPKAL have also agreed that they will vote together in relation to certain matters, including changes in the authorized share capital of the Company and the appointment of the CEO. It is also agreed that the CEO will be selected from a shortlist of candidates produced by NPKAL.

#### 4.4 Production Technology

KAPCO power plant is Pakistan's largest IPP with a name plate capacity of 1,600 MW. The plant comprises of 10 multi fuel fired gas turbines and 5 steam turbines installed in 5 phases between 1985 and 1996. These turbines are divided into 3 energy blocks with each block having a combination of gas and steam turbines. The plant's combined cycle technology enables it to use the waste heat from the gas turbine exhaust to produce steam in the Heat Recovery Steam Generator ("HRSG"), which in turn is used to run the steam turbines thereby resulting in fuel cost efficiency and minimum wastage.

KAPCO power plant is a multi-fuel gas-turbine power plant with the capability of using 3 different fuels to generate electricity, namely: Natural Gas, Light Sulphur Furnace Oil ("LSFO") and High Speed Diesel ("HSD"). It is also the only major plant in the country with the ability to self start in case of a country wide blackout.

KAPCO produced 29% of the total power produced by IPPs, and contributed 7% of the total power generation in the country in FY04. The details of the turbines are as follows:

Gas Turbines	Manufacturer	Dependable Capacity (MW)	Installation Year	Remaining Useful Life (Years)
GT-1	Siemens (KFW ) Germany	95	1987	23
GT-2	Siemens (KFW ) Germany	95	1987	23
GT-3	Fiat GIE Italy	82	1987	23
GT-4	Fiat GIE Italy	82	1987	23
GT-5	GE-Alsthom France	79	1988	24
GT-6	GE-Alsthom France	82	1988	24
GT-7	GE-Alsthom France	77	1989	25
GT-8	GE-Alsthom France	79	1989	25
GT-13	Siemens Germany	106	1994	30
GT-14	Siemens Germany	106	1994	30

Steam Turbines	Manufacturer	Dependable Capacity (MW)	Installation Year	Remaining Useful Life (Years)
STG-9	ABB Germany	87	1991	27
STG-10	ABB Germany	97	1991	27
STG-11	GE-Alsthom France	76	1995	31
STG-12	GE-Alsthom France	82	1995	31
STG-15	Siemens Germany	120	1996	32

Source: KAPCO

The turbines installed in KAPCO were brand new at the time of installation. Out of 10 gas turbines, GT-3 and GT-4 run on two types of fuel i.e. Natural Gas and HSD whereas the other gas turbines run on three types of fuel i.e. Natural Gas, LSFO and HSD

#### **4.5 Tariff Disputes and Resolutions**

The Company in common with other IPPs had been involved in disputes and litigation with WAPDA concerning the tariff payable under the Power Purchase Agreement ("PPA"). (For details of PPA, please refer to part 4.10.1)

All disputes involving KAPCO were resolved in April 2002 when a Settlement Agreement (also known as the Principal Agreement) was signed by IPR, WAPDA, International Power Global Developments Limited, NPKAL and KAPCO. As part of the settlement, the PPA, the Shareholders Agreement and the Note Agreement were amended.

**Pursuant to the Principal Agreement, a financial adjustment was made to settle the amount outstanding from WAPDA to KAPCO and an understanding was reached with WAPDA that the payment of Settlement Receivables would be offset against future WAPDA dividends. The offset i.e. the full payment of Settlement Receivables was completed in June 2003. As a result, exceptional dividend payments have been made in FY 02 (Rs. 11.36/share) and FY 03 (Rs. 16.36/share) which include both regular and special dividend due to settlement.**

#### **4.6 Tariff Structure**

WAPDA is the sole customer of KAPCO. The tariff payable by WAPDA to KAPCO has two components: the Capacity Purchase Price ("CPP") and the Energy Purchase Price ("EPP"). CPP is further divided into 2 parts: escalable and non-escalable. As per the revised tariff, the escalable component covers the fixed costs and an implicit return whereas the non-escalable component is a book entry to neutralize the loan note liability and accrued interest thereon. EPP covers the variable costs as per the tariff schedule including the fuel costs and variable operations & maintenance costs.

#### **4.7 Operational Performance**

The plant generated 5,918 GWH of electricity in the year ending June 30<sup>th</sup> 2004, which was 1.5% higher than the previous year. The proportion of gas used to generate electricity was 72.1% while furnace oil was 27.5% and 0.5% was HSD. The plant utilization stood at 56.4%. Throughout the year 85.7% capacity was made available to WAPDA as against 77.9% in 2003. The Annual Dependable Capacity Test of the power plant was successfully performed on April, 2004. The plant achieved 15 MW capacity above the required Initial Dependable Capacity ("IDC").

#### **4.8 Organizational & Corporate Structure**

KAPCO's organizational structure comprises of eight functional areas; these are; Commercial, Finance, Production, Engineering, Human Resources & Administration, Procurement, Internal Audit and Corporate Affairs. The Chief Executive Officer heads all of the activities of the Company.



## **4.9 Prospects**

The Company has a long term PPA which includes an implicit return built into the tariff provided the Company maintains its available capacity at the contractual level identified in the PPA. KAPCO has robust and effective engineering, financial, procurement and HR strategies in place to ensure that contractual capacity levels are maintained. Over the last two years, dependable capacity levels significantly above the contracted level have been achieved.

**Half year of the Company ended on December 31, 2004. The Company may hold a meeting of its board of directors to review half year accounts.**

## **4.10 Material Agreements**

### **4.10.1 Power Purchase Agreement (“PPA”)**

The PPA was executed between WAPDA and KAPCO on June 27, 1996. Under the PPA, WAPDA has the right to instruct KAPCO to generate and deliver electricity to the WAPDA Grid upto the available Net Capacity of the Plant, which must not be less than the prevailing dependable capacity. The capacity available to WAPDA is determined through an Annual Dependable Capacity. WAPDA is obligated to pay KAPCO for Net Capacity made available and for electrical energy delivered in accordance with a tariff formula specified in the PPA.

The tariff primarily comprises of two components: Capacity Payment and Energy Payment. The Capacity Payment made monthly in arrears is the product of the Capacity Purchase Price and the relevant Winter Dependable Capacity or Non Winter Dependable Capacity as the case may be as set out in Schedule 6 of the PPA and Table 1 of the Second Amendment of PPA. The Capacity payment is not dependent on the electricity delivered to WAPDA. The Energy Payment is made as per Clause 9.2 of the PPA as amended by Clause 9.12 of the Second Amendment of the PPA. The Energy Payment is dependent on the electricity delivered to WAPDA and the mix of fuel used to generate that electricity and is payable monthly in arrears.

**The term of the PPA commences from 27<sup>th</sup> June 1996 for a period of 25 years. The levelized tariff after the Second Amendment to the PPA in April 2002, is US \$ 0.0504 per KWH whereas the levelized Capacity Payment is US \$ 12.828 per KW per month for the life of the project.**

### **4.10.2 Oil Supply Agreement (“OSA”)**

The OSA was executed between PSO and KAPCO on June 27, 1996. Under the OSA, PSO will supply to KAPCO fuel, diesel oil, greases, lubricants and additives for all its requirements of the power plant during the term of the PPA. The agreement covers ordering, delivery, storage and related obligations of KAPCO and PSO. PSO is obligated to deliver fuel and diesel oil by pipeline or road. For delivery by pipeline, PSO is obligated to deliver fuel and diesel oil up to the storage tanks located at KAPCO. For delivery by road, PSO is obligated to deliver fuel and diesel oil up to the decanting facility located at the plant. KAPCO is responsible for installation and maintenance of all such facilities as are required for receiving, storing and utilizing the fuel, diesel oil, greases, lubricants and additives.

The fuel and diesel oil supplied by PSO must meet the Company's agreed specifications, otherwise the Company retains the right to reject such supplies. The greases, lubricants and additives supplied by PSO must also meet the Company's specifications.

The price to be paid by KAPCO to PSO has to be the price of the reference fuel established by GOP from time to time under the Petroleum Products (Development Surcharge) Ordinance or any statutory modification or re-enactment thereof. KAPCO shall make an advance payment at least 7 days prior to the commencement of the Payment Period. The Payment Period is defined as period commencing from the 1st day of each month and ending on the 15th day of each month and period commencing from 16th day of each month and ending on the last of each month.

#### **4.10.3 Gas Supply Agreement ("GSA")**

The GSA dated June 27, 1996 was signed between KAPCO and Sui Northern Gas Pipelines Limited ("SNGPL"). It provides that SNGPL shall guarantee a firm supply to KAPCO, during the off-peak months (March 16-November 14) of 70 mmcf Specification Gas, which is reliable with respect to availability and quality. During the peak months (November 15-March 15), the Company is not entitled to any guaranteed deliveries of Specification Gas. KAPCO is also liable to make minimum purchases of Specification Gas in any given year in which SNGPL is liable to make guaranteed deliveries. The minimum purchase shall consist of 30% of the guaranteed deliveries calculated on an annual basis. KAPCO is also required to provide a security deposit in an amount equivalent to the cost of two months' guaranteed deliveries.

SNGPL shall invoice KAPCO for Specification Gas not later than 10th of every month for the consumption of the preceding month in an amount equal to the product of (i) volume of Specification Gas consumed by KAPCO in the preceding month as determined by meters multiplied by (ii) the commodity charge for Specification Gas in effect for such month. The Company is required to make payment of such invoice within 30 days of the receipt of the invoice.

#### **4.10.4 Principal Agreement**

Principal Agreement dated April 20, 2002 was signed among WAPDA, NPKAL, International Power Global Developments Limited, IPR and KAPCO. This Agreement settles various disputes between Parties in respect of (i) tariff payable under the Power Purchase Agreement and claims for liquidated damages; (ii) responsibility for the condition of KAPCO's power station at Kot Addu at the time of its purchase by KAPCO from WAPDA; and (iii) agreement on Initial Dependable Capacity Tests in relation to Block 1 and amendment of the Escrow Agreement and release of the sum of US\$ 15,000,000/- plus accrued interest to WAPDA. This Agreement also pertains to agreed settlement terms that require (i) amendments to be made to the Power Purchase Agreement and the Shareholders Agreement and consequential amendments to other agreements; (ii) termination of the O&M Agreement dated January 24, 1997 and the Technical Services Agreement dated July 31, 1997; and (iii) formal settlement of disputes, various financial adjustments to be made and withdrawal of all claims and court proceedings between WAPDA and KAPCO and others.

#### **4.10.5 Note Agreement**

The Note Agreement was signed between WAPDA and KAPCO on June 26, 1996 and relates to KAPCO's issuance of a 22 year loan note of Rs 27,010,368,000/- in favour of WAPDA as part of



purchase consideration. The principal and interest payment of the loan note is made to WAPDA and is equal in amount to the Non-Escalable component of the Capacity Purchase Payment. The interest payable on the loan note is 14% per annum applicable from the second anniversary of the Closing Date with the interest and principal payments being made semiannually. Since the interest and principal payment is equal to the Non-Escalable component, there is no cash movement between WAPDA and KAPCO and after an amendment made by the Note Amendment Agreement in April 2002, the amounts are simply setoff.

**Note: A list of all material contracts is set out in Section 7.9**

#### **4.11 Taxation**

**Under clause 138 of the Part I of the Second Schedule of the Income Tax Ordinance 2001, income of the Company derived from the power station is exempt from income tax up to June 27, 2006. However, other taxable income is subject to income tax at current rates of taxation after taking into account tax credits and rebates available, if any.**

#### **4.12 Risk Factors**

The management of the Company wishes to highlight the following material risk factors, which may affect the profitability and/or the operations of the Company:

##### **4.12.1 Regular Servicing of Receivables**

KAPCO's sole customer is WAPDA and as such KAPCO faces a risk that there may be a delay in payment of its receivables in case WAPDA faces cash flow constraints.

WAPDA's liquidity situation has improved considerably over the years and WAPDA has been prompt in making payments to the IPPs. During the last 18 months KAPCO has received full payment of its invoices from WAPDA on the due dates. The delay in receivables is unlikely to arise in the foreseeable future owing to improved financial condition of WAPDA.

##### **4.12.2 Revision in Tariff**

The tariff represents a firm contractual commitment of WAPDA and cannot be unilaterally revised downwards by WAPDA without being in breach of contract.

##### **4.12.3 Operational Risk**

The major operating risk facing KAPCO is that of a plant breakdown and malfunction resulting in liquidated damages arising out of non-compliance with PPA due to non-availability of capacity.

The Company has developed a comprehensive engineering strategy based on both Original Equipment Manufacturer's ("OEM") recommendations and extensive in house operational experience. The strategy includes the regular maintenance and overhaul of plant and equipment as well as stocking strategic spares that may be required in the event of a plant breakdown.

KAPCO's operational risk is further mitigated by comprehensive insurance cover which includes both property damage and business interruption. The Company has achieved a significant reduction in insurance deductible this year which demonstrates the Insurer's view of a reducing operational risk at KAPCO.

Since privatisation, KAPCO has dedicated significant resources in training its employees in all areas, but particularly operations and maintenance. Following the 9/11 incident in the USA, the Company has faced difficulty in obtaining specialist expatriate support from the OEMs to assist in the major overhauls of the plant. To mitigate against any possible impact of this, KAPCO has developed the skills of its maintenance teams to a level where the Company is no longer totally reliant on expatriate support.

#### **4.12.4 Variability in WAPDA's Requirements**

KAPCO is dependent on WAPDA's demand for electricity which at times can be quite variable. Frequent start up and shut down of turbines can induce significant stresses resulting in higher maintenance and possible plant breakdown.

The Company has however developed a range of techniques to meet the varying requirements of its customer and provides full flexibility whilst protecting plant integrity.

#### **4.12.5 Shortage of Fuel**

KAPCO has full flexibility to switch over between gas and fuel oil as the fuel source for generation. Fuel switching can be carried out whilst the machines are generating and therefore the company has the ability to generate on either fuel or a combination of both.

The Company is increasingly using gas as the main fuel for power generation because it is substantially cheaper than furnace oil. When gas supplies are insufficient to meet total generation requirements, KAPCO may switch over to furnace oil as its main fuel, thereby increasing the cost of power generation. The tariff structure however recognizes the use of different fuels and the Company is paid according to the fuel used. A switch over to fuel oil generation may result in a reduction in dispatch from WAPDA, as other generators may then rise above KAPCO in the generation "merit order".

The risk is mitigated from the shareholder perspective as KAPCO's fixed cost, interest and principal payments and implicit return to shareholders are included in the CPP and therefore shareholders' returns will not be negatively affected through lower capacity utilization by KAPCO in case of reduced power demand by WAPDA.

KAPCO has both a Gas Supply Agreement and an Oil Supply Agreement with obligations on both, the Company and the suppliers. Provided KAPCO correctly implements the Oil Supply Agreement protocol, the Company is protected from any Liquidated Damages imposed by WAPDA through failure to dispatch due to fuel oil shortage, as these become incumbent obligations of the fuel supplier.

#### **4.12.6 Contingent Liability under Workers' Profit Participation Fund**

According to the Company it does not employ any person who falls under the definition of Worker under the Companies Profit (Workers' Participation) Act, 1968, therefore it has been advised by its legal advisors, that it is not obliged to establish a Workers Profit Participation fund as defined in the Act of 1968. As a consequence, the Company is also not required to make contributions to the fund established pursuant to Workers' Welfare Fund Ordinance, 1971.

The issue of WPPF was discussed in a meeting involving Ministry of Water & Power, Private Power and Infrastructure Board ("PPIB"), WAPDA Private Power Organization ("WPPO"), Ministry of Labour, HUBCO and KAPCO. A strong case was put up by PPIB, supported by WPPO, HUBCO and KAPCO. The Ministry of Water & Power supported the case and stated that they would request the Ministry of Finance to exempt IPPs, who have no workers under the act, from the payment of WPPF.

The matter was then referred to the Economic Coordination Committee which formed a sub committee to look into the matter and to give recommendations which are in the process of being finalized.

In view of the foregoing, the Company has not made any provision for Worker's Profit Participation Fund in the financial statements for the year ended June 30, 2004 or in previous years. (For details please refer to note (d) appearing in part 5.1)

#### **4.12.7 Capital Market Risk**

The shares of KAPCO will be listed on the three Stock Exchanges (KSE, LSE and ISE) and the shareholders of the Company will be able to sell or buy shares only through the members of the stock exchanges subsequent to the listing of the Company. Price of shares will depend on the stock market behavior and performance of the Company. Hence, price may rise or fall and result in increase or decrease in the value of shares to any extent. The investors may like to consult their legal advisors, financial advisors or stockbrokers to understand the nature of investment, if they desire so, before making the investment.

#### **4.12.8 Liquidity Risk**

The investors face the possible risk of not being able to sell the shares in the secondary market without adversely affecting the price. This risk is mitigated by the fact that the shares are proposed to be listed on the three Stock Exchanges which will provide a venue for granting liquidity for the shares by facilitating secondary market trades.

#### **4.12.9 Regulatory Risk**

Changes in the regulatory framework including changes in the tax regime may have an effect on the profitability of KAPCO and on the returns to investors in so far as such changes impact the price of shares and dividends.

#### **4.12.10 Fidelity Risk**

The fidelity risk factor emanating from the actions of Company's own employees and its ancillary entities may affect the earning capacity of the Company.

**4.12.11 Inflationary Factor Risk**

KAPCO's operations are directly affected by inflation as its cost of production increases with inflation. In addition, the high inflation rate can affect the economy in general that may trickle down to the stock market. This phenomenon is mitigated to some extent by the fact that State Bank takes steps to manage the inflation rate.

**Note: It is stated that all material risk factors have been disclosed to the best of our knowledge and belief and that nothing has been concealed in this respect.**

## PART 5 FINANCIAL INFORMATION

### 5.1 Auditors' Certificates under Section 53 (1) read with Clause 28 (1) of Section 2 of Part I of the Second Schedule to the Ordinance

November 5, 2004

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The Board of Directors  
Kot Addu Power Company Limited  
Kot Addu

Gentlemen,

We have audited the accounts of Kot Addu Power Company Limited for the year ended June 30, 2004 and report that in accordance with section 53(1) read with clause 28(1) of section 2 of Part I of the Second Schedule to the Companies Ordinance, 1984 the assets and liabilities of the company as at June 30, 2004 and the profit and loss accounts for the years ended June 30, 2000 to June 30, 2004 were as follows:

#### 1. SUMMARY OF ASSETS AND LIABILITIES AS AT JUNE 30, 2004

	Rupees in thousand
<b>Fixed Capital Expenditure</b>	
Operating assets	24,099,960
Capital work-in-progress	182,376
	24,282,336
<b>Long term loans and deposits</b>	686,416
<b>Current assets</b>	
Stores and spares	2,338,037
Stock in Trade	582,213
Trade Debts	2,015,317
Loans, advances, deposits, prepayments and other receivables	1,315,869
Cash and bank balances	1,690,103
	7,941,539
<b>Less: Current liabilities</b>	
Current maturity of long-term loan-Unsecured	2,255,096
Creditors, accrued expenses and other liabilities	1,463,196
Proposed dividend	700,000
	4,418,292

Net current assets	3,523,247
<b>Total funds employed</b>	<b>28,491,999</b>

	<b>Rupees in thousand</b>
Less: Long term loan-Unsecured	10,956,107
Staff retirement benefits	216,168
	11,172,275
<b>Net funds employed</b>	<b>17,319,724</b>

**Represented by:**

Subscribed and paid-up share capital	8,802,532
Capital reserve	444,451
Unappropriated profit	8,072,741
	<b>17,319,724</b>

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## 2. SUMMARY OF PROFIT AND LOSS ACCOUNTS

The profit and loss accounts of the company for the five years ended June 30, 2000 to June 30, 2004 are as follows:

	-----Year ended June 30-----				
	2004	2003	2002	2001	2000
	-----Rupees in thousand-----				
Sales	21,842,271	23,211,783	26,290,779	26,195,245	20,786,634
Cost of sales	13,282,309	15,679,950	14,728,794	13,213,775	10,117,059
WAPDA provisions/(adjustments)	-	-	(22,255,904)	14,951,815	10,318,775
Gross profit/(loss)	8,559,962	7,531,833	33,817,889	(1,970,345)	350,800
Administration and general expenses	113,479	126,199	133,322	154,022	70,845
Operating profit/(loss)	8,446,483	7,405,634	33,684,567	(2,124,367)	279,955
Other income	262,646	402,836	262,347	495,455	388,189
	8,709,129	7,808,470	33,946,914	(1,628,912)	668,144
Financial charges	2,028,032	2,255,825	2,470,803	2,805,985	3,097,049
	6,681,097	5,552,645	31,476,111	(4,434,897)	(2,428,905)
Provisions	-	-	500,000	9,923	111,457
Profit/(loss) before tax	6,681,097	5,552,645	30,976,111	(4,444,820)	(2,540,362)
Provision for taxation	(255,328)	88,904	73,380	219,536	181,050
Profit/(loss) after taxation	6,936,425	5,463,741	30,902,731	(4,664,356)	(2,721,412)
Unappropriated profit/(loss) brought forward	6,836,318	15,772,577	(5,130,154)	(465,798)	2,255,614
Available for appropriation	13,772,743	21,236,318	25,772,577	(5,130,154)	(465,798)
Appropriations:					
Interim dividend	5,000,000	14,400,000	10,000,000	-	-
Proposed dividend	700,000	-	-	-	-
	5,700,000	14,400,000	10,000,000	-	-
Unappropriated profit/(loss) carried forward	8,072,743	6,836,318	15,772,577	(5,130,154)	(465,798)

We further report that

- a) The details of dividends paid by the company on ordinary shares of Rs. 10 each for the years from June 30, 2000 to June 30, 2004 are as follows:

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Cash Dividend	65.0%	164.0%	114.0%	-	-
Dividend Per Share (Rs.)	6.5	16.4	11.4	-	-

- b) No adjustments were considered necessary by us in the balance sheet and profit and loss account.
- c) The financial statements for the years 2000, 2001 and 2003 were audited by M/s. Taseer Hadi Khalid & Co. Chartered Accountants and the financial statements for the year 2002 were audited jointly by M/s. Taseer Hadi Khalid & Co. Chartered Accountants and M/s. Yousuf Adil Saleem & Co. Chartered Accountants. The financial statements for the year ended June 30, 2004 were audited by us.

**d) Contingencies as at June 30, 2004 were as follows:**

- i. The company has obtained legal advice in connection with the establishment of Workers Profit Participation fund under the Companies Profit (Workers' Participation) Act, 1968 (the Act). The legal advisor is of the view that since the company does not employ any person who falls under the definition of Worker as defined in the Act of 1968, the company is not required to establish the fund under this Act. As a consequence the company is not required to make contributions to the fund established pursuant to Workers' Welfare Fund Ordinance, 1971.

Furthermore, the question whether a company to which the Act of 1968 and its scheme applies but which does not employ any worker is nevertheless obliged to establish and pay contributions into the fund under the Act and thereafter transfer the same to the Fund established under the WWF Ordinance, 1971 is pending adjudication in Sindh High Court at Karachi on a constitutional petition filed by another company in June 2000.

The issue of WPPF has also been taken up by the Government and a meeting took place involving Ministry of Water & Power, Private Power and Infrastructure Board (PPIB), WPPO, Ministry of Labour, HUBCO and KAPCO to formally discuss the issue. A strong case was put up by PPIB, supported by WPPO, HUBCO and KAPCO. The Ministry of Water & Power supported the case and stated that they would request the Ministry of Finance to exempt Independent Power Producers (IPPs), who have no workers under the act, from the payment of WPPF.

The matter was then referred to Economic Coordination Committee (ECC). ECC formed a sub committee to look into the matter and to give recommendations.

In view of the foregoing, the company has not made any provision for Worker's



Profit Participation Fund in these financial statements or in previous years.

If it is established that the scheme is applicable to the company and the company is liable to pay contribution to the Worker's Welfare Fund then these amounts would be recoverable from WAPDA as a pass through item under the provisions of Power Purchase Agreement. However it is not certain presently whether or not any penalties payable in connection with this contribution would also be recoverable from WAPDA under the Power Purchase Agreement.

**In case this liability materializes, the cumulative amount of contributions to WPPF would be Rs 2.627 billion and the interest thereon would amount to Rs 3.757 billion as on the date of these financial statements.**

- ii. Claims against the company not acknowledged as debts Rs 30.566 million (2003: Rs 28.923 million).
- iii. The Company has provided bank guarantee in favour of Sui Northern Gas Pipelines Limited on account of payment of dues against gas sales etc., amounting to Rs. 96 million (2003: Rs. 96 million).

**e) Commitments as at June 30, 2004 were as follows**

- i. Contracts for capital expenditure Rs 246.30 million (2003: Rs 271 million).
  - ii. Letters of credit other than for capital expenditure Rs 1,068.86 million (2003: Rs 905.57 million).
- f) No financial statements have been audited by us subsequent to the audit of the financial statements for the year ended June 30, 2004.

Yours truly

Sd/-

A.F. Ferguson & Co.

Chartered Accountants

**Management Note**

The income derived from the power station is exempt from income tax upto June 27, 2006 under the clause 138 of the Part 1 of the Second Schedule of the Income Tax Ordinance, 2001. However, the income derived from the power station will be taxed at the normal rates applicable for the listed companies from the FY2006-07 (For details, please refer to Part 2.18)

**5.2 Break-Up Value of Shares**

October 27, 2004

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The Board of Directors  
Kot Addu Power Company Limited  
Kot Addu

Gentlemen

**CERTIFICATE ON BREAK-UP VALUE OF THE SHARES**

Based on the audited financial statements of Kot Addu Power Company Limited for the year ended June 30, 2004, the break up value of an ordinary share of a nominal value of Rs 10 each of the company was Rs 19.68, as calculated below:

	<b>Rupees in thousand</b>
Issued, subscribed and paid-up share capital	8,802,532
Capital reserve	444,451
Unappropriated profit	8,072,741
Total shareholders' equity	<u>17,319,724</u>
 Number of ordinary shares issued	 <u>880,253,228</u>
 <b>Break-up value per ordinary share – Rupees</b>	 <u><u>19.68</u></u>

Yours truly

Sd/-  
A.F. Ferguson & Co.  
Chartered Accountants

**5.3 Certificate on Issued, Subscribed and Paid-Up Capital**

October 27, 2004

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The Board of Directors  
Kot Addu Power Company Limited  
Kot Addu

Gentlemen

**CERTIFICATE ON ISSUED, SUBSCRIBED AND PAID UP CAPITAL OF THE COMPANY**

We have verified with the books of account and other records of Kot Addu Power Company Limited, that the issued, subscribed and paid-up capital of the company as on June 30, 2004 comprised the following:

<b>Number of shares</b>		<b>Rupees in thousand</b>
253,000	Ordinary shares of Rs 10 each fully paid in cash	2,530
880,000,228	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	8,800,002
<u>880,253,228</u>		<u>8,802,532</u>

Yours truly

Sd/-

A.F. Ferguson & Co.  
Chartered Accountants

**5.4 Financial Year**

October 27, 2004

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The Board of Directors  
Kot Addu Power Company Limited  
Kot Addu

Gentlemen

**CERTIFICATE ON FINANCIAL YEAR OF THE COMPANY**

Based on the audited financial statements of Kot Addu Power Company Limited we confirm that the financial year of the company is from July 01 to June 30 each year.

Yours truly

Sd/-  
A.F. Ferguson & Co.  
Chartered Accountants

## 5.5 Significant Financial Information for the Last Eight Years

	2004	2003	2002	2001	2000	1999	1998	1997 <sup>12</sup>
For the year ended June 30 (Rupees in Million)								
Paid Up Capital	8,803	8,803	8,803	8,803	8,803	8,803	8,803	8,803
Reserves	444	444	444	444	444	444	444	444
Un appropriated Profit	8,073	6,836	15,773	(5,130)	(466)	2,256	3,439	1,739
Equity	17,320	16,083	25,020	4,117	8,781	11,503	12,686	10,986
Total Liabilities	15,591	20,504	19,451	35,347	31,898	28,182	27,598	28,713
Total Assets	32,910	36,587	44,470	39,464	40,679	39,685	40,284	39,699
Sales	21,842	23,212	26,291	26,195	20,787	20,174	17,884	15,958
Operating Expenses	13,396	15,806	14,862	13,368	10,188	11,040	9,698	9,070
Profit Before Tax	6,681	5,553	30,976	(4,445)	(2,540)	(1,080)	5,310	3,811
Profit After Tax	6,936	5,464	30,903	(4,664)	(2,721)	(1,183)	5,199	3,739
Capital Expenditure	744	239	70	11	10	218	850	306
Total Dividend	5,700	14,400	10,000	-	-	-	3,500	2,000
Breakup Value/Share (Rs)	19.68	18.27	28.42	4.68	9.98	13.07	14.41	12.48
Earnings/Share (Rs)	7.88	6.21	35.11	(5.30)	(3.09)	(1.34)	5.90	4.24
Dividend/Share (Rs)	6.48	16.36	11.36	-	-	-	3.97	2.27

## 5.6 Significant Technical Information

	2004	2003	2002	2001	2000	1999	1998	1997 <sup>13</sup>
Generation (GWH)	5,918	5,832	6,375	6,139	5,570	6,535	5,288	5,067
Net Output (GWH)	5,698	5,603	6,117	5,899	5,368	6,328	5,089	4,880
Plant Utilization	56.4%	61.2%	60.2%	62.6%	52.9%	65.0%	57.6%	57.6%
Thermal Efficiency	42.2%	41.6%	42.2%	41.8%	42.0%	42.0%	40.2%	38.5%
Availability	85.7%	77.9%	86.4%	83.1%	86.3%	82.7%	88.4%	84.6%
Running Capacity Available	92.6%	85.0%	92.6%	85.3%	93.7%	91.9%	97.8%	98%
Gas Proportion	72.1%	55.8%	51.7%	53.1%	52.7%	56.4%	41.4%	40.4%
FO Proportion	27.5%	43.3%	47.8%	46.3%	46.6%	41.2%	54.4%	49.6%
HSD Proportion	0.5%	0.9%	0.5%	0.6%	0.7%	2.4%	4.2%	10.0%

<sup>12</sup> Fifteen months period ended June 30, 1997

<sup>13</sup> Fifteen months period ended June 30, 1997

**PART 6 MANAGEMENT AND RELATED MATTERS****6.1 Management of the Company**

All policy related matters are managed by the Board of Directors, headed by the Chairman of the Board. At present, the Board comprises of 7 Directors including the CEO. The Directors are elected by the shareholders in accordance with the relevant provisions of the Ordinance.

**6.2 Board of Directors**

<b>Name &amp; Address</b>	<b>Designation</b>	<b>Occupation</b>	<b>Other Directorships in Listed Companies</b>
<b>Mr. Imtiaz Anjum</b> 31 WAPDA Officers Colony, Upper Mall, Lahore	Chairman	Business Executive	-
<b>Mr. Malcolm Peter Clampin</b> KAPCO Colony Kot Addu Dist. Muzaffargarh	Chief Executive	Business Executive	-
<b>Mr. Muhammad Amjad</b> 713-WAPDA House Lahore	Director	Business Executive	-
<b>Mr. Philip Gostal Cox</b> Thatch Cottage Collinswood Road Farnham Common, Buckinghamshire SL2 3LH, UK	Director	Business Executive	Hub Power Company Limited
<b>Mr. Vince Richard Harris</b> 85 Queen Victoria Street London, U.K.	Director	Business Executive	
<b>Mr. Fazal Ahmad Khan</b> H. No. 9, Aziz Avenue Canal Bank Lahore	Director	Electrical Engineer	-
<b>Mr. Abdul Mannan Malik</b> 169-D, WAPDA Town Lahore	Director	Electrical Engineer	-

**6.3 Information in respect of Listed Companies in which Directors are holding Directorship****6.3.1 Dividends Declared**

<b>Names of Company</b>		<b>Dividends</b>				
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
1.	Hub Power Company Limited	-	39%	76%	54%	32%

**6.3.2 Overdue Loans**

There are no overdue loans of the Company or its directors.

## **6.4 Chief Executive**

### **Malcolm Peter Clampin**

Mr. Clampin was appointed as the Chief Executive Officer and Executive Director of the Company in February 2002.

Mr. Clampin is a mechanical engineer with 33 years experience in the power sector. During the last 15 years he has held various senior management and executive positions in the U.K and overseas.

He worked for the Central Electricity Generating Board, the U.K's public utility, during the privatisation of the electricity industry and subsequently has been actively involved in the transfer of power generation assets from the public to the private sector in Poland, Malaysia and Turkey.

In his previous position, reporting directly to the CEO, Mr. Clampin worked as Technical Director, for Guney Ege Enerji, a Turkish Company responsible for the operation of three power plants with a total capacity of 1600MW and 5 open cast lignite coal mines following transfer from the Government to the private sector.

## **6.5 Brief Profiles of the Directors**

### **6.5.1 Mr. Imtiaz Anjum, Chairman**

Mr. Imtiaz Anjum was appointed director of the Company in June 2004 and is also the Chairman of the Board of Directors. Presently, Mr Anjum is with WAPDA and holds the position of Member (Finance).

Mr. Anjum joined Pakistan Taxation Service in 1971 and has thirty years of diversified experience in finance related disciplines. Mr. Anjum during his career has held various important positions, which include, Assistant Commissioner, Additional Commissioner and Commissioner Income Tax. Additionally, Mr. Anjum also served as Commissioner Appeals for three years, and Accountant Member of Income Tax Appellate Tribunal for over two years.

Mr. Anjum, in addition to being an LL.B., has a Masters degree in Psychology and a postgraduate diploma in Labour Laws. Over the years Mr. Anjum attended high profile training courses in Pakistan and abroad. These include, "Tax Administration" courses in Germany and Philippines; and "Public Finance and Tax Administration" course in Nepal. Since 1981 he is on the list of distinguished participants with whom issues of "Cooperation and Development" undertaken by the Government of Germany through the German Foundation in Asia and Africa are shared.

### **6.5.2 Mr. Muhammad Amjad**

Mr. Amjad was appointed the Director of the Company in May 2002. He is a fellow Chartered Management Accountant from the United Kingdom and is a senior fellow member of the Institute of Cost & Management Accountants of Pakistan.

Mr. Amjad is the General Manager Finance WAPDA and the Chief Executive Officer of Pakistan Electric Power Company Limited. He has to his credit various key financial management positions in specialized power sector organizations including WAPDA Power Privatisation Organisation. He is also on the Board of Directors of First Credit & Discount Corporation Limited, National Transmission & Dispatch Company Limited, Central Power Generation Company Limited, Northern Power Generation Company Limited, Lakhra Power Generation Company Limited, Lahore Electric Supply Company Limited, Gujranwala Electric Supply Company Limited and Islamabad Electric Supply Company Limited.

#### **6.5.3 Mr. Philip Gostal Cox**

Mr. Cox became the Director of the Company in September 2002. He joined IPR in May 2000 and became its Chief Financial Officer in October 2000. In December 2003 he was appointed Chief Executive Officer of IPR. At IPR, Mr. Cox is responsible for the overall management of the business and delivery of its strategy.

Mr. Cox is on the Board of Directors of numerous companies world over. In Pakistan, Mr. Cox is also a Director of Hub Power Company Limited.

#### **6.5.4 Mr. Vince Richard Harris**

Mr. Harris was appointed the Director of the Company in January 2004. He is also a member of the Company's Audit Committee.

Mr. Harris has a Mechanical Engineering Honors Degree (First Class) from the University of Aston in Birmingham, U.K. His experience in the power sector spans over 35 years. He was involved in U.K's electricity privatisation and headed National Power plc's re-organization of operational engineering support to power plant operations.

Mr. Harris also served as the Chief Executive Officer of Hub Power Company Limited from June 2001 to December 2004.

#### **6.5.5 Mr. Fazal Ahmad Khan**

Mr. Khan was appointed the Director of the Company in June 2004. He is also a member of the Company's Audit Committee.

Mr. Khan is presently the General Manager of WPPO. By profession, Mr. Khan is an electrical engineer. His experience spans over a period of almost 36 years and include contract management pertaining to various Independent Power Producers to his credit.

#### **6.5.6 Mr. Abdul Mannan Malik**

Mr. Malik became a Director of the Company in June 2004. He is presently the Chief Engineer of WPPO. His career spans over a period of more than 35 years and has vast experience on contracts administration pertaining to Independent Power Producers.

### **6.6 Brief Profile of CFO & Company Secretary**



**6.6.1 Mr. Mohtashim Aftab, General Manager Finance/CFO**

Mr. Aftab joined the Company in October 1996 and was promoted to the position of General Manager Finance of the Company in May 2002. Mr. Aftab is a qualified accountant and has worked at numerous senior level positions in the Finance Department of the Company over the years. He carries eight years of extensive experience in the Power Industry and since July 2004 he has also been vested with the additional responsibilities of Administration and Human Resources. Prior to joining the Company, he worked with A. F. Ferguson & Co., Chartered Accountants.

**6.6.2 Mr. A. Anthony Rath, Company Secretary**

Mr. Rath was appointed Company Secretary in September 2004. He holds an LL.M. from the George Washington University, U.S.A. and is an advocate of the High Court. Prior to joining the Company he was Company Secretary of Bata Pakistan Limited. In addition to his experience of company secretarial practices, Mr. Rath has extensive experience, inter alia, in corporate, banking and commercial laws, which he gained in the course of his employment with Pakistan's leading law firms.

**6.7 Number of Directors**

The number of Directors (inclusive of the Chief Executive) shall be seven (or such other number as may be specified through a Special Resolution) and shall not be less than the minimum number required from time to time by applicable laws of Pakistan for a company of the type which the Company is, provided that such number permits the number of Directors which each Shareholder is entitled to nominate in accordance with Article 52.2 of the Company's Articles of Association.

**6.8 Qualification of Directors**

No person shall be appointed or become a Director:

- a) if he is not a Member (except in the case of the Chief Executive); or
- b) if he suffers from any of the other disabilities or disqualifications mentioned in Section 187 of the Ordinance;
- c) if, in the case of a WAPDA Nominee Director, he is not an officer of WAPDA or any Affiliate of WAPDA or in the case of a NPKAL Nominee Director, he is not an officer of NPKAL or any Affiliate of NPKAL.

**6.9 Appointment/ Election of Directors**

The Directors shall comply with the provisions of Sections 174 to 178 and Sections 180 and 184 relating to the election of Directors and matters ancillary thereto.

Notwithstanding that the number of persons offering themselves for election as Directors is not more than the number of Directors fixed under Article 52, the number of votes cast in favour of

each candidate and the name of the Member casting such votes shall be recorded in the minutes of the meeting.

#### **6.10 Benefits to Promoters and Officers during the last two years**

No amount or benefit has been paid or given during the last two years or is intended to be paid or given to any promoter or to any officer of the Company other than as remuneration for services rendered as whole-time executives of the Company and the remuneration for services shall be borne by the Company.

#### **6.11 Remuneration of the Directors**

Subject to any approval or limits required by law, the terms and conditions and remuneration of:

- a) Director for performing extra services, including the holding of the office of Chairman,
- b) the Chief Executive, and
- c) any Director for attending the meetings of the Directors or a Committee of Directors

shall be determined by the Board of Directors.

#### **6.12 Interest of Directors in Property Acquired by the Company**

None of the Directors of the Company had or have any interest in any property acquired by the Company in the last two (2) years or now proposed to be acquired by the Company.

#### **6.13 Voting Rights**

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded. Unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the Company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favor of, or against that resolution.

Under Article 43, subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote except for election of directors in which case the provisions of Section 178 of the Ordinance shall apply. On a poll every member shall have voting rights as laid down in Section 160 of the Ordinance.

#### **6.14 Powers of Directors**

The business of the Company shall be managed by the Directors, who may pay all expenses incurred in promoting and registering the Company, and may exercise all such powers of the Company as are not by the Ordinance or by these regulations, required to be exercised by the

Company in general meeting, subject nevertheless to the provisions of the Ordinance or to any of these regulations, and such regulations being not inconsistent with the aforesaid provisions, as may be prescribed by the Company in general meeting but no regulation made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.

#### **6.15 Borrowing Powers of the Directors**

Subject to the provisions of Article 41, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (both present and future), and to issue debentures, debenture stock, and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**PART 7 MISCELLANEOUS**

- |  |   |
|--|---|
| <b>7.1 Registered Office</b>                         | 6 <sup>th</sup> Floor, State Life Building, Blue Area, Islamabad  |
| <b>Corporate Office</b>                              | 404, Siddique Trade Centre, 72, Main Boulevard, Gulberg, Lahore   |
| <b>Site Office</b>                                   | Kot Addu Power Complex, Kot Addu, District Muzaffargarh   |
| <b>7.2 Shares Registrar &amp; Computer Balloters</b> | THK Associates (Private Limited)<br>Ground Floor, Modern Motors House<br>Beaumont Road, Karachi   |
| <b>7.3 Bankers of the Company</b>                    | Citibank, N.A.<br>ABN AMRO Bank N.V.<br>Standard Chartered Bank<br>Muslim Commercial Bank Limited<br>Habib Bank Limited   |
| <b>7.4 Bankers to the Offer</b>                      | <b><i>Domestic</i></b><br>ABN-AMRO Bank<br>Allied Bank of Pakistan Limited<br>Askari Commercial Bank Limited<br>Bank Alfalah Limited<br>Bank AL Habib Limited<br>Bolan Bank Limited<br>Faysal Bank Limited<br>First Dawood Investment Bank Limited<br>First Women Bank Limited<br>Habib Bank A.G. Zurich<br>Habib Bank Limited<br>Jahangir Siddiqui Investment Bank Limited<br>KASB Bank Limited<br>Meezan Bank Limited<br>Metropolitan Bank Limited<br>Muslim Commercial Bank Limited<br>National Bank of Pakistan<br>NDLC-IFIC Bank Limited<br>PICIC Commercial Bank Limited<br>Prime Commercial Bank Limited<br>Saudi Pak Commercial Bank Limited<br>Soneri Bank Limited<br>Standard Chartered Bank<br>The Bank of Punjab<br>United Bank Limited |

**Overseas**

Habib Bank Limited, Bahrain  
Habib Bank Limited, Oman  
Habib Bank Limited, UAE  
United Bank Limited, Bahrain  
United Bank Limited, Qatar  
United Bank Limited, UAE

**7.5 Auditors to the Company**

A. F. Ferguson & Co.  
Chartered Accounts  
5<sup>th</sup> Floor, Alfalah Building  
Shahrah-e-Quaid-e-Azam  
Lahore

**7.6 Legal Advisor of the Company**

Kabraji & Talibuddin  
Advocates & Legal Counselors  
64-A/1, Gulshan-e-Faisal  
Bath Island, Karachi 75530

**7.7 Lead Manager to the Offer**

Global Securities Pakistan Limited  
1<sup>st</sup> Floor State Life Building 1 A  
I. I. Chundrigar Road  
Karachi

**7.9 Material Contracts to this Offer for Sale**

KAPCO is a party to the following agreements which were entered into otherwise than in the ordinary course of its business or more than two years before the date hereof which are or may be material:

- a) Facilitation Agreement dated June 27, 1996 executed between President of Islamic republic of Pakistan for and on behalf of the Islamic Republic of Pakistan and KAPCO
- b) Note Agreement dated June 26, 1996 executed between WAPDA and KAPCO (as amended by the Note Amendment Agreement dated 20 April 2002)
- c) The Share Purchase Agreement dated June 26, 1996 executed between WAPDA and NPKAL pertains to the sale of 26% shares by WAPDA to NPKAL
- d) Transfer Agreement dated June 26, 1996 executed between WAPDA and KAPCO relating to the transfer of the power plant and the Islamabad property of the Company in consideration for payment of the purchase price
- e) Power Purchase Agreement (PPA) dated June 27, 1996 executed between Pakistan Water and Power Development Authority and KAPCO (as amended by the First Amendment dated October 3, 2000 and the Second Amendment dated April 20, 2002)
- f) Services Agreement dated June 27, 1996 executed between Pakistan Water and Power Development Authority and KAPCO

- g) Oil Supply Agreement dated June 27, 1996 executed between Pakistan State Oil Company Limited and KAPCO
- h) Assignment Agreement dated June 27, 1996 executed between Pakistan Water and Power Development Authority and KAPCO
- i) Gas Supply Agreement dated June 27, 1996 executed between Sui Northern Gas Pipelines Limited and KAPCO
- j) Novation Agreement dated June 27, 1996 executed between the Province of Punjab, Pakistan Water and Power Development Authority and KAPCO
- k) Sale Agreement dated June 26, 1996 executed between Pakistan Water and Power Development Authority and KAPCO
- l) The Officers Agreement dated June 27, 1996 executed between President of the Islamic Republic of Pakistan through the Secretary Privatization Commission, KAPCO and those of employees of WAPDA in grade 17 and above in relation to their employment with KAPCO ("Officers")
- m) The Staff Agreement dated June 27, 1996 executed between President of the Islamic Republic of Pakistan through the Secretary Privatization Commission, KAPCO, WAPDA and Pakistan WAPDA Hydro Electric Central Labour Union
- n) Conveyance Deed dated June 26, 1996 executed between the President of the Islamic Republic of Pakistan, the Province of Punjab, WAPDA and KAPCO
- o) Investors Agreement dated June 27, 1996 executed between President of the Islamic Republic of Pakistan and NPKAL
- p) Guarantee dated June 27, 1996 by President of the Islamic Republic of Pakistan in favor of KAPCO and NPKAL to secure the obligations of WAPDA under the Power Purchase Agreement, Services Agreement and Transfer Agreement, the obligations of PSO under the Oil Supply Agreement, the obligations of SNPGL under the Gas Supply Agreement.
- q) The Principal Agreement dated April 20, 2002 executed between WAPDA, NPKAL, International Power Global Developments Limited, IPR and KAPCO
- r) The Shareholders Agreement dated June 27, 1996 as amended by the Amendment Agreement dated April 20, 2002 executed between WAPDA and NPKAL
- s) The Shareholders Agreement dated January 11, 2005 executed between WAPDA, NPKAL and KAPCO. According to Section 9.21 of this agreement, if the Offer does not take place within 3 months from the date of this agreement, then the New Shareholders Agreement will automatically come into effect. The New Shareholders Agreement is the same agreement which existed before January 11, 2005 and is referred to in the above sub-section r).

- t) Promissory Note dated June 26, 1996 provided by KAPCO in favor of WAPDA relating to the payment of Rs 27,010,368,000/- and the interest thereof.
- u) Generation License issued by NEPRA to KAPCO under Section 15 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 dated September 22, 2004 and expiring on September 21, 2021

#### **7.10 Inspection of Documents and Contracts**

Copies of the agreements listed above, Memorandum and Articles of Association, the audited financial statements and Auditors' Certificates referred to in this OFSD may be inspected during normal business hours on any working day at the Company's corporate office in Lahore from the date of publication of the OFSD until the closing of the subscription list.

#### **7.11 Indemnity**

Subject to the provisions of Section 194, every Director, Chief Executive and other officer or agent for the time being of the Company shall be indemnified by the Company against (and the Board shall out of funds of the Company pay) all costs, losses and expenses which any officer or servant may incur or become liable to pay by reason of any contract entered into or act or thing done by him as such officer or agent or in any way in the proper discharge of his duties including travel expenses and in particular and so as not to limit the generality of the foregoing provisions against all liabilities incurred by him in defending any proceedings, whether civil or criminal, except those brought by the Company against him, in which judgment is given in his favor or in which he is acquitted, or in connection with any application under Section 488 in which relief is granted to him by the court.

#### **7.12 Legal Proceedings**

The Company is not a party to any pending legal proceeding other than routine litigation incidental to its day to day business.

#### **7.13 Memorandum of Association**

The Memorandum of Association, inter alia, contains the objects for which the Company was incorporated and the business, which the Company is, authorized to undertake. A copy of the Memorandum of Association is annexed to this Offer for Sale and is being published with all issues thereof except those released as newspaper advertisements.

#### **7.14 Vendors**

The Company has no vendors in terms of clause 12 of Part 1 of the Second Schedule of the Companies Ordinance 1984.

#### **7.15 Investment in Associated Companies**

The Company has not made any investment in any associated company.

**7.16 Subsidiary Companies**

The Company has no subsidiary.

**7.17 Revaluation of Fixed Assets**

The Company has not revalued any of its assets and no such change has been made in the accounts.

**7.18 Capitalization of Profits**

The Company has not capitalized profits.

**7.19 Financial Year of the Company**

The Company's accounting year ends on 30<sup>th</sup> June.

**7.20 Dividend**

The rate of dividend per ordinary share declared by the Company and the number of shares on which dividends were declared are as follows:

<b>Year</b>	<b>Number of Shares</b>	<b>Denomination of Each Share (Rs)</b>	<b>Cash Dividend Percent</b>
1996-97	880,253,228	10	22.7%
1997-98	880,253,228	10	39.8%
1998-99	880,253,228	10	-
1999-00	880,253,228	10	-
2000-01	880,253,228	10	-
2001-02	880,253,228	10	113.6%
2002-03	880,253,228	10	163.6%
2003-04	880,253,228	10	64.8%



## **PART 8 APPLICATION AND TRANSFER INSTRUCTIONS FOR RESIDENT PAKISTANI INVESTORS**

### **8.1 Resident-Pakistani investor** includes:

- a) Pakistani citizen resident in Pakistan;
- b) Companies, bodies corporate or other legal entities incorporated or established in Pakistan (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
- c) Provident/pension/gratuity funds/trusts, (subject to the terms of the Trust Deed and existing regulations); and
- d) Branches in Pakistan of companies and bodies corporate incorporated outside Pakistan.

### **8.2 Copies of OFSD and application form can be obtained from members of Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited, and Islamabad Stock Exchange (Guarantee) Limited, the Bankers to the Offer and their branches, the Lead Manager and the registered office of the company. The offer for sale and the application form can also be downloaded from the following websites:**

[www.privatisation.gov.pk](http://www.privatisation.gov.pk)  
[www.gslpk.com](http://www.gslpk.com)

### **8.3 There is a separate form for Pakistani investors. APPLICATION MUST BE MADE ON THE OFFERER'S APPLICATION FORM OR A LEGIBLE PHOTOCOPY THEREOF.**

### **8.4 The applicants opting for scripless form of security are required to complete the relevant sections of the application. In case of discrepancy between the information provided in the application form and the information already held by CDS, the Company reserves the right to issue share certificates in physical form.**

### **8.5 Names and addresses(s) must be written in full block letters, in English and should not be abbreviated. In case of difference of signature(s) with the bank and the National Identity Card / Power of Attorney (as the case maybe), both signatures should be affixed on the application form.**

### **8.6 a) In the case of individual investors, an attested photocopy of Computerized National Identity Card ("CNIC") should be enclosed and the CNIC number indicated against the name of the applicant. Copy of CNIC can be attested by any Federal / Provincial Government Gazetted Officer, Councilor, Bank Manager, Oath Commissioner, or Head Master of High School, etc.**

b) Original CNIC along with one attested copy must be produced for verification to the branch at the time of presenting an application. The attested photocopy will, after verification, be retained by the bank branch along with the application.

### **8.7 a) Applications made by companies, corporate bodies, provident/pension/gratuity funds/trusts and other legal entities must be accompanied by a copy of their Memorandum**

and Articles of Association or equivalent instrument/document. Where applications are made by virtue of Power of Attorney, the same must be lodged with the application. Any Federal/Provincial Government Gazetted officer, Councilor, Bank Manager, Oath Commissioner or Head master of a High School, etc, can attest copy of such documents.

b) Attested copies of the documents mentioned in Para 8.7(a) must be produced for verification to the branch at the time of presenting an application. The attested photocopy will, after verification, be retained by the bank branch along with the application

- 8.8** Only one application will be accepted from each applicant. No application will be accepted in the name of a person shown as minor in the records of the bank.
- 8.9** Joint application from more than four persons will not be accepted. In case of joint applications each party must sign the application form and submit copies of attested CNIC. The share certificates will be dispatched to the person whose name appears first on the application form while in case of CDS, it will be credited to the respective CDS account and where any amount is refundable, in whole or in part, the same will be refunded through the bank where the application was lodged, to the person named first on the application form, without interest, profit or return.
- 8.10** Payment should be in the form of cheque, pay order or draft payable to one of the Bankers to the Offer **“A/C OFFER FOR SALE OF SHARES OF KOT ADDU POWER COMPANY LIMITED”** and crossed, **“A/C PAYEE ONLY”** and must be drawn on a bank in the same town as the bank to which the application has been sent.
- 8.11** Applications are not to be made by minors and persons of unsound mind.
- 8.12** Applicants should ensure that the bank branch, on which their payment is made, completes the relevant portion on the application form.
- 8.13** Applicants should retain the bottom portion of their application forms as provisional acknowledgement of submission of their applications. This may be made available at the time of submission of the application or may be collected at later time from the bank branch (through which they submitted their application). This should not be construed as an acceptance of the application or the guarantee that the applicant will be allotted the number of shares for which the applicant has subscribed.
- 8.14** No receipt will be issued for payment made with the application. An acknowledgement will be forwarded in due course by refund of the money in case of unaccepted or unsuccessful applications. No interest or profit will be payable in respect of the refund amount.
- 8.15** It would be permissible for a bank to refund subscription money to unsuccessful applicants having an account in their bank by crediting such account instead of paying the same by cheque, pay order or bank draft. Applicants should therefore not fail to give their bank account numbers.
- 8.16** Transfer of shares of successful applicants shall be made subject to the rules of the Securities & Exchange Commission of Pakistan (“SECP”).

**8.17** Making of any false statement in the application or willfully embodying incorrect information therein will make the applicant or the bank liable for legal action.

**8.18** Basis for Offer for Sale of Shares

- a) This offer is being made at a price of Rs.30/- per ordinary share of Rs.10/- each inclusive of premium of Rs.20/- per share.
- b) Applications must be made for subscription of 500 shares only and the amount payable with each application will be Rs.15,000/-, both in case of physical transfer and transfer under book-entry system.
- c) Application for shares below or above 500 shall not be entertained.
- d) **FICTITIOUS AND MULTIPLE APPLICATIONS (MORE THAN ONE APPLICATION BY A SINGLE APPLICANT) ARE PROHIBITED AND SUCH APPLICANTS' MONEY SHALL BE LIABLE TO CONFISCATION UNDER SECTION 18-A OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969.**
- e) 20% of the Offer is reserved for non-resident Pakistani investors, who may apply for shares through applications, which shall be for 500 shares only.
- f) If the shares to be offered to the general public are sufficient for the purpose to accommodate all the applications, then all applications shall be accommodated.
- g) In case of over/under subscription of shares by resident and/or non-resident Pakistani investors, the investors of oversubscribed category will be allocated the shares of undersubscribed category, provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.
- h) In case of under subscription of shares offered to the transferred employees of KAPCO, the investors of oversubscribed category i.e., either resident and/or non-resident Pakistani investors will be allocated the remaining shares. First preference of allocation from the undersubscribed employee category will be given to the resident Pakistani investors. Provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.
- i) Allocation of shares shall be subject to scrutiny of applications for subscription.
- j) Applications, which do not meet with the aforementioned requirements, or applications which are incomplete, will be rejected.
- k) This is an "Offer for Sale" of 88,025,000 ordinary shares of the Company by the Privatisation Commission, Government of Pakistan on behalf of WAPDA (the "Offerer") out of WAPDA's shareholding in the Company through the Stock Exchanges. In case of over subscription, the Offerer shall exercise the green shoe option and offer upto 70,240,000 additional ordinary shares out of WAPDA's shareholding in the Company.

- 8.19** The Company will dispatch share certificates to successful applicants through their Bankers to the Offer or credit the respective CDS accounts of the successful applicants (as the case may be).

**8.20 Code of Occupation**

Code No.	Occupation	Code No.	Occupation
01	KAPCO Employee	02	Business
03	Business Executive	04	Services
05	Household	06	Professional
07	Student	08	Industrialist
09	Agriculturist	10	Others

**8.21 Domestic Bankers to the Offer:**

Code No.	Name of Banks
01	ABN-AMRO Bank
02	Allied Bank of Pakistan Limited
03	Askari Commercial Bank Limited
04	Bank Alfalah Limited
05	Bank AL Habib Limited
06	Bolan Bank Limited
07	Faysal Bank Limited
08	First Dawood Investment Bank Limited
09	First Women Bank Limited
10	Habib Bank A.G. Zurich
11	Habib Bank Limited
12	Jahangir Siddiqui Investment Bank Limited
13	KASB Bank Limited
14	Meezan Bank Limited
15	Metropolitan Bank Limited
16	Muslim Commercial Bank Limited
17	National Bank of Pakistan
18	NDLC-IFIC Bank Limited
19	PICIC Commercial Bank Limited
20	Prime Commercial Bank Limited
21	Saudi Pak Commercial Bank Limited
22	Soneri Bank Limited
23	Standard Chartered Bank
24	The Bank of Punjab
25	United Bank Limited

## **PART 9 APPLICATION AND TRANSFER INSTRUCTIONS FOR NON-RESIDENT PAKISTANI INVESTORS**

### **9.1 Non-Resident Pakistani investor includes:**

- a) Pakistani citizen residing outside Pakistan; and
- b) Persons holding two nationalities including Pakistani nationality.

### **9.2 Copies of OFSD and application form can be obtained from members of Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited, and Islamabad Stock Exchange (Guarantee) Limited, the Bankers to the Offer and their branches, the Lead Manager and the registered office of the company. The offer for sale and the application form can also be downloaded from the following websites:**

[www.privatisation.gov.pk](http://www.privatisation.gov.pk)  
[www.gslpk.com](http://www.gslpk.com)

### **9.3 There is a separate form for non-resident Pakistani investors. APPLICATION MUST BE MADE ON THE OFFERER'S APPLICATION FORM OR A LEGIBLE PHOTOCOPY THEREOF.**

### **9.4 The applicants opting for scripless form of security are required to complete the relevant sections of the application. In case of discrepancy between the information provided in the application form and the information already held by CDS, the Company reserves the right to issue share certificates in physical form.**

### **9.5 Names and addresses(s) must be written in full block letters, in English and should not be abbreviated. In case of difference of signature(s) with the bank and the passport, both signatures should be affixed on the application form.**

### **9.6 An attested copy of the applicant's passport, Computerized National Identity Card ("CNIC") and the foreign resident visa or permit should be enclosed and the passport and CNIC number indicated against the name of the applicant. The Bank Manager in the country of applicant's residence can attest copies of these documents.**

### **9.7 a) Non-resident Pakistani investors living in Bahrain<sup>14</sup>, Qatar<sup>15</sup>, Sultanate of Oman<sup>16</sup>, and the UAE<sup>17</sup> may subscribe through the overseas Bankers to the Offer in these countries. For information of the non-resident Pakistanis, the list of authorized banks would be published after publication of the OFSD and before closing of the subscription in the newspapers of each of these countries and would also be available on the websites of the Lead Manager and the Offerer..**

b) Applicants may also subscribe using their special convertible rupee accounts ("SCRA") as set out under the State Bank of Pakistan's Foreign Exchange Manual.

<sup>14</sup> Subject to the approval of the Bahrain Monetary Authority

<sup>15</sup> Subject to the approval of the Qatar Central Bank

<sup>16</sup> Subject to the approval of the Oman Central Bank

<sup>17</sup> Subject to the approval of the UAE Central Bank

- 9.8 Banks may subscribe for on behalf of their constituents who are non-resident Pakistani investors. Such applications must contain all information in respect of each constituent on the application form. The Bank Manager concerned as provided in the application form must also certify all such applications.
- 9.9 Joint application from more than four persons will not be accepted. In case of joint applications each party must sign the application form and submit copies of attested CNIC / Passport (in the case of overseas Pakistanis). The share certificates will be dispatched to the person whose name appears first on the application form while in case of CDS, it will be credited to the respective CDS account and where any amount is refundable, in whole or in part, the same will be refunded by cheque, by post, or through the bank where the application was lodged, to the person named first on the application form, without interest, profit or return.
- 9.10 Payment should be in the form of cheque or draft payable to one of the Bankers to the Offer **“A/C OFFER FOR SALE OF SHARES OF KOT ADDU POWER COMPANY LIMITED”** and crossed, **“A/C PAYEE ONLY”** and must be drawn on a bank in the same town as the bank to which the application has been sent.
- 9.11 Applications are not to be made by minors and persons of unsound mind.
- 9.12 Applicants should ensure that the bank branch, on which their payment is made, completes the relevant portion on the application form.
- 9.13 Applicants should retain the bottom portion of their application forms as provisional acknowledgement of submission of their applications. This may be made available at the time of submission of the application or may be collected at later time from the bank branch (through which they submitted their application). This should not be construed as an acceptance of the application or the guarantee that the applicant will be allotted the number of shares for which the applicant has subscribed.
- 9.14 No receipt will be issued for payment made with the application. An acknowledgement will be forwarded in due course by refund of the money in case of unaccepted or unsuccessful applications. No interest or profit will be payable in respect of the refund amount.
- 9.15 It would be permissible for a bank to refund subscription money to unsuccessful applicants having an account in their bank by crediting such account instead of paying the same by cheque, pay order or bank draft. Applicants should therefore not fail to give their bank account numbers.
- 9.16 Transfer of shares of successful applicants shall be made subject to the rules of the Securities & Exchange Commission of Pakistan (“SECP”).
- 9.17 Making of any false statement in the application or willfully embodying incorrect information therein will make the applicant or the bank liable for legal action.
- 9.18 Basis for Offer for Sale of Shares

- a) This offer is being made at a price of Rs.30/- per ordinary share of Rs.10/- each inclusive of premium of Rs.20/- per share.
- b) Applications must be made for subscription of 500 shares only and the amount payable with each application will be Rs.15,000/-, both in case of physical transfer and transfer under book-entry system.
- c) Application for shares below or above 500 shall not be entertained.
- d) **FICTITIOUS AND MULTIPLE APPLICATIONS (MORE THAN ONE APPLICATION BY A SINGLE APPLICANT) ARE PROHIBITED AND SUCH APPLICANTS' MONEY SHALL BE LIABLE TO CONFISCATION UNDER SECTION 18-A OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969.**
- e) 20% of the Offer is reserved for non-resident Pakistani investors, who may apply for shares through applications, which shall be for 500 shares only.
- f) If the shares to be offered to the general public are sufficient for the purpose to accommodate all the applications, then all applications shall be accommodated.
- g) In case of over/under subscription of shares by resident and/or non-resident Pakistani investors, the investors of oversubscribed category will be allocated the shares of undersubscribed category, provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.
- h) In case of under subscription of shares offered to the transferred employees of KAPCO, the investors of oversubscribed category i.e., either resident and/or non-resident Pakistani investors will be allocated the remaining shares. First preference of allocation from the undersubscribed employee category will be given to the resident Pakistani investors. Provided that in case of non-resident Pakistani investors the total number of shares allocated shall not exceed 20% of the Offer.
- i) If the Offer is oversubscribed, the shares shall be allocated by conducting computer balloting in the presence of representatives of the Stock Exchanges.
- j) Allocation of shares shall be subject to scrutiny of applications for subscription.
- k) Applications, which do not meet with the aforementioned requirements, or applications which are incomplete, will be rejected.
- l) This is an "Offer for Sale" of 88,025,000 ordinary shares of the Company by the Privatisation Commission, Government of Pakistan on behalf of WAPDA (the "Offerer") out of WAPDA's shareholding in the Company through the Stock Exchanges. In case of over subscription, the Offerer shall exercise the green shoe option and offer upto 70,240,000 additional ordinary shares out of WAPDA's shareholding in the Company.

- 9.19** The Company will dispatch share certificates to successful applicants through their Bankers to the Offer or credit the respective CDS accounts of the successful applicants (as the case may be).

**9.20 Code of Occupation**

Code No.	Occupation	Code No.	Occupation
01	KAPCO Employee	02	Business
03	Business Executive	04	Services
05	Household	06	Professional
07	Student	08	Industrialist
09	Agriculturist	10	Others

**9.21 Bankers to the Offer:**

**Domestic Bankers to the Offer**

Code No.	Name of Banks
01	ABN-AMRO Bank
02	Allied Bank of Pakistan Limited
03	Askari Commercial Bank Limited
04	Bank Alfalah Limited
05	Bank AL Habib Limited
06	Bolan Bank Limited
07	Faysal Bank Limited
08	First Dawood Investment Bank Limited
09	First Women Bank Limited
10	Habib Bank A.G. Zurich
11	Habib Bank Limited
12	Jahangir Siddiqui Investment Bank Limited
13	KASB Bank Limited
14	Meezan Bank Limited
15	Metropolitan Bank Limited
16	Muslim Commercial Bank Limited
17	National Bank of Pakistan
18	NDLC-IFIC Bank Limited
19	PICIC Commercial Bank Limited
20	Prime Commercial Bank Limited
21	Saudi Pak Commercial Bank Limited
22	Soneri Bank Limited
23	Standard Chartered Bank
24	The Bank of Punjab
25	United Bank Limited



**Overseas Bankers to the Offer**

<b>Code No.</b>	<b>Name of Banks</b>
26	Habib Bank Limited, Bahrain
27	Habib Bank Limited, Oman
28	Habib Bank Limited, UAE
29	United Bank Limited, Bahrain
30	United Bank Limited, Qatar
31	United Bank Limited, UAE

For information of the non-resident Pakistanis, the list of authorized banks would be published after publication of the OFSD and before closing of the subscription in the newspapers of each of these countries and would also be available on the websites of the Offerer and the Lead Manager.

**PART 10      SIGNATORIES TO THE OFFERING DOCUMENT**

1.

\_\_\_\_\_  
-signed-

Acting Secretary  
Privatisation Division, Government of Pakistan

2.

\_\_\_\_\_  
-signed-

Deputy Secretary  
Privatisation Division, Government of Pakistan

Signed by the above in the presence of witnesses:

-Signed-  
  
\_\_\_\_\_-Signed-  
  
\_\_\_\_\_

Date: \_\_\_\_\_

Place: \_\_\_\_\_

**PART 11      MEMORANDUM OF ASSOCIATION**

**The Companies Ordinance, 1984**

**(Company Limited by Shares)**

**MEMORANDUM OF ASSOCIATION**

**OF**

**KOT ADDU POWER COMPANY LIMITED**

**I.      NAME:**

The name of the Company is Kot Addu Power Company Limited.

**II.     REGISTERED OFFICE:**

The registered office of the Company will be situated in the Islamabad Capital Territory.

**III.    OBJECTS:**

The objects for which the Company is established are to undertake any or all of the following business in and outside Pakistan:

- (1)     Kot Addu Power Facility. To acquire or purchase from the Pakistan Water & Power Development Authority ("WAPDA") the business, properties, assets and undertakings of WAPDA's blended fuel oil, high speed diesel and natural gas fired combined cycle power station, having a nominal generation capacity of 1650 MW, located at Kot Addu in the Punjab Province together with related facilities ("Kot Addu Power Facility") and to take over any or all of the belongings, funds, assets, rights, privileges, liabilities, obligations and contracts related to or in respect of the Kot Addu Power Facility.
- (2)     Power Generation. To carry on the business of power generation, transmission and distribution.
- (3)     Construction and Maintenance. To finance, design, construct, own, operate and maintain power houses and grid stations together with all machinery, equipment and works ancillary thereto and plan, survey, design, supply equipment and carry

out the construction of grid stations and transmission lines of all voltages and to do all such acts, deeds and things, without limitation whatsoever as may be necessary or desirable in that connection.

- (4) Electrification. To plan, survey, design, supply equipment and carry out the electrification of cities, towns, villages, gas and oil refineries, workshops, building, tube-wells, highways bridges, culverts, airports, air-terminals, sea ports, harbors and tube-well project.
- (5) Renovation and Augmentation. To carry out overall planning of electrification, augmentation and renovation of electrical systems and to design and supervise the electrification of all types of buildings and factories.
- (6) Schemes. To plan and frame schemes for irrigation, water supply and drainage, recreational use of water resources, inland navigation, flood control, prevention of water logging and reclamation of waterlogged and salted lands and to place wires, poles, wall brackets, stays, apparatus and appliances for the transmission of electricity or for the transmission of telegraphic and telephonic communications necessary for the proper execution of a scheme.
- (7) Engineering and Consultancy. To carry on the business of electrical engineers, mechanical engineers, civil engineers, electricians, contractors, consultants, agents and manufacturers of electric plant machinery, equipment and apparatus, and of generating, producing and supplying light, heat, sound and power by electricity, galvanism, magnetism or otherwise, whether for the purpose of light, heat, motive power, telephonic, telegraphic, industrial or other purposes, and generally of installing, executing, providing, working and maintaining all necessary plant, machinery, equipment, cables, wires, accumulators, lamps, exchanges, telephones and apparatus.
- (8) Technical Assistance. To render technical assistance to foreign countries in connection with power resource development and utilization and to receive assistance from foreign countries in such matters.
- (9) Workshops. To establish all sorts of workshops for manufacture and maintenance of all types of electrical equipments, tools and materials.
- (10) Dealing in Plant Equipment. To import, export, buy, sell, hire or deal in plant, machinery, equipment, cables, wires, accumulators, lamps, exchanges, telephones, fittings, furniture and apparatus of every kind with special reference to plant, machinery, equipment or apparatus connected with the producing, storage, supplying, using, regulating or measuring the supply or facilitating the use of electricity or electrical current or force.
- (11) Dealing in other Equipment. To buy, sell, import, export, hire, manufacture, deal in and turn to account plant, machinery, implements, conveniences, provisions, articles and products capable of being used in connection with the operation of or

required by workmen and others employed by the company or incidentally or conveniently connected with any such business as aforesaid.

- (12) Training. To train professionals, personnel and workers, both in Pakistan and abroad, to obtain technical proficiency in various specialties connected with the business of the Company and to provide scholarships and stipends for such training.
- (13) Advertising. To adopt such means of making known the products of the Company as may seem expedient, and in particular by advertising in the press, by circulars, by purchase and exhibition of works of art or interests, by publication of books and periodicals, by granting prizes, rewards and donations.
- (14) Agents. To act as or appoint agents, sub-agents, attorneys, consultants, brokers, and contractors in connection with the business of the Company but not to act as stock-brokers or managing agents as restricted under law.
- (15) Bank Accounts. To open, close and operate banking accounts of the Company with any bank or banks and to draw, make, accept, endorse, discount, execute and issue promissory notes, bills of exchange, bills of lading, warrants, debentures and other negotiable or transferable instruments but not to act as a finance or banking company.
- (16) Securities. To issue securities, including participation term certificates and debentures and debenture stock, in consideration of any funds, moneys, accommodation received or to be received by the Company whether in cash or in specie or against any promise, guarantee, undertaking or indemnity issued to or in favour or benefit of the Company.
- (17) Borrowing. To receive money on loan and borrow money in such manner as the Company shall think fit, and in particular by the issue of debentures, or debenture stocks (perpetual or otherwise) and to secure the repayment of any money borrowed, or owing mortgage, charge or lien upon all or any of the property or assets of the Company (both present and future) and also by a similar mortgage, charge or lien to secure and guarantee the performance by the Company or any other person or company of any obligation undertaken by the Company or any other person or company as the case may be, but not to act as a finance or banking company.
- (18) Building. To build, construct, alter, maintain, enlarge, pull down, remove or replace, and to work, manage and control any buildings, offices, factories, mills, warehouses, shops, stores, machineries, engines, roads, ways, railways, branches or sidings, bridges, reservoirs, watercourses, wharves, electric works and other works and conveniences which may seem calculated directly or indirectly to advance the interests of the Company, and to join with any other person or company in doing any of these things.

- (19) Charity. To subscribe or contribute or otherwise to assist or to guarantee money to charitable, benevolent, religious, literary, scientific, technical, national, public or any other institutions, for its objects or purposes or for any exhibition.
- (20) Companies. To promote, constitute, incorporate, form, register and operate any company or companies or other legal entities anywhere for any purpose which may seem directly or indirectly calculated to benefit this Company, and/or to subscribe for, take, or otherwise acquire, and hold shares, debentures or other securities of or amalgamate or merge, into any other company having objects altogether or in part similar to those of this Company or carrying on any business capable of being conducted so as directly or indirectly to benefit this Company, but not to act as an investment company.
- (21) Contracts. To enter into agreement with any individual, firm, co-operative or other society, company, corporate body, Government or local authority or other legal entity necessary or expedient for the purpose of carrying on any business of the Company.
- (22) Employees' funds. To establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company or is allied to or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and the wives, widows, families and dependents of any such persons, and also to establish and subsidize and subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well being of the Company or of any such other company as aforesaid, and make payments to or towards the insurance of any such person as aforesaid and do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid.
- (23) Other Funds. To create any depreciation fund, reserve fund, sinking fund, insurance fund, or any other special fund, whether for depreciation, or for repairing, improving, extending or maintaining any of the property of the Company.
- (24) Employment. To employ and remunerate managers and other officers, employees and servants of the Company or any person or firm or company rendering services to the Company upon such terms as the Company may determine.
- (25) Expenses. To pay out of the funds of the Company all expenses of and incidental to the formation, registration, advertisement of the Company and the issue and subscription of the share or loan capital including brokerage and/or commission for obtaining applications for or placing or guaranteeing the placing of shares or any debentures, debenture stocks and other securities of this Company and also all expenses relating to the issue of any circular or notice and the printing, stamping circulating of proxies and forms to be filled up by the members of the Company.

- (26) Foreign Branches. To open branches, register the Company and to undertake all or any of the business of the Company in any part of the world and to become a member of various associations and trade bodies whether in Pakistan or abroad.
- (27) Government Permissions. To apply for and obtain necessary consents, permissions and licenses from any Government, State, Local and other authorities for enabling the Company to carry any of its objects into effect or for extending any of the powers of the Company or for effecting any modification of the constitution of the Company or for any other purpose which may seem expedient, and to oppose any proceedings or applications which may seem calculated, directly or indirectly to prejudice the interests of the Company, and to enter into arrangements with any Government or authorities, central, provincial, municipal, local or otherwise, public or quasi-public bodies, or with any other persons, in any place where the Company may have interests that may seem conducive to the objects of the Company or any of them and to obtain from any such Government, authorities or persons any rights, privileges and concessions which the Company may think fit to obtain, and to carry out, exercise and comply therewith.
- (28) Import and Export. To carry on all or any of the business of importers, exporters, ship owner, shipbuilders, charterer of ships and other vessels, warehousesmen, wharfingers, merchants, ship and insurance brokers, carriers and forwarding agents.
- (29) Insurance. To insure the property, assets, and employees of the Company in any manner deemed fit by the Company, and to create any reserve fund, sinking fund, insurance fund or any other special fund whether for depreciation or for repairing, insuring, improving, extending or maintaining any of the property of the Company or for any other purpose conducive to the interests of the Company but not to act as an insurance company.
- (30) Investment. To invest the surplus moneys of the Company not immediately required in any manner but not to act as an investment company.
- (31) Lending. To advance money or give credit to such persons or companies and on such terms as may seem expedient and in particular to customers and others having dealings with the Company, and to guarantee the performance of any contract or obligation and the payment of money by the Company.
- (32) Other Business. To carry on any other business, whether agricultural, industrial, commercial, engineering, consultancy, construction, mining, manufacturing or trading which may seem to the Company capable of being conveniently carried on in connection with the above, calculated directly or indirectly to enhance the value of or render profitable any of the Company's property or rights and to acquire and undertake the whole or any part of the business, property, and liabilities of any person or company carrying on or proposing to carry on any business which the Company is authorized to carry on, or possessed of property suitable for the purposes of the Company, or which can be carried on in conjunction therewith or

which is capable of being conducted so as directly or indirectly to benefit the Company.

- (33) Partnerships. To enter into partnership or other joint venture or co-operation with any person or company or other legal entity, local or foreign, carrying on or engaged in any business or transaction which this Company is authorized to carry on or engage in, or otherwise assist any such person or company or legal entity.
- (34) Patents/Trademarks. To apply for, purchase, or otherwise acquire, and protect and renew in any part of the world any patents, patent rights, brevets d'invention (trade marks, designs), licenses, concessions, and the like, conferring any exclusive or non-exclusive or limited right to their use, or any secret or other information as to any invention which may seem capable of being used for any of the purposes of the Company, or the acquisition of which may seem calculated directly or indirectly to benefit the Company, and to use, exercise, develop, or grant licenses in respect of, or otherwise turn to account the property, rights or information so acquired, and to expend money in experimenting upon, testing or improving any such patents, inventions or rights; and to sell any patent rights or privileges belonging to the Company or which may be acquired by it, or any interest in the same, and to grant licenses for the use and practice of the same or any of them and to let or allow to be used or otherwise deal with any inventions, patents or privileges in which the Company may be interested, and to do all such acts and things as may be deemed expedient for turning to account any inventions, patents and privileges in which the Company may be interested.
- (35) Profits/Capitalization. To receive, declare and distribute profits and to capitalize such portion of the profits of the Company as are not distributed among shareholders of the Company in the form of dividends, and as the Company may think fit, and to issue bonus shares, as fully paid up, in favor of the shareholders of the Company.
- (36) Property. To acquire, purchase, lease, rent, hire, exchange, gifts, sell, transfer, convey or otherwise dispose of any moveable or immoveable property, rights and privileges on such terms and conditions as the Company may think necessary or convenient for the purpose of its business.
- (37) Registration/Fees. To file or register any documents required to be filed or registered under law, and to pay any fees, charges, expenses, rents, taxes, duties and other dues payable in connection with the business or operation of the Company.
- (38) Regulations. To make rules or regulations not inconsistent with this Memorandum, to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Memorandum and the efficient conduct of the affairs of the Company.
- (39) Research and Development. To improve, manage, develop, grant rights or privileges in respect of, or otherwise deal with, all or any part of the property and



rights of the Company and to establish laboratories, research and development centres to perform such research and development as the Company may deem advisable or feasible, and to expend money on experimenting upon and testing and improving or securing any process, or processes, patent or protecting any invention or inventions which the Company may acquire or propose to acquire or deal with.

- (40) Sale and Purchase. To accept, buy, sell, market, supply, transfer (including transfer of actionable claims) or deliver any and every kind of moveable property for such price and subject to such terms, conditions and warranties as the Company may think fit.
- (41) Sale of Undertaking. To sell, improve, manage, develop, exchange, lease, mortgage, enfranchise, dispose of, turn to account, or otherwise deal with, all or any part of the property, assets or undertaking of the Company for such consideration as the Company may think fit, and in particular for shares, debentures, or other securities of any other company whether or not having objects altogether or in part similar to those of this Company, and to distribute among the members in specie any property of the Company, or any proceeds of sale or disposal of any property of the Company.
- (42) Security. To accept or give security, including but not limited to promissory notes, indemnity bonds, guarantees, assignments, receipts, bailments, pledges, hypothecations, liens, mortgages and charges, against the credit extended or moneys borrowed in connection with the business of the Company.
- (43) Settlement of Disputes. To settle disputes by negotiation, conciliation, mediation, arbitration, litigation or other means and to enter into compromise with creditors, members and any other persons in respect of any difference or dispute with them.
- (44) Transportation and Communication. To carry on the business of common carriers of goods and passengers by road, rail, air, or water and also to carry on the business of designers, manufacturers, buyers, sellers, hirers, renters, agents, dealers, distributors, repairers, exporters, importers, owners, and charterers of road vehicles, aircraft and ships, and to engage in any business of communication.
- (45) Trusts. To vest any real or personal property, rights or interests acquired by or belonging to the Company in any person or company on behalf of or for the benefit of the Company, and with or without any declared trust in favor of the Company, and to undertake and execute any trust the undertaking whereof may seem desirable, and either gratuitously or otherwise.
- (46) Underwriting/Brokerage. To underwrite the shares, or securities of any other company and to pay underwriting commission and brokerage on any shares, or securities issued by the Company.
- (47) General Power. To do all such other things as may be deemed incidental or conducive to the attainment of the above objects or any of them.

Declaration. It is hereby declared that

- (a) the word “company” in this clause except where used in reference to this Company, shall be deemed to include any partnership or other body of persons, whether corporate or unincorporated, and whether domiciled in Pakistan or elsewhere;
- (b) the objects specified in each of the paragraphs of this clause shall be regarded as independent objects, and accordingly shall in no way be limited or restricted (except where otherwise expressed in such paragraphs) by reference to or inference from the terms of any other paragraph or the name of the Company, but may be carried out in as full and ample a manner and construed in as wide a sense as if each of the said paragraphs defined the objects of a separate and distinct company;
- (c) the headings used in each of the paragraphs of this clause are for convenience only and are not intended to affect the construction thereof in any way;
- (d) notwithstanding anything contained in the foregoing object clauses of this Memorandum of Association, nothing herein shall be construed as empowering the Company to undertake or indulge in the business of banking, finance, leasing, investment or insurance, directly or indirectly, as restricted under law or any unlawful operations.

**IV. LIABILITY:**

The liability of the members is limited.

**V. SHARE CAPITAL:**

The share capital of the Company is Rs. 36,000,000,000.00 (Rupees thirty six billion) divided into 3,600,000,000 (three billion six hundred million) ordinary shares of Rs. 10 (Rupees ten) each with power to increase or reduce the capital and to divide the shares in the capital for the time being into several classes and to attach thereto respectively such rights, privileges or conditions as may be determined by or in accordance with the regulations of the Company, and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the regulations of the Company in accordance with law provided, however, that rights as between various classes of ordinary shares, if any, as to profits, votes and other benefits shall be strictly proportionate to the paid up value of shares.