



Partners in Progress

THE HUB POWER COMPANY LIMITED

UNAUDITED QUARTERLY FINANCIAL STATEMENTS

**FOR THE SECOND QUARTER ENDED
DECEMBER 31, 2005**

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COMPANY INFORMATION

BOARD OF DIRECTORS: Mr. Mohamed A. Alireza H.I. Chairman
Mr. Robin A. Bramley
Mr. Malcolm P. Clampin
Mr. Philip G. Cox Vice Chairman
Mr. Najam Farooqi
Mr. Taufique Habib
Mr. Vince R. Harris
Mr. S. Khalid Masood Finance Director
Mr. Ghulam Sarwar Mengal
Mr. Seiki Ogura
Mr. S. Ali Raza
Mr. S. Nizam A. Shah
Mr. Mark D. Williamson
Mr. M. Ashraf Tumbi Chief Executive

MANAGEMENT: Mr. M. Ashraf Tumbi Chief Executive
Mr. S. Khalid Masood Finance Director
Mrs. Huma Pasha Chief Internal Auditor
Mr. Arshad A. Hashmi Company Secretary
Mr. S. Hasnain Haider Treasurer
Ms. Lesley A. Middlecoat Sr. Manager HR&PR
Mr. Abdul Vakil Manager Operations

PRINCIPAL BANKERS National Bank of Pakistan, Karachi
Accounts Banks: Citibank N.A. Karachi.
Standard Chartered Bank Ltd., Karachi
The Bank of Tokyo-Mitsubishi Ltd., London
Sumitomo Mitsui Banking Corp. Europe Ltd., London
Credem International (Lux) S. A., Luxembourg

INTER-CREDITOR
AGENT: National Bank of Pakistan, Karachi

COMPANY INFORMATION

REGISTERED OFFICE: C/o. Ford Rhodes Sidat Hyder & Co.,
75 West, Blue Area, Fazal ul Haq Road,
Islamabad

HEAD OFFICE: 3rd Floor, Islamic Chamber of Commerce Bldg;
ST-2/A, Block 9, Clifton,
P.O. Box No. 13841, Karachi-75600
Email : Info@hubpower.com
Website: <http://www.hubpower.com>

ISLAMABAD OFFICE: Sardar M. Yusuf Khan,
Corporate Affairs Advisor
250-B, Street No. 23, Sector E-7,
Islamabad

LEGAL ADVISORS: Rizvi, Isa, Afridi & Angell, Karachi
Kabraji & Talibuddin, Karachi
Linklaters & Alliance, London

AUDITORS: M. Yousuf Adil Saleem & Co.

REGISTRAR: Ford Rhodes Sidat Hyder & Co.,

THE HUB POWER COMPANY LIMITED
REPORT OF THE DIRECTORS FOR THE
QUARTER ENDED DECEMBER 31, 2005

The Directors have pleasure in presenting the financial statements (unaudited) for the second quarter ended December 31, 2005.

The principal activities of the Company are to own, operate and maintain an oil-fired power station with four generating units with an installed net capacity of 1,200 MW. During the quarter, the power plant generated 764 GWh of electricity resulting in a load factor of 29% against a load factor of 20% in the same quarter last year. The plant maintained an availability of 79% during the quarter.

The scheduled outage activity started in June 2005 and came to an end in early January 2006 with Unit No. 2 returning to service on January 4, 2006. As a part of international best practices and to ensure the long term integrity of the machines all four units went through routine and preventive maintenance. In October WAPDA performed the Annual Dependable Capacity Test and the plant successfully met the net capacity requirements. All four units are currently operational.

Turnover for the quarter was Rs. 5,707 million and operating costs were Rs. 4,634 million. Net profit for the quarter was Rs. 629 million, resulting in Earnings per share of Rs. 0.54, compared to a net profit of Rs. 1,298 million and Earnings per share of Rs. 1.12 in the corresponding quarter last year. The current period profit is lower mainly due to reduction in tariff after the full repayment of senior debt in July 2005. The directors would like to draw your attention to the last paragraph of the Auditors' Review Report relating to note 7 to the financial statements.

We are pleased to report that the Company has submitted an expression of interest to participate in the process of privatization of Sui Southern Gas Company Limited.

The directors have pleasure in declaring an interim dividend of Rs. 1.25 per share.

On behalf of the Board

M. Ashraf Tumbi
Chief Executive

Karachi: February 16, 2006

AUDITORS' REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of The Hub Power Company Limited (the Company) as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as "financial statements"), for the six months period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our review report, we draw attention to the matters described in note 7 to the financial statements. The ultimate outcome of these contingencies cannot presently be determined and accordingly, no provision for any liability that may result has been made in the financial statements.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Karachi: February 16, 2006

THE HUB POWER COMPANY LIMITED
PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2005

| | Note | 3 months ended Dec. 2005 (Rs. '000s) | 6 months ended Dec. 2005 (Rs. '000s) | 3 months ended Dec. 2004 (Rs. '000s) | 6 months ended Dec. 2004 (Rs. '000s) |
|---|------|--|--|--|--|
| Turnover | | 5,707,152 | 9,778,770 | 4,300,781 | 8,606,874 |
| Operating costs | 4 | (4,634,382) | (7,670,521) | (2,549,651) | (5,006,723) |
| GROSS PROFIT | | <u>1,072,770</u> | <u>2,108,249</u> | <u>1,751,130</u> | <u>3,600,151</u> |
| Other income | | 64,066 | 148,054 | 70,394 | 119,509 |
| | | <u>1,136,836</u> | <u>2,256,303</u> | <u>1,821,524</u> | <u>3,719,660</u> |
| General and administration expenses | 5 | (104,569) | (171,027) | (49,618) | (100,013) |
| OPERATING PROFIT | | <u>1,032,267</u> | <u>2,085,276</u> | <u>1,771,906</u> | <u>3,619,647</u> |
| Financing costs | | (403,593) | (818,326) | (474,177) | (951,863) |
| NET PROFIT FOR THE PERIOD | | <u><u>628,674</u></u> | <u><u>1,266,950</u></u> | <u><u>1,297,729</u></u> | <u><u>2,667,784</u></u> |
| Basic and diluted earnings per share (Rupees) | | <u><u>0.54</u></u> | <u><u>1.09</u></u> | <u><u>1.12</u></u> | <u><u>2.31</u></u> |

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

M. Ashraf Tumbi
Chief Executive

Taufique Habib
Director

THE HUB POWER COMPANY LIMITED
BALANCE SHEET (UNAUDITED)
AS AT DECEMBER 31, 2005

| | Note | Dec. 2005 (Rs. '000s) | June 2005 (Rs. '000s) |
|---|------|--------------------------|--------------------------|
| <u>ASSETS</u> | | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | | 34,124,659 | 34,931,885 |
| Intangibles | | 5,797 | 7,622 |
| Stores and spares | | 584,187 | 562,680 |
| Long term deposits and prepayments | | 4,400 | 162,316 |
| CURRENT ASSETS | | | |
| Current portion of derivative financial asset - (FERI) contract | | - | 856,055 |
| Inventory of fuel oil | | 2,094,708 | 1,251,045 |
| Trade debts | | 1,718,786 | 1,444,237 |
| Advances, deposits, prepayments and other receivables | | 1,633,188 | 1,381,759 |
| Cash and bank balances | | 2,807,101 | 6,038,136 |
| | | 8,253,783 | 10,971,232 |
| TOTAL ASSETS | | 42,972,826 | 46,635,735 |
| <u>EQUITY AND LIABILITIES</u> | | | |
| SHARE CAPITAL AND RESERVE | | | |
| Share Capital | | | |
| Authorised | | 12,000,000 | 12,000,000 |
| Issued, subscribed and paid-up | | 11,571,544 | 11,571,544 |
| Revenue Reserve | | | |
| Unappropriated profit | | 18,358,617 | 20,100,268 |
| | | 29,930,161 | 31,671,812 |
| NON-CURRENT LIABILITIES | | | |
| Long term loans | | 9,739,752 | 10,229,283 |
| Deferred liability - Gratuity | | 10,856 | 4,910 |
| CURRENT LIABILITIES | | | |
| Current maturity of long term loans | | 979,062 | 3,037,544 |
| Trade and other payables | | 1,518,150 | 938,353 |
| Interest / mark-up accrued on long term loans | | 740,448 | 715,900 |
| Dividend Payable | | 54,397 | 37,933 |
| | | 3,292,057 | 4,729,730 |
| COMMITMENTS AND CONTINGENCIES | 7 | - | - |
| TOTAL EQUITY AND LIABILITIES | | 42,972,826 | 46,635,735 |

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

M. Ashraf Tumbi
Chief Executive

Taufique Habib
Director

THE HUB POWER COMPANY LIMITED
CASH FLOW STATEMENT (UNAUDITED)
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2005

| | 6 months ended Dec. 2005 (Rs. '000s) | 6 months ended Dec. 2004 (Rs. '000s) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net profit for the period | 1,266,950 | 2,667,784 |
| Adjustments for: | | |
| Depreciation | 826,837 | 822,228 |
| Amortisation | 3,611 | 2,268 |
| Gain on disposal of fixed assets | (83) | (148) |
| Staff gratuity | 5,946 | 3,332 |
| Interest income | (151,518) | (63,425) |
| Interest/mark-up on long term loans | 781,595 | 823,065 |
| Operating profit before working capital changes | 2,733,338 | 4,255,104 |
| Working capital changes | (820,018) | (465,943) |
| Cash generated from operations | 1,913,320 | 3,789,161 |
| Interest received | 181,692 | 52,732 |
| Interest / mark-up paid on long term loans | (734,002) | (905,933) |
| Staff gratuity paid | - | (6,858) |
| Net cash inflow from operating activities | 1,361,010 | 2,929,102 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Fixed capital expenditure (net) | (21,859) | (19,442) |
| Proceeds from disposal of fixed assets | 545 | 148 |
| Stores and spares | (21,507) | (8,955) |
| Long term deposits and prepayments | 157,916 | 1,374,269 |
| Net cash inflow from investing activities | 115,095 | 1,346,020 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of long term loans | (1,715,003) | (1,984,013) |
| Dividends paid | (2,992,137) | (1,848,718) |
| Net cash used in financing activities | (4,707,140) | (3,832,731) |
| Net (decrease) / increase in cash and bank balances | (3,231,035) | 442,391 |
| Cash and bank balances at the beginning of the period | 6,038,136 | 5,803,750 |
| Cash and bank balances at the end of the period | 2,807,101 | 6,246,141 |

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

M. Ashraf Tumbi
Chief Executive

Taufique Habib
Director



THE HUB POWER COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2005

| | 6 months ended Dec. 2005 (Rs. '000s) | 6 months ended Dec. 2004 (Rs. '000s) |
|--|---|---|
| Issued capital | | |
| Balance at the beginning of the period | 11,571,544 | 11,571,544 |
| Balance at the end of the period | <u>11,571,544</u> | <u>11,571,544</u> |
| Unappropriated profit | | |
| Balance at the beginning of the period | 20,100,268 | 18,070,567 |
| Net profit | 1,266,950 | 2,667,784 |
| Final dividend for the fiscal year 2004-2005 @ Rs. 2.60 (2003-2004: Rs. 1.60) per share | (3,008,601) | (1,851,447) |
| Balance at the end of the period | <u>18,358,617</u> | <u>18,886,904</u> |
| Total equity | <u><u>29,930,161</u></u> | <u><u>30,458,448</u></u> |

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

M. Ashraf Tumbi
Chief Executive

Taufique Habib
Director



THE HUB POWER COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2005

1. THE COMPANY AND ITS OPERATIONS

The Hub Power Company Limited (the "Company") was incorporated in Pakistan on August 1, 1991 as a public limited company under the Companies Ordinance, 1984. The shares of the Company are listed on the Karachi, Lahore and Islamabad Stock Exchanges and its Global Depository Receipts are listed on the Luxembourg Stock Exchange. The principal activities of the Company are to own, operate and maintain an oil-fired power-station with four generating units with an installed net capacity of 1,200 MW in Tehsil Hub, District Lasbella, Balochistan.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation followed for the preparation of these financial statements are same as those applied in preparing the financial statements for the year ended June 30, 2005.

3. BASIS OF PREPARATION

These financial statements are unaudited but subject to limited scope review by auditors and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting" as applicable in Pakistan.

4. OPERATING COSTS

| | 3 months ended | 6 months ended | 3 months ended | 6 months ended |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Dec. 2005 | Dec. 2005 | Dec. 2004 | Dec. 2004 |
| | (Rs. '000s) | | (Rs. '000s) | |
| Residual Fuel Oil | 3,812,013 | 5,996,532 | 1,685,527 | 3,307,372 |
| Operation & Maintenance | | | | |
| - relating to an associated company | 279,225 | 555,108 | 267,845 | 526,784 |
| Insurance | 103,827 | 207,608 | 127,885 | 253,472 |
| Depreciation | 410,503 | 821,553 | 409,079 | 817,399 |
| Amortisation | 1,311 | 3,533 | 1,035 | 2,070 |
| Miscellaneous | 27,503 | 86,187 | 58,280 | 99,626 |
| | 4,634,382 | 7,670,521 | 2,549,651 | 5,006,723 |

5. GENERAL AND ADMINISTRATION EXPENSES

The Company donated Rs. 50 million to the President Earthquake Relief Fund.

6. FIXED ASSETS

6.1 Additions to property, plant and equipment during the period were Rs. 11.475 million and deletions therefrom were Rs. 8.395 million.

6.2 Additions to intangible assets during the period were Rs. 1.786 million and deletions therefrom were Rs. Nil.

7. COMMITMENTS AND CONTINGENCIES

(i) The Deputy Commissioner of Income Tax (DCIT) made assessments (under section 52/86 of the Income Tax Ordinance, 1979 [ITO,79]) amounting to Rs. 1,895.666 million stating that the Company did not withhold tax at the time of issue of shares to sponsors against project development costs incurred by them. The Company deposited tax amounting to Rs. 296.872 million against the above assessments in accordance with the departmental procedures. Appeals filed by the Company before the Commissioner of Income Tax (Appeals) [the "CIT(A)"] and thereafter with the Income Tax Appellate Tribunal (the "ITAT") were decided against the Company. Against the decision of the ITAT the Company filed appeals before the Lahore High Court (the "LHC") which are pending adjudication. The LHC granted a stay of demand for the outstanding tax liability which according to the provisions of section 136 of the ITO,79 expired on August 2, 1999. However, the LHC directed the DCIT not to institute recovery measures without its permission.

Without prejudice to the appeals before the LHC, the Company has filed an application for the resolution of the matter under the Alternate Dispute Resolution (ADR) provided under section 134A of the Income Tax Ordinance, 2001 with the Central Board of Revenue (CBR). The CBR, after examining the Company's application, has appointed the Alternate Dispute Resolution Committee (ADRC) for the resolution of this matter. It is expected that the ADRC will examine and formulate its recommendation by June 30, 2006.

The management and their tax advisors are of the opinion that the eventual outcome will be in favour of the Company and the tax of Rs.296.872 million paid will become refundable.

- (ii) On the unpaid tax demands referred in (i) above, further assessment orders were issued for Rs.49.571 million (Rs.28.399 million being additional tax and Rs.21.172 million being penalty). Against these orders, the Company filed appeals before the CIT(A), who has deleted the amount of additional tax levied of Rs.28.399 million and reduced the penalty of Rs.21.172 million by Rs.6.351 million. Against the decision of the CIT(A), the Company and Income Tax Department filed further appeals before the ITAT which had upheld the decision of the CIT(A). Against this, the Company moved reference application to the ITAT to refer the issue to the LHC, which stands rejected by the ITAT. The management and their tax advisors are of the opinion that if the LHC decides the appeals against assessments made under section 52/86 of the ITO,79 in favour of the Company, the penalty would also be deleted.

Pending the resolution of the matters stated above, no provision has been made in the financial statements.

8. TRANSACTIONS WITH RELATED PARTIES / ASSOCIATED UNDERTAKINGS

| | Note | 6 months ended Dec. 2005 (Rs. '000s) | 6 months ended Dec. 2004 (Rs. '000s) |
|--|------|--|--|
| Amounts paid for services rendered | 8.1 | 678,612 | 519,432 |
| Reimbursement of expenses and others | | 1,025 | 465 |
| Remuneration to key management personnel | 8.2 | 29,664 | 14,893 |
| Fees | 8.3 | 2,965 | 750 |
| Contribution to staff retirement benefit plans | | 9,564 | 5,491 |

- 8.1 These include transactions with principal shareholders of the Company under various service agreements.
- 8.2 Transactions with key management personnel are carried out under the terms of their employment. Key management personnel are also provided with the use of Company maintained automobiles.
- 8.3 This includes fee of Rs.0.750 million (2004: Rs. 0.750 million) to three (2004: three) independent directors. This also includes technical consultancy of Rs.2.215 million (2004: Rs. Nil) to one (2004: Nil) independent director.
- 8.4 The transactions with associated companies are made under normal commercial terms and conditions.

9. DIVIDEND

The Board of Directors declared an interim dividend for six months ended December 31, 2005 of Rs.1.25 per share, amounting to Rs. 1,446.443 million, at their meeting held on February 16, 2006.

10. GENERAL

- 10.1 These financial statements were authorised for issue by the Board of Directors on February 16, 2006.
- 10.2 Figures have been rounded off to the nearest thousand rupees.

M. Ashraf Tumbi
Chief Executive

Taufique Habib
Director