The Pakistan Credit Rating Agency Limited

RATING REPORT

PAKGEN POWER LIMITED (PGPL)

JANUARY 2012

PAKGEN POWER LIMITED

RATING REPORT CONTENTS

ANNEXURE

The Pakistan Credit Rating Agency Limited

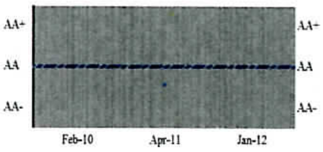
INDEPENDENT POWER PRODUCER

PAK GEN POWER LIMITED (PGPL)

RATINGS (JANUARY 2012)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+

LONG -TERM RATING HISTORY



FINANCIAL DATA

PKR in mln

	9MCY11	CY10
Debt-ST	7,265	4,580
Equity	13,053	13,752
Debt /Equity (%)	55.6	33.3
Thermal Efficiency (Avg %)	36.6	36.9
Available Capacity (Avg %)	87.5	94.2
Electricity Generated (GWhrs)	1,420	1,571

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect strong financial profile of the company as indicated by a sound capital structure and guaranteed cash flows by GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed upon performance benchmarks. PGPL's Operations and Maintenance (O&M) activities are performed in house, exposing the company to sizeable operational risk. However, the O & M team, carrying extensive experience of managing the plant, has been part of the company since long. The team is making efforts to improve the efficiency of the plant, which is currently less than the required level. Meanwhile, the accumulation of circular debt arising from the weak financial discipline of the sole customer, Water and Power Development Authority (WAPDA), is the key challenge faced by the company. Nonetheless, the ratings draw comfort from PGPL's association with the Nishat Group - renowned and financially sound group - which has an explicit commitment to support, in case the need arises.
- The ratings are dependent upon the management's ability to manage and control its operations as per PPA agreed performance parameters. Meanwhile, reaching optimum efficiency, while upholding strong governance and control environment, managing liquidity requirements in the midst of circular debt crisis, and external factors such as any changes in the regulatory framework of IPPs remain critical to the ratings.

ASSESSMENT

- The total available capacity of electricity generation in Pakistan stands around 21,000MW. However, consistent growth in population and gradual electrification along with industrialization have increased the demand of electricity. In the absence of any noteworthy development in hydel, the government's reliance on thermal generation has increased – particularly IPPs. Given its financial constraints, the government incentivized the private sector to setup IPPs. As of now, there are 27 IPPs with installed capacity of ~ 7,500MW. With ~ 36% of the country's total capacity, IPPs are playing a critical role to manage the shortfall at acceptable level. However, the power sector has been plagued by the circular debt crisis which has resulted in accumulation of receivables for the IPPs. In order to ensure smooth and uninterrupted running of the plants, IPPs have resorted to enhance their working capital lines due to late payment by the single buyer (WAPDA/ NTDC). Going forward, GoP's failure to resolve circular debt and consistent pilling up of receivable could have a negative implication for the IPPs' sector.
- PGPL is an IPP operating under the power policy 1994. The plant, with a capacity of 365 MW, is located at Mehmood Kot, near Muzaffargarh (Punjab) and is based on residual fuel oil (RFO). The plant commenced its commercial production in Feb98. The project has a remaining contractual life of 13 years under PPA with the Power purchaser.
- Nishat Group, the majority shareholder of the PGPL, acquired the company in CY10 from AES Corporation, USA. In July 2011 the company was listed on the Karachi and Lahore stock exchanges and currently has a free float of ~13%. Prior to the acquisition of the company, O&M activities were handled by an in house team trained under the expertise of AES, former O&M operator. This team has been involved in O&M activities since the plant's commencing and hence they carry significant experience. The new sponsors of PGPL have retained the original team thereby largely mitigating any operational risk. However, in house O&M activities have constrained the company's ability to transfer liabilities arising from non-performance onto a third party.
- Pakistan State Oil (PSO), the largest oil-marketing company in Pakistan, is the fuel supplier for PGPL. PSO, under the Fuel Supply Agreement (FSA), delivers RFO to the company through pipelines. The company acquires fuel from PSO on advance payment basis. Moreover, PGPL is required to maintain a fuel inventory of 30 days. However, currently the company is holding less than the required amount of fuel inventory due to cash flow constraints caused by the prevailing circular debt crisis.
- PGPL's key source of revenue is the generation tariff from the power purchaser. It comprises a capacity charge component and an energy charge component. With the exception of agreed return to project shareholders with adjustment for performance achievements, all other elements of cost are pass-through having no bearing on the PGPL's core profitability.
- During 9MCY11, PGPL's average available capacity declined as compared to last year (9MCY11: 87.5%; CY10: 92.3%). However, the company produced more electricity (9MCY11: 1,420GWhr; 9MCY10: 1,323GWhr) on the back of higher demand from WAPDA. The lower production levels in CY10 can be attributed to the onset of flood crisis. During the last few years, the company has been unable to keep its efficiency at the required level of 38% as per the PPA (Average Efficiency Level during 9MCY11: 36.6%; CY10: 36.9%). The management is making efforts to narrow the gap between required and actual efficiency. The company is in the process of installing a 22MW captive power generation plant based on solid waste to meet the demand of auxiliary equipment. This would free up core capacity, improving performance against efficiency benchmark. The plant, with an initial cost of ~PKR 2,000mln, is expected to be installed by CY13.
- Although the company redeemed its project debt in CY10, the debt to equity ratio has increased with rise in short term financing (3QCY11: PKR 7,265mln; CY10: PKR 4,580mln; CY09: PKR 3,000mln). PGPL has lately enhanced its WC lines to PKR 8,750mln (CY09: PKR 5,700mln) in the wake of rising requirements. Nevertheless, the strong equity base of the company and its capacity to absorb risk arising from claim of any Liquidated Damages by WAPDA remains affirm. So far PGPL has utilized 75% of the WC lines. Currently these lines provide the company with sufficient cover against liquidity requirements. The receivables of the company are being financed by WC lines and equity. Although the company has a 90% dividend payout policy, it would be placed better to manage its receivables if it decides to retain most of its profits.

PROFILE

- Pakgen Power Limited (PGPL) is a special purpose company established for electricity generation under the power policy 1994 as an Independent Power Producer (IPP). PGPL, with a total cost of US$ 347mln, has installed capacity of 365MW. In CY10, the company was acquired by a consortium led by a consortium led by Nishat Group, from AES Corporation, USA. Subsequently, the company was listed on the Karachi and Lahore Stock Exchanges. PGPL redeemed its entire project debt in CY10.
- The principal sponsors of the company are Nishat Group (41%), followed by Abu Dhabi Investment Council (26%) and City Schools (Private) Limited (17%). Majority of board members are nominated by Nishat Group. Mr. Shahid Zulfiqar Khan, the CEO of the company has considerable experience in the power sector. He is also heading the O & M team of the plant.

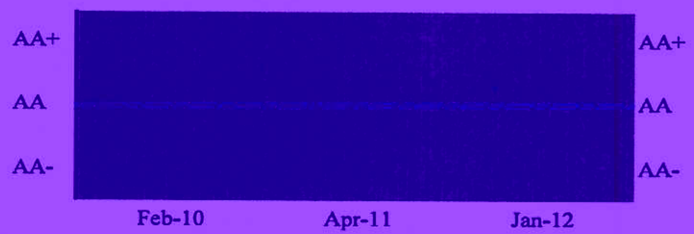
1. RATINGS

- Very High Credit Quality
- Maintained

Ratings Entity	New	Previous
Long Term	AA	AA
Short Term	A1+	A1+

These ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

PAKGEN POWER LIMITED – LT RATING HISTORY

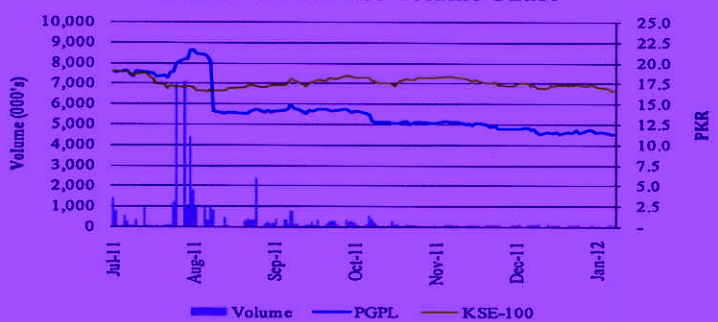


2. PROFILE

- 365 MW Residual Furnace Oil (RFO) based power project
- Fourteen years of commercial operations

2.1 Pak Gen Power Limited (PGPL) [formerly AES Pak Gen (Pvt.) Limited], a special purpose company, was originally incorporated in Jun95 as an Independent Power Producer (IPP) under the power policy 1994. PGPL started commercial operations in Feb98. Nishat Group is now the majority shareholder of the company and acquired the stake in CY10 from AES Corporation, USA. In July 2011, PGPL was listed on the Karachi and Lahore stock exchanges and currently has a free float of ~12%. The company paid 50% interim dividend in August 2011 which explains the dip in stock price.

PGPL - Share Price-Volume Chart



2.2 The Project: PGPL has commissioned a thermal power plant on a build-own-operate (BOO) basis with a capacity of 365 MW based on residual fuel power in Mehmood Kot, near Muzaffargarh in the province of Punjab. The plant sells electricity to Water and Power Development Authority (WAPDA), the power purchaser. Lately the project has completed 14 years out of 30 years tenor under standard power purchase agreement (PPA) contract with the Power purchaser. The plant would remain the property of its shareholders after the conclusion of PPA.

Project Milestones	Dates
Issuance of Letter of Interest (LOI)	May 1994
Issuance of Letter of Support (LOS)	Jun 1994
Finalization of IA	Sept 1994
Finalization of PPA & FSA	Nov 1994
GoP Guarantee & Financial Close	May 1995
C.O.D	Feb 1997
Term of PPA	30years
Expiry of PPA	Nov 2027
Project debt full redemption	2010

Plant Design & Specifications	
Fuel Type	Residual Furnace Oil (RFO)
Plant Configuration	1x365 MW steam turbine
Technology	Oil-Fired Steam Turbine
Nameplate capacity	365 MW (Gross at ISO)
Net Capacity	350.7 MW

2.2.1 The total project cost was US$347million. The company's capital structure comprised 27% equity (US$ 94mln) and 73% debt (US$253mln), as on Nov 97, mainly financed by a consortium of IFC – USA and Bank of Tokyo – Mitsubishi Ltd, Japan. The Nichimen /Mitsubishi Heavy Industries (MHI) of Japan[1] was engaged as the EPC (Engineering, Procurement and Construction) Contractor. The technology used in the project is conventional steam electric generation. The date-certain EPC contract with Nichimen/MHI enabled LPPL to commence commercial operations within stipulated time frame. Moreover, the company agreed under share facility agreement to share its premises and administrative costs on an equally shared basis with Lalpir Power Limited (LPPL).

2.2.2 PGPL's key source of earnings is the generation tariff from the power purchaser, WAPDA. The reference generation tariff comprises a capacity charge component and an energy charge component. The former is based upon dependable capacity. It constitutes a minimum tariff guaranteed to the company and covers the fixed O&M costs, insurance charges, debt and working capital funding costs and return on equity. The latter is a function of electricity actually dispatched. PGPL has a generation tariff (levelised tariff for years 1-30) of US 5.7-cents/Kilowatt hour (KWh), approved from National Electric Power Regulatory Authority (NEPRA)[2].

Cents/ Kilowatt Hour (PKR/KWh)	RFO Operations (PKR/KWh)
Levelized Tariff (For years 1-30)	
Energy	0.683
Capacity	1.032
Total Tariff	**1.715**

2.3 Riaz Ahmad & Company are the external auditors of the company. They have expressed an unqualified opinion on the latest audited financial statements of the company.

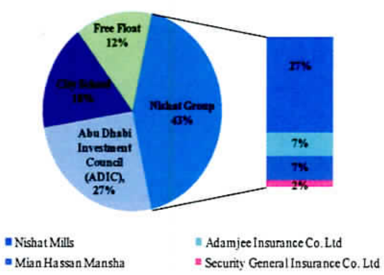
3. OWNERSHIP

- Association with the renowned and financially sound business conglomerate - Nishat Group

3.1 In July 2011, PGPL was listed on the Karachi and Lahore stock exchanges via a 10% offer for sale by the sponsors. Post IPO, Nishat Group and associates collectively carry majority shareholding (43%), followed by Abu Dhabi Investment Council (27%), which is owned by the Government of Abu Dhabi, and City School (18%).

3.2 Nishat Group is a distinguished business group in Pakistan, The emergence of the Group, as a conglomerate, spans over fifty years with interests in textile, cement, insurance, power and financial

PGPL-Shareholding



[1] **Nichimen Japan**, a member of The Sanwa Bank group, is one of Japan's largest general trading companies, known as Sogo Shosha. The company manages overseas offices in 93 locations worldwide and has interest in various sectors including metals and construction; chemicals, plastics, and energy; textiles; and foodstuffs, lumber, and general merchandise

[2] **NEPRA:** NEPRA is the principal regulator. It sets performance standards and lays down rules for generation, transmission, and distribution. It issues licenses to the entities responsible for generation, transmission, and distribution and approves tariffs at the retail level and between sector entities.

sectors. The acquisition of LPPL and its sister concern Pakgen Power Limited (PGPL) marks the Group's expansion within the power sector, generating over 1,200 megawatts (5% of the country's total capacity).

3.3 The Abu Dhabi Investment Council (ADIC), an investment arm of the Government of Abu Dhabi, started its operations in April 2007. This sovereign wealth fund is responsible for investing part of the government's surplus funds in assets across the globe by implementing a diversified investment strategy and targeting positive capital returns.

3.4 City Schools (Pvt.) Limited (CSPL), established in 1978, is among the leading private sector educational institutions in Pakistan. The school has over 54,000 students and 7,000 employees, including 4,000 teaching staff. The school imparts local and British Curriculum education beginning from the pre-nursery level till 12th grade (A-level/F.Sc).

4. GOVERNANCE

- Seven member BoD
- Three executive directors

4.1 PGPL's seven members board comprises professionals with experience of managing business affairs of companies in different sectors. The Chairman, Mr. Hassan Mansha, is nominated by the Nishat Group. The board includes three executive and four non-executive members. The board also includes an alternate director (nominated by ADIC) who attends the BoD meetings on behalf of a director in case of leave of absence. The CEO of the company reports directly to the chairman of the board.

4.2 A brief profile of the BoD is enclosed as **Annexure I.**

4.3 The board has two committees in place, Audit Committee and Technical Evaluation Committee. Concerned, due to weak operational performance of the plant, the board has formulated the latter to closely monitor the performance of the plant and suggest betterments to improve the same. Brief terms of reference of these committees are as follows:-

Board Committee	Members	Frequency of Meetings	Functions
Audit Committee	1. Mr. Aurangzeb Firoz 2. Mr. Khalid Qadeer 3. Mr. Mark Nicholas Cutis	Quarterly	Supervision of all matters related to audit and finalization of financial statements.
Technical Performance Evaluation Committee	1. Mr. Kamran Rasool 2. Mr. Shahid Zulfiqar Khan 3. Mr. Khalid Qadeer 4. Mr. Faqir Muhammad 5. Mr. Muhammad Younus	Monthly	Responsible for monitoring and suggesting improvements in the performance of the plant.

4.4 The board reviews MIS of the company pertaining to operating activities and operational efficiencies. Detailed reports are presented to the board committees comprising information on production, inventory and efficiency.

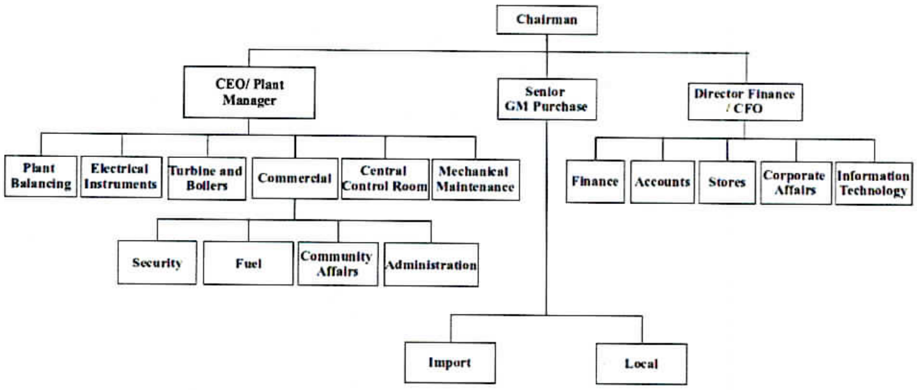
5. MANAGEMENT

- Experienced CEO
- Professional Management
- Established system & controls

5.1 The CEO, Mr. Shahid Zulfiqar Khan, possesses ~ 20 years of business experience in energy sector. He has been associated with former sponsors AES, Pakistan and AES, Sri Lanka for around 15 years. He is assisted by a team of qualified individuals with significant experience in the energy business. He is also responsible for the operations of the plant.

5.2 The company has largely a flat organizational structure with the CEO reporting to the board and three key persons from senior management reporting directly to the chairman of the board. The technical team reports to the Plant Manager, who is also the CEO of the company. The top management is supported by a team of professionals working under various sub-divisions to ensure smooth flow of operations.

5.3 A brief profile of the senior management is enclosed as **Annexure-II.**



5.4 The company maintains a strong MIS reporting system for the management to keep track of all operating activities and operational efficiencies. The system generates daily reports containing information on production, inventory and efficiency maintained. Apart from daily reporting, the management also receives a more detailed MIS on a monthly basis. This report is used in the monthly review meeting of the management and is also presented to the Technical Evaluation Committee. The company uses in-house built software to generate these reports.

6. PERFORMANCE RISK

- In-house O&M
- Fuel Supply Risk guaranteed
- Weak performance

6.1 Most IPPs are structured in a way that they are protected from many risks simultaneously emanating from demand, currency devaluation, force majeure and fuel supply since the costs incurred are pass through costs. Moreover, the obligations of the power purchaser are guaranteed by the Government of Pakistan. The stable revenue stream is ensured through the minimum guaranteed capacity charge (component of the tariff that any IPP receives even if it produces no electricity in case of zero demand from the power purchaser). However, due to any reason, if PGPL cannot supply electricity as agreed with WAPDA, it would be liable to liquidated damages as per provisions of the PPA. In such a situation, a) when the non-performance was a result of lack of fuel supply from fuel supplier, Pakistan State Oil Company (PSO), PGPL would recover the penalties from fuel supplier as per related agreement, and b) if PGPL is not able to supply electricity as per demand due to its own inefficiencies or fail to notify WAPDA of the available capacity 12 hours prior to the dispatch date, the liabilities due would be settled by PGPL. Therefore, operating risks emanating from Operation and Maintenance (O&M) pose a major risk to IPPs for not being available to deliver performance as and when required by WAPDA. Hence, inability of PGPL to deliver expected and required contractual performance may lead to default on its payments on account of hefty liquidity damages charged by WAPDA and drying up of cashflows in absence of capacity payments.

6.2 Prior to the acquisition of the company, O&M activities were handled by an in house team trained under the expertise of AES, former O&M operator. This team has been involved in O&M activities since the plant's COD and hence they carry significant experience. The new sponsors of PGPL have retained the original team thereby largely mitigating any operational risk. Meanwhile, the O&M department also conducts a six month training program for new inductees in the department, to ensure adequate manpower available for the O&M department. Nevertheless, in house O&M activities have constrained the company's ability to transfer liabilities arising from non-performance onto a contractor.

6.3 The company's profitability is a function of its capacity payments and level of energy production. During the last few years, the company has been unable to keep its efficiency at the required level of 38% as per the PPA (Average Efficiency level in 3QCY11: 36.4%). The management is making efforts to narrow the gap between required and actual efficiency. In this regard, PGPL is planning to improve the heat rate of the plant by installing VF drives homogenizers at the fuel tank (The installation is expected to improve the existing heat rate which has a direct correlation with efficiency of the plant.) The homogenizers are to be installed in February 2012 at the time of scheduled outage.

Pakgen Power Limited | Annual Electricity Offtake		
Net Electrical Output (GWhrs)	**CY11**	**CY10**
1st Quarter	445	521
2nd Quarter	378	573
3rd Quarter	597	229
4th Quarter*	152	248
Total Electricity Generation	**1,572**	**1,570**

* 4th Quarter CY11 includes performance for the month of October only.

Pakgen Power Limited | Operational Performance				
	Efficiency (%)		Available Capacity (Avg %)	
Quarter	**CY11**	**CY10**	**CY11**	**CY10**
1st Quarter	36.6	37.8	80.4	94.4
2nd Quarter	36.7	37.1	84.7	273.2
3rd Quarter	36.4	36.2	97.5	91.5
4th Quarter*	36.9	36.5	100.0	100.0

* 4th Quarter CY11 includes performance for the month of October only.

6.4 Going forward, the company plans to shift to alternate fuel (coal). The costs are expected to be shared with WAPDA. However, the modalities are yet to be finalized. The coal is to be procured locally as well as from foreign suppliers. Roughly 5 kilotons of coal will be transported per day from the Karachi port to the plant. Furthermore, a 22MW captive power generation plant based on solid waste is also being installed to meet the demand of auxiliary equipment. This would free up core capacity, improving performance against efficiency benchmark. The plant, with an initial cost of ~PKR 2,000mln, is expected to be installed by CY13.

6.5 PGPL's insurance policy covers both business interruption losses and property losses. However, as per the insurance policy, business interruption losses are only covered for the last 49 days of closure.

6.6 PGPL engaged Pakistan State Oil (PSO)[3] - the largest local oil-marketing company - as the fuel supplier. PSO is responsible for supplying Residual Fuel Oil (RFO) under the Fuel Supply Agreement (FSA) for 30 years and ensure delivery as agreed upon by both parties. Under this contract, all likely risks, especially the risk of disruption in fuel supply, are pass-through to the supplier. PSO transports RFO to the complex site, where the fuel is transferred to the storage tanks through a decanting facility, for onward usage in power generation. Under the FSA, the company is bound to fulfill its fuel requirements through PSO and cannot switch to other suppliers. On the 4th and 17th of every month, fuel purchases are made on a 15-days advance basis for fulfillment of fuel requirement for the next month. PGPL faces no major issues due to reliance on a single fuel supplier since the fuel supply is backed by the sovereign guarantee of GoP. PSO will be responsible for payment of damages to PGPL resulting from its failure to deliver as per FSA. Damages would include lost capacity payments and reimbursement of other liquidated damages as specified in the Power Purchase Agreement (PPA), except if PGPL has not maintained fuel storage for a specified period of 30 days in accordance with PPA requirements or due to inability of the fuel supplier in event of declared force majeure. Currently the company is holding less than the required amount of fuel inventory owing to cashflow constraints due to the prevailing circular debt crisis.

[3] **PSO** is the main fuel supplier of IPPs. It has the widest strategic oil distribution network. This network comprises of 22 storage depots and 9 installations, over 1,000,000 MTs of capacity i.e. almost 80% of total national storage.

7. **FINANCIAL RISK**

- Circular debt issue
- Debt free capital structure
- Guaranteed payment risk

7.1 The total available capacity of electricity generation in Pakistan stands around 21,000MW. However, consistent growth in population and gradual electrification along with industrialization have increased the demand of electricity. In the absence of any noteworthy development in hydel, the government's reliance on thermal generation has increased – particularly IPPs. Therefore, the government incentivized the private sector to setup IPPs. As of now, there are 27 IPPs with installed capacity of ~ 7,584MW, thus, IPPs are playing a critical role to manage the shortfall at acceptable level. However, the power sector has been plagued by the circular debt crisis which has resulted in an accumulation of receivables for the IPPs. In order to ensure smooth and uninterrupted running of the plants, IPPs have resorted to enhance their working capital lines due to late payment by the single buyer (WAPDA/ NTDC). Going forward, GoP's failure to resolve circular debt and consistent pilling up of receivable could have a negative implication for the IPPs' sector.

7.2 PPA stipulates liquidated damages to the IPP in case of late payments. However, the fact remains that such an eventuality can disarray cash flows. A growing supply/demand gap leading to the critical role of IPPs in electricity generation is seen as an effective mitigant of this risk. The off takers' performance risk is further mitigated through the Implementation Agreement (IA), and Government of Pakistan (GoP) guarantee thereof for fulfilling off-take commitments.

7.3 PGPL enjoys a debt free capital structure which provides it with financial flexibility and increases its risk absorption capacity. Although the company redeemed its project debt in CY10, the debt to equity ratio has increased on the back of rise in short term financing (9MCY11: 56%; CY10: 33%; CY09: 23%).

7.4 The availability of adequate working capital (WC) during the operational stage of the project is an essential. The IPP might be required to inject liquidity in case the payments from WAPDA are delayed and payments to PSO fall due. For this purpose the company resorts to short term financing. In CY11, PGPL increased its working capital facility lines, in order to support rising working capital requirements, to PKR 8,750mln (CY10: 5,700mln). So far PGPL has utilized PKR 6,523mln of the WC lines. Currently these lines are providing PGPL with sufficient cover if the need arises. In addition, higher WC requirement has caused the company to report cash loss from operations of PKR 1,968mln during 9MCY11 (CY10: PKR 27mln).The cash flows during the year remained negative. Although the company has a 90% dividend payout policy, it would be placed better to manage its receivables if it decides to retain most of its profits.

Pakgen Power Limited | Quarterwise Recievable days

	Energy		Capacity	
	Average monthly billing	Average days delayed	Average monthly billing	Average days delayed
Quarter	*PKR in mln*		*PKR in mln*	
1Q2011	1,809	67	334	104
2Q2011	1,873	43	334	68
3Q2011	3,011	38	338	61
4Q2011*	2,299	Not Available	338	24

* 4th Quarter CY11 includes performance for the month of October only.

7.5 In case of delayed payments, WAPDA is required to pay interest cost to the IPP. Nevertheless, the delayed payment from WAPDA leads to either non-payment or delayed payments to the fuel suppliers with serious consequences for IPPs leading to face fuel shortages. WAPDA has a credit period of 25 days and another one month cover for settling it's over dues, after which all IPPs reserve the right to call in sovereign guarantee. There is around 2 months period (including claim processing time of 7 days) in which an IPP would need to have enough cushion for liquidity. Currently, overdue receivables from WAPDA stand at PKR 10,818mln on account of electricity supply. Since PGPL buys fuel from PSO on advance payment terms, it has to resort to financing through its working capital lines.

Pakgen Power Limited | Available WC Lines and Utilization			
	Available WC	Utilization	%
Quarter	PKR in mln		
1Q2011	6,300	4,016	64%
2Q2011	7,133	4,257	60%
3Q2011	8,183	5,677	69%
4Q2011*	8,750	6,523	75%

* 4th Quarter CY11 includes performance for the month of October only.

7.6 The tariff structure of the plant is relatively higher since it runs on RFO. However, the plant is located near a prime consumption centre which ensures priority of dealings by the power purchaser.

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Profile – Board of Directors: Pakgen Power Limited (PGPL)							
Sr. #	Name of BoD Member	Representation	Occupation	Other Key Experience	Committees	Participation in Meetings (Total:5)	Length of Association with the Board (Years)
1.	Mr. Hassan Mansha *Chairman* [A'Level]	Nishat Group	CEO, Nishat Power Limited	He has over 10 years of professional managerial experience. Presently he is serving on the Board of Nishat Mills Limited, Security General Insurance Company Limited , Pakistan Aviators & Aviation (Private) Limited, Adamjee Insurance Company Limited and Lalpir Power Limited (Formerly AES Lalpir (Private) Limited). Also serves as a Resident Director for D.G. Khan Cement Company Limited.	-	4	1.5
2.	Mr. Shahid Zulfiqar Khan [FCMA]	Nishat Group	CEO, PGPL	He has over 20 years of core experience in the power sector.	TPEC	5	1.5
3.	Mr. Khalid Qadeer Qureshi [Chartered Accountant]	Nishat Group	Group Director/ CFO, LPPL	He has more than 44 years of experience in financial management across corporate, finance, accounting, treasury and information systems development and implementation. Actively associated in mergers, IPOs, developing feasibilities reports, private placement of debt & equity as well as restructuring, He is providing Nishat Mills a strategic and operational direction in driving the business expansion in diversified sectors of the economy.	TPEC	5	1.5
4.	Mr. Mahmood Akhtar [MBA, Punjab University]	Nishat Group	Director Marketing & Coordination, Nishat Power Limited	He has over 35 years if managerial experience spread across various industries. Serves on the Boards of Nishat Chunian Power Limited, Nishat (Chunian) Limited, and Pakgen Power Limited	Audit Committee	5	1.5
5.	Mr. Kamran Rasool [Post Graduate Diploma in Development Administration, Manchester University and M.A-English, Punjab University]	Nishat Group	Advisor to President, MCB Bank Limited	He was associated with the Govt. of Pakistan as Secretary Defense (2007-08), Cabinet Secretary (2006-07), Secretary Industries & Production (2005-06). He serves on the Boards of Pakistan Agricultural Storage and Services Corporation Limited. Besides. He is also a member of the Board of Governors of Hameed Latif Medical College, Lahore and Bakhtawar Ameen Trust Hospital, Multan.	TPEC	4	1.5
6.	Mr. Aurangzeb Firoz [BBA, University of London]	City School	CEO, LPPL	He has been instrumental in providing strategic and operational support in driving business expansion into the Arab States for 'City Schools' (Pvt) Ltd. He is serving on the Boards of Educational System (Pvt) Limited, City APIIT (Pakistan) (Pvt) Limited, Engen (Pvt) Limited and City Hospitality Management Services (Private) Limited.	Audit Committee	3	1.5
7.	Mr. Mark Nicholas Cutis [MBA, Wharton Business School, USA]	ADIC	ADIC	His professional experience involves working for global investment banks in various capacities in different cities including New York, London, Frankfurt, Tokyo and Moscow. He joined Abu Dhabi Investment Council in March 2008. Prior to that he was associated with the Shinsei Bank as a Chief Investment Officer.	Audit Committee	5	1.5
8.	Mr. Omer Liaqat *Alternate Director* [Chartered Accountant]	ADIC	COO, ADIC	He is the Chief Operating Officer at the Abu Dhabi Investment Council and has spent over 20 years in the asset management industry. He currently serves on the boards / audit committees of several organizations. He is also a director, Lalpir Power Limited (Formerly AES Lalpir (Private) Limited).	-	4	1.5

TPEC: Technical Performance Evaluation Committee

Profile – Senior Management: Pakgen Power Limited (PGPL)						
Sr. #	Name	Designation	Reporting Line	Experience		
				Overall (Years)	With the group/ company (Years)	At current position (Years)
1.	Mr. Shahid Zulfiqar Khan [FCMA]	CEO/ Plant Manager	BoD/ Chairman	21	17.5	10
2.	Mr. Khalid Qadeer Qureshi [Chartered Accountant]	Director Finance	Chairman	46	25.5	1.5
3.	Mr. Tanveer Nazar [Qualification]	GM (Purchase)	Chairman	28	12.5	2.5
Technical Team						
4.	Mr. Faqir Mohammad [DAE – Electrical]	Team Leader (Control Room)	CEO	26	14.5	4
5.	Mr. Tanveer Nazar [BE –Chemical]	Team Leader (Commerical)	CEO	28	12.5	2.5
6.	Mr. Mohammad Yasin Ahmad [DAE – Mechanical; BSE]	Team Leader (Control Room)	CEO	34	15	4.5
7.	Mr. Abdul Quddus Abbasi [DAE-Mechanical; BA-LLB]	Team Leader (MMD)	CEO	31	15	2
8.	Mr. Muhammad Yunas [BE-Mechanical]l	Team Leader (Boiler)	CEO	10	5	4
9.	Mr. Naveed Ahmad Qureshi [BSc (Hons) Electrical Engineering]	Team Leader (E & I)	CEO	10	7	0.5
10.	Mr. Farhan Javed [BSc Engineering (Chemical); MBA; BA-LLB]	Team Leader (BOP)	CEO	9	7	0.5

The Pakistan Credit Rating Agency Limited

Pak Gen Power Limited

BALANCE SHEET

As at

PKR in mln

	Sep-11	Dec-10	Dec-09	Dec-08
A NON-CURRENT ASSETS				
1 Operating Fixed Assets - Owned and Leasehold	7,443.8	7,603.8	7,815.6	8,029.1
2 Intangible Assets	-	-	-	-
3 Other Non-Current Assets	0.0	0.0	0.0	389.9
Non-Current Assets	7,443.8	7,603.8	7,815.6	8,419.1
B INVESTMENTS				
1 Associates / Subsidiaries				
a. Equity	-	-	-	-
b. Debt Securities / Loans	-	-	-	-
	-	-	-	-
2 Investment Property	-	-	-	-
3 Other Investments				
a. Equity Securities	-	-	-	-
b. Debt Securities	-	-	-	-
	-	-	-	-
Investments	-	-	-	-
C CURRENT ASSETS				
1 Stores and Spares	678.1	123.2	88.1	82.4
2 Inventories				
Raw Material	462.5	426.9	345.5	188.9
Work in Process	-	-	-	-
Finished Goods	-	-	-	-
	1,140.6	550.1	433.6	271.3
3 Trade Receivables	10,528.8	6,277.8	6,654.6	7,288.1
4 Other Current Assets	1,939.8	3,300.3	1,284.8	2,224.9
5 Cash and Bank Balances	289.2	1,588.8	1,169.9	935.7
Current Assets	13,898.4	11,716.9	9,542.8	10,720.0
D TOTAL ASSETS (A+B+C)	21,342.2	19,320.8	17,358.5	19,139.1
E CURRENT LIABILITIES				
1 Current Maturity of Long Term Debt	-	-	113.1	105.7
2 Short Term Borrowings	7,264.9	4,580.5	3,000.2	5,034.8
3 Trade Payables	422.4	297.0	179.8	1,248.1
4 Other Current Liabilities	601.9	691.2	472.9	522.0
5 Provision for Taxation	-	-	-	-
6 Dividend Payable	-	-	-	-
Current Liabilities	8,289.3	5,568.7	3,766.0	6,910.7
F NON-CURRENT LIABILITIES				
1 Borrowings	-	-	-	198.2
2 Due to Associates	-	-	-	-
3 Other Non-Current Liabilities	-	-	-	34.2
Non-Current Liabilities	-	-	-	232.4
G NET ASSETS (D-E-F)	13,052.9	13,752.1	13,592.5	11,996.0
H SHAREHOLDERS' EQUITY				
1 Ordinary Share Capital	3,837.8	3,837.8	3,837.8	3,837.8
2 Preference Share Capital	-	-	-	-
3 Share Premium Account	-	-	-	-
4 Revaluation Reserve				
a. Fixed Assets	-	-	-	-
b. Investments	-	-	-	-
	-	-	-	-
5 Revenue Reserves	-	-	2.2	2.2
6 Unappropriated Profit	9,215.1	9,914.3	9,752.4	8,155.9
Shareholders' Equity	13,052.9	13,752.1	13,592.5	11,996.0

The Pakistan Credit Rating Agency Limited

Pak Gen Power Limited

PROFIT & LOSS ACCOUNT

For the period ending

PKR in mln

		Sep-11	Dec-10	Dec-09	Dec-08
		9MCY11			
A	Turnover	23,557.5	20,506.7	21,843.2	24,745.4
B	Operating Costs	21,712.8	17,947.8	17,087.6	21,412.8
C	**Gross Profit**	1,844.7	2,558.9	4,755.5	3,332.6
D	Operating Expenses				
	1 Administrative and General Expenses	(152.2)	(223.4)	(250.5)	(199.5)
	2 Selling and Marketing Expenses	-	-	-	-
		(152.2)	(223.4)	(250.5)	(199.5)
E	**Operating Profit / (Loss)**	1,692.6	2,335.5	4,505.1	3,133.1
F	**Income From Associates**				
	1 Dividend	-	-	-	-
	2 Share of Profit/(Loss)	-	-	-	-
		-	-	-	-
G	**Others**				
	1 Profit/(Loss) on Sale of Assets	-	0.1	-	20.3
	2 Income from Investments	-	-	-	-
	3 Surplus / (Deficit) on revaluation	-	-	-	-
	4 Exchange Gain (Loss)	2.3	(4.5)	(2.1)	(10.4)
	5 Other Income/(Expense)	(29.3)	(298.1)	(1,379.3)	(259.7)
	6 Extraordinary Items	-	-	-	-
		(27.0)	(302.5)	(1,381.4)	(249.8)
H	**Profit / (Loss) before Financial Charges**	1,665.6	2,033.0	3,123.7	2,883.3
I	**Financial Charges**				
	1 Interest Income	42.8	38.5	17.4	6.5
	2 Interest Expense	(531.6)	(520.5)	(500.7)	(561.8)
		(488.8)	(482.0)	(483.3)	(555.3)
J	**Profit / (Loss) before Taxation**	1,176.8	1,551.0	2,640.4	2,327.9
K	**Taxation**	(15.6)	(13.6)	(6.7)	(3.2)
L	**Net Income / (Loss)**	1,161.2	1,537.4	2,633.6	2,324.7
M	**Unappropriated Profit/(Loss) Brought Forward**	9,914.3	9,752.4	8,155.9	9,096.8
N	**Available for Appropriation**	11,075.5	11,289.9	10,789.6	11,421.5
O	**Appropriations**				
	1 Reserves	-	-	-	-
	2 Dividends				
	a. Stock	-	-	-	-
	b. Cash	1,860.4	1,375.6	1,037.1	3,265.5
		1,860.4	1,375.6	1,037.1	3,265.5
P	**Effect of change in Accounting Policy (+/-)**				
Q	**Unappropriated Profit Carried Forward**	**9,215.1**	**9,914.3**	**9,752.4**	**8,155.9**

The Pakistan Credit Rating Agency Limited

Pak Gen Power Limited

CASH FLOW STATEMENT

For the period ending

PKR in mln

	Sep-11	Dec-10	Dec-09	Dec-08
	9MCY11			
A CASH FLOWS FROM OPERATING ACTIVITIES				
1 Profit Before Tax	1,176.8	1,551.0	2,640.4	2,327.9
2 Adjustments for:				
a. Depreciation/Amortization	259.4	338.7	326.8	317.9
b. Adjustments for other Non-Cash Charges/Items	16.7	49.2	46.7	(1.3)
c. Recurring non core income(expense)	-	(38.5)	(17.4)	(6.5)
3 Add back:				
a. Interest Expense/(Income)	488.8	520.5	500.7	561.8
EBITDA	1,941.7	2,420.9	3,497.2	3,199.8
4 Subtract:				
a. Taxes paid	(18.9)	(19.3)	(4.9)	(3.5)
b. Others (+/-)	(4.6)	(18.4)	(35.6)	(109.8)
Free Cash Flows from Operations (FCFO)	1,918.2	2,383.1	3,456.7	3,086.5
5 Recurring non core (expense) income	-	38.6	12.2	5.6
Total Operating Cash Flows (TCF)	1,918.2	2,421.7	3,468.8	3,092.1
6 Interest paid	(424.3)	(466.8)	(636.8)	(368.6)
Operating Cash Flows(OCF) before Working Capital Changes (WCC)	1,493.9	1,954.9	2,832.0	2,723.5
7 Changes in Working Capital				
a. (Increase)/Decrease in Curent Assets	(3,496.2)	(2,206.5)	422.3	(3,661.7)
b. Increase/(Decrease) in Current Liabilities (Excl. Debt)	33.9	278.2	(981.3)	1,126.3
	(3,462.3)	(1,928.3)	(559.1)	(2,535.3)
Net Cash provided by Operating Activities	(1,968.4)	26.6	2,272.9	188.1
B CASH FLOWS FROM INVESTING ACTIVITIES				
1 Capital Expenditure	(99.4)	(126.9)	(113.2)	(142.6)
2 Proceeds from sale of Fixed Assets	-	0.1	-	41.6
3 (Purchase)/Sale of Investments	-	-	-	-
4 Investment in Subsidiary/Associated Companies	-	-	-	-
5 Others	-	-	-	-
Net Cash (Used in)/Available From Investing Activities	(99.4)	(126.7)	(113.2)	(101.0)
C CASH FLOWS FROM FINANCING ACTIVITIES				
1 Proceeds from Issue of Ordinary Shares	-	-	-	-
2 Dividends Paid	(1,916.2)	(1,375.6)	(1,037.1)	(3,265.5)
3 Net increase (decrease) in short term borrowings	2,684.4	1,580.3	(2,034.7)	3,700.4
4 Net increase (decrease) in long term borrowings	-	(113.1)	(190.8)	(73.9)
5 Others (+/-)	-	-	-	-
	768.2	91.6	(3,262.6)	360.9
D Non recurring/unusual and non core (expense) income	-	427.3	1,337.1	233.2
E NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,299.6)	418.8	234.2	681.2
F OPENING BALANCE OF CASH AND CASH EQUIVALENTS	1,588.8	1,169.9	935.7	254.5
G CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	289.2	1,588.8	1,169.9	935.7

The Pakistan Credit Rating Agency Limited

Pak Gen Power Limited

RATIO ANALYSIS

	30-Sep-11	Dec-10	Dec-09	Dec-08
	9MCY11			
A EARNINGS/PROFITABILITY				
1 Turnover Growth*	39.0%	-6.1%	-11.7%	73.0%
2 Gross Margin	7.8%	12.5%	21.8%	13.5%
3 Operating Margin	7.2%	11.4%	20.6%	12.7%
4 Pre-Tax Profit Margin	5.0%	7.6%	12.1%	9.4%
5 Effective Tax Rate	1.3%	0.9%	0.3%	0.1%
6 Pre-Tax Return on Equity	12.0% ^	11.3%	19.4%	19.4%
DuPont Analysis				
7 Return on Equity (ROE)	11.9%	11.2%	19.4%	19.4%
Net Profit Margin	4.9%	7.5%	12.1%	9.4%
Leverage	1.6	1.4	1.3	1.6
Asset Turnover	1.5 ^	1.1	1.3	1.3
8 Return on Assets (ROA)	7.3% ^	8.4%	14.4%	13.6%
B COVERAGE RATIOS				
1 EBITDA/Interest	3.7	4.7	7.0	5.7
2 FCFO/Interest	3.6	4.6	6.9	5.5
3 FCFO/Interest+CMLTD	3.6	4.6	5.7	4.4
4 FCFO/Interest+CMLTD+Uncovered Short Term Borrowings	3.6	4.6	5.7	4.4
5 TCF/Interest+CMLTD+Uncovered Short Term Borrowings	3.6	4.7	5.7	4.4
6 FCFF/Interest+CMLTD+Uncovered Short Term Borrowings	(3.9)	(0.2)	3.6	0.2
7 Dividend Cover (X)	0.6	1.1	2.5	0.7
8 Net Debt (adjusted for Uncovered Short Term Borrowings) / FCFO	3.6	1.3	0.6	1.4
9 Net Debt (adjusted for Uncovered short term borrowings)/FFCF	(3.4)	(29.9)	0.9	29.4
C LIQUIDITY AND CASH FLOWS				
1 Current Ratio (X)	1.7	2.1	2.5	1.6
2 Adjusted Quick Ratio	1.3	1.2	1.8	1.0
3 Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.5	1.4	2.3	1.3
4 Liquid Assets/Interest+CMLTD+Uncovered Short Term Borrowings	0.5	3.1	1.9	1.3
5 Average Inventory Held (Days)	6.5 ^	8.8	5.9	4.0
6 Average Trade Debtors (Days)	120.7 ^	115.1	116.5	75.8
7 Average Trade Creditors (Days)	4.8 ^	4.2	11.9	10.4
8 Cash Cycle (Days)	122.4	119.6	110.4	69.4
9 Cash Conversion Efficiency (CCE) (OCF/Sales)	(0.1)	0.0	0.1	0.0
D FINANCIAL STRUCTURE				
1 Total Debt/Total Debt+Equity	35.8%	25.0%	18.6%	30.8%
2 Total Debt/Total Debt+Equity(net of rev. surplus)	35.8%	25.0%	18.6%	30.8%
3 Total Liabilities/Equity	63.5%	40.5%	27.7%	59.5%
4 Current Debt/Total Debt	100.0%	100.0%	96.4%	94.3%
5 Average Borrowing Rate	25.2% ^	28.7%	26.1%	86.1%

* *Compared with same period last year*

^ *Annualized*

STANDARD RATING SCALE & DEFINITIONS

LONG TERM RATINGS

AAA: Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB: Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

BB: Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B: Highly speculative. 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.

CCC, CC, C: High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic developments. A 'CC' rating indicates that default of some kind appears probable. 'C' ratings signal imminent default.

SHORT TERM RATINGS

A1+: Obligations supported by the highest capacity for timely repayment.

A1:. Obligations supported by a strong capacity for timely repayment.

A2: Obligations supported by a satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic, or financial conditions.

A3: Obligations supported by an adequate capacity for timely repayment. Such capacity is more susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories.

B: Obligations for which the capacity for timely repayment is susceptible to adverse changes in business, economic, or financial conditions.

C: Obligations for which there is an inadequate capacity to ensure timely repayment.

D: Obligations which have a high risk of default or which are currently in default.

Notes:

1. PACRA's ratings are an assessment of the credit standing of entities in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors.
2. A plus (+) or minus (-) may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' long-term rating category, to categories 'CCC' and below, or to short-term ratings.
3. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.