

SINDH ENGRO COAL MINING COMPANY LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Sindh Engro Coal Mining Company Limited (the Company) as at December 31, 2017 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2017 and of the total comprehensive loss, changes in equity and its cash flows for the year then ended; and
- (d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Chartered Accountants
Karachi
Date: March 14, 2018

Engagement Partner: Waqas A. Sheikh

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SINDH ENGRO COAL MINING COMPANY LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2017
(Amounts in thousand)

	Note	2017	2016
		-----Rupees-----	
ASSETS			
Non-current assets			
Development properties	3	28,566,101	11,148,610
Property, plant and equipment	4	8,860,395	8,102,339
Intangible assets	5	5,977	7,469
Long term investment	6	206,000	206,000
Long term advances and prepayments	7	1,875,420	2,814,135
Long term security deposit		14,450	14,450
		39,528,343	22,293,003
Current assets			
Advances, deposits, prepayments and other receivables	8	91,349	51,312
Taxes recoverable		48,363	38,115
Balances with banks	9	1,030,570	2,064,585
		1,170,282	2,154,012
TOTAL ASSETS		40,698,625	24,447,015
EQUITY AND LIABILITIES			
Equity			
Share capital			
- Ordinary shares	10	5,918,071	5,090,916
- Preference shares	10	366,120	313,689
		6,284,191	5,404,605
Share premium		2,484,896	2,090,605
Advance against issue of share capital		1,300,994	-
Remeasurement of retirement benefit obligation		-	(724)
Unappropriated profit		62,070	72,675
		10,132,151	7,567,161
Non-current liabilities			
Borrowings	11	24,983,853	12,148,127
Current liabilities			
Accrued and other liabilities	12	5,148,846	4,527,426
Mark-up on long-term borrowings		433,775	204,301
		5,582,621	4,731,727
Contingencies and commitments	13		
TOTAL EQUITY AND LIABILITIES		40,698,625	24,447,015

The annexed notes 1 to 25 form an integral part of these financial statements.




Chief Executive Officer



Director

SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousand)

	Note	2017 -----Rupees-----	2016
Administrative expenses	14	(24,834)	(32,160)
Other income	15	16,333	18,733
Finance cost	16	(670)	(1,260)
Loss before taxation		(9,171)	(14,687)
Taxation	17	(710)	(1,621)
Loss for the year		(9,881)	(16,308)
Other Comprehensive Income:			
Items not potentially re-classifiable to profit or loss			
- Remeasurement of post employment benefits obligation		-	(1,106)
Total comprehensive loss for the year		(9,881)	(17,414)

The annexed notes 1 to 25 form an integral part of these financial statements.

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Chief Executive Officer


Director

SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousand)

	ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		Advance against issue of share capital	RESERVES			Total
	Ordinary shares	Preference shares		CAPITAL	REVENUE		
				Share premium	Remeasurement of retirement benefit obligation - Actuarial gain / (loss)	Unappropriated profit	
-----Rupees-----							
Balance as at January 1, 2016	2,893,933	-	-	1,044,213	382	88,983	4,027,511
Total comprehensive loss for the year ended December 31, 2016	-	-	-	-	(1,106)	(16,308)	(17,414)
Transactions with owners							
Share capital issued during the year (including share premium, net of share issuance cost of Rs. 12,553)	2,196,983	313,689	-	1,046,392	-	-	3,557,064
Balance as at December 31, 2016	5,090,916	313,689	-	2,090,605	(724)	72,675	7,567,161
Total comprehensive loss for the year ended December 31, 2017	-	-	-	-	-	(9,881)	(9,881)
Transfer of actuarial loss on retirement benefit obligation	-	-	-	-	724	(724)	-
Transactions with owners							
Share capital issued during the year (including share premium, net of share issuance cost of Rs. 4,398)	827,155	52,431	-	394,291	-	-	1,273,877
Advance received against issue of shares	-	-	1,300,994	-	-	-	1,300,994
Balance as at December 31, 2017	5,918,071	366,120	1,300,994	2,484,896	-	62,070	10,132,151

The annexed notes 1 to 25 form an integral part of these financial statements.

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Chief Executive Officer


Director

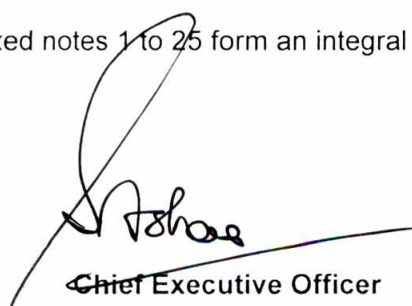
SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousand)

	Note	2017	2016
		-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(9,171)	(14,687)
Working capital changes:			
- Increase in current assets		(40,091)	(1,576)
- Increase in current liabilities		621,420	4,551,921
		581,329	4,550,345
Remeasurement of retirement and other service benefits		-	(1,106)
Mark-up on short-term loan from Subsidiary company		-	605
Loans and advances to employees, net		(8,615)	(1,283)
Taxes paid		(10,958)	(7,695)
Net cash generated from operating activities		552,585	4,526,179
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on:			
- development properties		(14,883,298)	(8,072,942)
- property, plant and equipment		(1,888,156)	(7,770,075)
- intangible assets		(704)	(7,014)
Net cash utilised in investing activities		(16,772,158)	(15,850,031)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital, net		1,273,877	3,557,064
Advance received against issue of share capital		1,300,994	-
Proceeds from long-term borrowings		13,730,475	12,405,611
Loan arrangement charges		-	(2,774,359)
Payment of markup on long-term borrowings		(1,119,788)	(351,291)
Repayment of short term loan and markup thereon to Subsidiary company		-	(78,317)
Net cash generated from financing activities		15,185,558	12,758,708
Net (decrease) / increase in cash and cash equivalents		(1,034,015)	1,434,856
Cash and cash equivalents at beginning of the period		2,064,585	629,729
Cash and cash equivalents at end of the period	9	1,030,570	2,064,585

The annexed notes 1 to 25 form an integral part of these financial statements.




Chief Executive Officer



Director

SINDH ENGRO COAL MINING COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 Sindh Engro Coal Mining Company Limited ('the Company') is a public unlisted company, incorporated in Pakistan on October 15, 2009 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The Company has its registered office at the 16th floor, The Harbor Front Building, Plot Number HC-3, Block 4, Scheme No. 5, Clifton, Karachi.

1.2 The Company was formed under a Joint Venture Agreement (JVA), dated September 8, 2009, between the Government of Sindh (GoS), Engro Energy Limited (EEL) [formerly Engro Powergen Limited (EPL)] and Engro Corporation Limited for the development, construction and operations of an open cast lignite mine in Block-II of Thar Coal Field, Sindh (the Project). As per the requirements of JVA, the Company initiated a Detailed Feasibility Study (DFS) of the Project in November 2009 through a team of International Consultants and local experts to confirm the technical, environmental, social and economic viability of the Project. The DFS was carried out on an area of 79.6 sq. km allocated to the Company in Thar Coal field which was approved by the Technical Committee of the GoS on August 31, 2010. Based on the DFS conducted by the Company, Thar Block-II has estimated coal reserves of approximately 2 billion tons, independently verified by a Competent Person Statement (CPS).

The Company achieved financial close of the Project on April 4, 2016 for construction of coal mine with the capacity of 3.8 million tonnes per annum. This coal will be supplied to Engro Powergen Thar (Private) Limited (EPTL) as per Coal Supply Agreement dated June 7, 2015. EPTL is currently setting up 2 x 330 megawatts power plants which are expected to commence operations by the year 2019. Other key agreements entered into for the Project include Offshore agreement with China Machinery Engineering Corporation (CMEC) dated September 10, 2014, Onshore agreement with China East Resource Import and Export Corporation (CERIEC) dated September 10, 2014 and Implementation Agreement with GoS dated November 19, 2015.

Total approved cost of the Project is USD 845,000, which would be financed through equity injection of USD 211,250 and Debt portion of USD 633,750. Debt portion is a mix of local and foreign financing. The Company signed all major financing agreements with the lenders on December 21, 2015 and partial drawdowns have been made against the local and foreign financing agreements.

Subsequent to financial close, the Company issued notice to proceed dated April 13, 2016 and mobilization advance of USD 69,228 was paid to the Offshore and Onshore contractors in April 2016. Mine construction of 3.8 millions tonnes per annum essentially entails removal of around 112 M Bank Cubic Meters (BCM) earth before coal production. As at December 31, 2017, the Onshore Contractor has removed approximately 66 M BCM which is over and above 4 M BCM removed through local contractor before the financial close.

During the year, the Company has entered into Coal Supply Agreement with Thal Nova Power Thar (Private) Limited and Thar Energy Limited for annual supply of 1.9 million tonnes of coal each. The coal supply will be made out of additional capacity of 3.8 million tonnes per annum under expansion phase. These companies are setting up mine-mouth power plants of 330 megawatts each in Block-II of Thar coalfield and have initiated the process to achieve financial close. The Company has also signed Offshore agreement with CMEC and Onshore agreement with CERIEC dated December 21, 2017 for expansion of mine to supply coal to these power plants.



(Amounts in thousand)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by recognition of certain staff retirement and other service benefits at present value.

2.1.2 These financial statements have been prepared in accordance with the requirements of repealed Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed. The Ordinance has been repealed after the enactment of the Companies Act, 2017. However, as clarified by the SECP through its circular dated October 4, 2017, these financial statements have been prepared in accordance with the provisions of the repealed Ordinance.

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions or judgments used in the preparation of these financial statements are in respect of areas / policies disclosed in notes 2.2 and 2.3 below.

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations that are effective in 2017

The following new amendment to approved accounting standard is applicable for the financial year beginning on January 1, 2017 and is relevant to the Company:

- IAS 7 'Cash flow statements: This amendment requires disclosure to explain changes in liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows. The amendment only covers balance sheet items for which cash flows are classified as financing activities. In case other items are included within the reconciliation, the changes in liabilities arising from financing activities will be identified separately. A reconciliation of the opening to closing balance is not specifically required but instead the information can be provided in other ways. In the first year of adoption, comparative information need not be provided. This amendment has resulted in additional disclosures in these financial statements.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2017 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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(Amounts in thousand)

b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

The following new standards and interpretation are not effective for the financial year beginning on January 1, 2017 and have not been early adopted by the Company:

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for periods beginning on or after January 1, 2018). This interpretation clarifies the determination of the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. The amendment is not expected to have a significant impact on the Company's financial reporting.
- IFRS 9 'Financial instruments' (effective for annual periods beginning on or after July 1, 2018). IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the related guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI, not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model of IAS 39. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. The Company is yet to assess the full impact of the standard, however, it is unlikely that the standard will have any significant impact on the Company's financial statements.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after July 1, 2018). This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Company is yet to assess the full impact of the standard.

There are number of other standards, amendments to published standards and interpretations that are not yet effective and are also not relevant to the Company's financial reporting and operations and therefore, have not been presented here.

2.2 Development properties

Development expenditure represents expenditure incurred in respect of the area in which economically recoverable resources have been identified. Such expenditure comprises prospect costs which are directly attributable to the development / construction of the mine and related infrastructure.

(Amounts in thousand)

Once a development decision has been taken, the carrying amount of exploration and evaluation expenditure is transferred to development expenditure and classified under non-current assets as 'development properties'.

Capitalised development properties expenditure is recorded at cost less impairment, if any. As the asset is not available for use, it is not depreciated; however, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

Cash flows associated with development properties are classified as investing activities in the Statement of Cash Flows.

2.3 Property, plant and equipment

These are stated at historical cost less accumulated depreciation and impairment losses, if any. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to Statement of Comprehensive Income during the financial year in which they are incurred.

Disposal of asset is recognised when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals or retirements of an asset represented by the difference between the sales proceeds and the carrying amount of the asset is recognised within 'other income/expense' in the Statement of Comprehensive Income, in the financial period of disposal or retirement.

Depreciation is charged using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life. Depreciation on addition is charged from the month following the month in which the asset is available for use and on disposals upto the preceding month of disposal.

The Company reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis.

2.4 Intangible assets - Computer software

Costs associated with maintaining computer software programmes are recognised as an expense in the Statement of Comprehensive Income, when incurred. However, costs directly attributable to identifiable software having probable economic benefits exceeding one year, are recognised as intangible assets. Direct costs include purchase costs (license fee) and related overheads.

Expenditure which enhances or extends the performance of the software programme beyond its original specification and useful life is capitalised.

Software costs and license fees capitalised as intangible assets are amortised on a straight-line basis, over a period of 4 years.

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(Amounts in thousand)

2.5 Long term investment

Investment in subsidiary companies are initially recognised at cost. At all subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognised as an expense in the Statement of Comprehensive Income. Where impairment losses are subsequently reversed, the carrying amounts of the investment are increased to their revised recoverable amounts but limited to the extent of initial cost of investment. A reversal of impairment loss is also recognised in the Statement of Comprehensive Income.

2.6 Financial assets

2.6.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) At fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

c) Held to maturity

Held to maturity financial assets are non derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

d) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting date. There were no 'available-for-sale' financial assets at the balance sheet date.

2.6.2 Recognition and measurement

All financial assets are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are subsequently carried at amortised cost.

Am.

(Amounts in thousand)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in Statement of Comprehensive Income.

Gains and losses except impairment losses and foreign exchange gain and losses arising from changes in fair value of assets classified as 'available-for-sale' are recognised in other comprehensive income until the financial asset is derecognised. When securities classified as 'available-for-sale' are sold, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to 'other income/expense' within the Statement of Comprehensive Income.

Interest on available-for-sale assets calculated using the effective interest method is recognised in Statement of Comprehensive Income. Dividends on available for sale equity instruments are recognised in Statement of Comprehensive Income when the Company's right to receive payments is established.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In case of equity securities classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the carrying value is reclassified from equity and is recognised in the Statement of Comprehensive Income. Impairment losses previously recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income.

2.7 Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows include balances with banks. These also include short-term investments, if any, having maturity of upto three months.

2.8 Share capital

Shares are classified as equity and are recorded at face value. Incremental costs, if any, directly attributable to the issue of shares, are recognised in equity as a deduction (net of tax) from the proceeds.

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is amortised over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalised as part of the cost of that asset.

(Amounts in thousand)

2.11 Financial liabilities

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest rate method. These are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

2.12 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle either on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Taxation

Current

The current income tax charge is based on the taxable income for the year calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14 Retirement and other service benefit obligations

2.14.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company's associated company - Engro Corporation Limited, operates and maintains a defined contribution provident fund for the Company's permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.

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(Amounts in thousand)

Further, employees of the Company are also members of the defined contribution gratuity fund maintained and operated by the Company's associated company - Engro Corporation Limited.

2.14.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan, other than the defined contribution plan under which the Company has an obligation to provide the agreed benefits to its entitled employees. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. Currently, certain permanent employees of the Company who are not members of the defined contribution gratuity fund (note 2.14.1) are members of the defined benefit gratuity fund maintained and operated by the Company's associated company - Engro Corporation Limited.

2.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are not recognised for future operating losses. Provision are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.16 Impairment losses

The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indications exist, the assets recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the Statement of Comprehensive Income.

2.17 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currency at year end exchange rates are recognised in development properties.

2.18 Profit on bank deposits and short-term investments

Profit on bank deposits and short-term investments are recognised on accrual basis.

(Amounts in thousand)

	2016	Additions during the year	2017
	-----Rupees-----		
3. DEVELOPMENT PROPERTIES			
Overburden removal cost (note 3.1)	755,607	-	755,607
Onshore contractor cost	5,442,922	11,711,699	17,154,621
Project development costs (note 3.2)	1,742,249	(5,172)	1,737,077
Village relocation	104,404	352,057	456,461
Utility system	24,501	178,483	202,984
Depreciation / Amortisation (notes 4.1 and 5)	349,728	1,132,296	1,482,024
Consultancy and studies (note 3.3)	354,568	565,452	920,020
Gorano water pond	835,973	393,393	1,229,366
Financial charges (note 11.3)	195,316	234,105	429,421
Markup on long term borrowings - net (note 3.4)	534,855	1,308,775	1,843,630
Salaries, wages and staff welfare	248,344	539,144	787,488
Purchased services	32,749	36,971	69,720
Operating expenses	270,653	537,603	808,256
Insurance	318,961	7,366	326,327
Exchange (gain) / loss	(1,952)	406,163	404,211
Share issuance cost	4,274	4,398	8,672
Legal and professional charges	147,939	45,370	193,309
	<u>11,361,091</u>	<u>17,448,103</u>	<u>28,809,194</u>
Expenses charged-off in the Statement of Comprehensive Income	(187,123)	(26,214)	(213,337)
Expenses netted-off in equity - Share issuance cost	(25,358)	(4,398)	(29,756)
Balance as at December 31	<u>11,148,610</u>	<u>17,417,491</u>	<u>28,566,101</u>
3.1 Includes payments to local contractor for overburden removal (note 1.2), salaries of the Company's Project site staff and operating expenses incurred at Project site.			
	2016	Additions during the year	2017
	-----Rupees-----		
3.2 Project Development Costs			
Consultancy charges	336,695	-	336,695
Legal expenses	27,436	-	27,436
Fees and charges	52,501	-	52,501
Subscription for intellectual data	12,011	-	12,011
Depreciation / Amortisation (notes 4.1 and 5)	37,001	-	37,001
Salaries, wages and staff welfare	718,701	(6,789)	711,912
Purchased services	132,579	-	132,579
Share issuance cost	21,084	-	21,084
Rent, security and accommodation expenses	264,358	-	264,358
Other expenses	139,883	1,617	141,500
	<u>1,742,249</u>	<u>(5,172)</u>	<u>1,737,077</u>
3.3 These represent expenses incurred for advance engineering being part of construction phase.			

(Amounts in thousand)

3.4 This represents borrowing costs of Rs. 1,904,854 (2016: Rs. 555,592) incurred to-date on borrowings obtained for the Project net-off income on bank deposits of Rs. 61,224 (2016: Rs. 20,737).

3.5 Movement during the year

	2017	2016
	-----Rupees-----	
Balance at beginning of the year	11,148,610	2,362,480
Add: Additions during the year	17,448,103	8,833,724
Less: Expenses charged-off in the Statement of Comprehensive Income	(26,214)	(35,041)
Less: Expenses netted-off in equity - Share issuance cost	(4,398)	(12,553)
Balance at end of the year	<u>28,566,101</u>	<u>11,148,610</u>

4. PROPERTY, PLANT AND EQUIPMENT

Operating assets (note 4.1)	3,525,349	4,601,405
Capital work-in-progress (note 4.3)	5,335,046	3,500,934
	<u>8,860,395</u>	<u>8,102,339</u>

4.1 Operating assets

	Freehold land	Buildings	Furniture and fixtures	Computers, office and other equipment	Plant & machinery	Vehicles	Total
	-----Rupees-----						
As at January 1, 2016							
Cost	448,210	-	15,268	14,741	544	47,969	526,732
Accumulated depreciation	-	-	(11,143)	(6,230)	(351)	(12,597)	(30,321)
Net book value	448,210	-	4,125	8,511	193	35,372	496,411
Year ended December 31, 2016							
Opening net book value	448,210	-	4,125	8,511	193	35,372	496,411
Transfers from capital work-in-progress (note 4.3)	-	-	1,192	39,892	4,339,583	77,122	4,457,789
Depreciation charge (note 4.2)	-	-	(1,543)	(5,319)	(322,659)	(23,274)	(352,795)
Net book value	448,210	-	3,774	43,084	4,017,117	89,220	4,601,405
As at January 1, 2017							
Cost	448,210	-	16,460	54,633	4,340,127	125,091	4,984,521
Accumulated depreciation	-	-	(12,686)	(11,549)	(323,010)	(35,871)	(383,116)
Net book value	448,210	-	3,774	43,084	4,017,117	89,220	4,601,405
Year ended December 31, 2017							
Opening net book value	448,210	-	3,774	43,084	4,017,117	89,220	4,601,405
Transfers from capital work-in-progress (note 4.3)	-	4,387	-	33,497	1,463	14,697	54,044
Inter-class transfers							
- Cost	-	2,063	-	(2,063)	-	-	-
- Accumulated depreciation	-	(22)	-	22	-	-	-
	-	2,041	-	(2,041)	-	-	-
Depreciation charge (note 4.2)	-	(532)	(1,636)	(15,359)	(1,085,244)	(27,329)	(1,130,100)
Net book value	448,210	5,896	2,138	59,181	2,933,336	76,588	3,525,349
As at December 31, 2017							
Cost	448,210	6,450	16,460	86,067	4,341,590	139,788	5,038,565
Accumulated depreciation	-	(554)	(14,322)	(26,886)	(1,408,254)	(63,200)	(1,513,216)
Net book value	448,210	5,896	2,138	59,181	2,933,336	76,588	3,525,349
Annual rate of depreciation (%)	-	25	25	25	25	25	

(Amounts in thousand)

4.2 Depreciation charge for the year has been allocated to development properties (note 3).

	2017	2016
	-----Rupees-----	
4.3 Capital work-in-progress		
Balance as at January 1	3,500,934	188,648
Add: Additions during the year (note 4.4)	1,888,156	7,770,075
Less: Transferred to operating assets (note 4.1)	(54,044)	(4,457,789)
Balance as at December 31	<u>5,335,046</u>	<u>3,500,934</u>

4.4 Mainly includes advances paid to the Contractor under the Offshore Contract for the supply of equipments related to the mining activities.

	2017	2016
	-----Rupees-----	
5. INTANGIBLE ASSETS - Computer software		
Net carrying value		
Balance at beginning of the year	7,469	1,494
Add: Additions during the year	704	7,014
Less: Amortisation charge for the year	(2,196)	(1,039)
Balance at end of the year	<u>5,977</u>	<u>7,469</u>
Gross carrying value		
Cost	10,142	9,438
Less: Accumulated amortisation	(4,165)	(1,969)
Net book value	<u>5,977</u>	<u>7,469</u>
Annual rate of amortisation (%)	<u>25%</u>	<u>25%</u>

6. LONG TERM INVESTMENT

Unquoted subsidiary company - at cost

Thar Power Company Limited
- 20,600,000 (2016: 20,600,000) ordinary shares
of Rs.10 each

	<u>206,000</u>	<u>206,000</u>
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7. LONG TERM ADVANCES AND PREPAYMENTS - Considered good

Loan arrangement charges (note 7.1)	3,076,138	3,076,138
Less: Transaction cost netted-off from borrowings (note 11.3)	(1,212,931)	(265,547)
	<u>1,863,207</u>	<u>2,810,591</u>
Advances for employee benefits (notes 7.2, 7.3 and 7.4)	17,267	8,652
Less: Current portion shown under current assets (note 8)	(5,054)	(5,108)
	<u>12,213</u>	<u>3,544</u>
	<u>1,875,420</u>	<u>2,814,135</u>

Mn.

(Amounts in thousand)

- 7.1 Loan arrangement charges of Rs. 3,076,138 have been incurred in connection with the loan / financing arrangements. Out of this Rs. 1,212,931 (2016: Rs. 265,547) has been recognised as transaction cost and deducted from the borrowings in proportion of the drawn down loan amount to the total facilities available as at December 31, 2017. Accordingly, transaction costs of Rs. 1,863,207 (2016: Rs. 2,810,591) have been carried forward as long term advances as at December 31, 2017 and will be recognised as transaction costs as and when the draw downs are made against remaining limits of loan facilities.

2017 2016
-----Rupees-----

7.2 **Reconciliation of the carrying amount of advances
for employee benefits**

Balance at beginning of the year	8,652	7,369
Add: Disbursements	27,647	20,357
Less: Repayments/Amortisation	(19,032)	(19,074)
Balance at end of the year	<u>17,267</u>	<u>8,652</u>

- 7.3 Mainly includes advances to executives for car earn out assistance and house rent given to certain employees amounting to Rs. 17,558 (2016: Rs. 9,240) and Rs. 2,777 (2016: Rs. 1,400) respectively, as per the Company's policy. These are amortised over the period as per the terms of employment.

- 7.4 The maximum amount outstanding at the end of any month from employees aggregated to Rs. 26,662 (2016: Rs. 13,404).

2017 2016
-----Rupees-----

8. **ADVANCES, DEPOSITS, PREPAYMENTS
AND OTHER RECEIVABLES**

Current portion of advances for employee benefits (note 7)	5,054	5,108
Advances to employees	3,855	369
Advances to suppliers	37,189	14,137
Prepayments for rent	1,500	1,500
Security deposits	7,859	3,090
Other receivables (note 8.1)	18,846	27,108
Receivable from associated undertakings:		
- Engro Energy Limited (formerly Engro Powergen Limited)	14,737	-
- Engro Powergen Thar (Private) Limited	2,309	-
	<u>91,349</u>	<u>51,312</u>

- 8.1 Includes Rs. 16,143 (2016: Rs. 25,636) incurred on behalf of the Onshore contractor of the Company.

- 8.2 As at December 31, 2017 and 2016, advances and other receivables were neither past due nor impaired.

M/s.

(Amounts in thousand)

	2017	2016
	-----Rupees-----	
9. BALANCES WITH BANKS		
Deposits with banks		
- Foreign currency accounts (note 9.1)	380,484	570,389
- Local currency accounts (note 9.2)	630,635	1,477,120
Cheques in hand	19,451	17,076
	<u>1,030,570</u>	<u>2,064,585</u>

9.1 Represents deposits with scheduled banks amounting to US Dollars 3,446 (2016: US Dollars 5,453) at profit rates of 0.1% (2016: 0.1%) per annum.

9.2 Represents deposits with scheduled banks at profit rates of upto 5% (2016: 5%) per annum.

	2017	2016
	-----Rupees-----	

10. SHARE CAPITAL

Authorised capital

1,462,000,000 (2016: 708,300,000) Ordinary shares of Rs. 10 each (note 10.1)

	<u>14,620,000</u>	<u>7,083,000</u>
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110,900,000 (2016: 38,500,000) Preference shares of Rs. 10 each (note 10.1)

	<u>1,109,000</u>	<u>385,000</u>
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Issued, subscribed and paid-up capital

591,807,097 (2016: 509,091,522) Ordinary shares of Rs. 10 each fully paid in cash (note 10.2)

	<u>5,918,071</u>	<u>5,090,916</u>
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36,612,025 (2016: 31,368,870) Preference shares of Rs. 10 each fully paid in cash (note 10.3)

	<u>366,120</u>	<u>313,689</u>
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10.1 During the year, the Company increased its authorised share capital from:

- 708,300,000 Ordinary shares to 1,462,000,000 Ordinary shares of Rs. 10 each; and
- 38,500,000 Preference shares to 110,900,000 Preference shares of Rs. 10 each.

10.2 Ordinary shares

2017	2016		2017	2016
-----Number of shares-----			-----Rupees-----	
509,091,522	289,393,255	At January 1	5,090,916	2,893,933
82,715,575	219,698,267	Ordinary shares of Rs. 10 each issued at a premium of Rs. 4.82 per share, as fully paid right shares (note 10.2.1)	827,155	2,196,983
<u>591,807,097</u>	<u>509,091,522</u>		<u>5,918,071</u>	<u>5,090,916</u>

(Amounts in thousand)

10.2.1 Ordinary shares issued during the year

	2016	Shares issued during the year	2017
	-----Number of shares-----		
Government of Sindh	278,219,938	45,498,545	323,718,483
Engro Energy Limited (formerly Engro Powergen Limited)	60,651,901	9,773,143	70,425,044
Thal Limited	60,651,900	9,773,144	70,425,044
Habib Bank Limited	48,346,369	7,875,305	56,221,674
The Hub Power Company Limited	40,812,038	6,532,530	47,344,568
CMEC Thar Mining Investments Limited	20,409,376	3,262,908	23,672,284
	<u>509,091,522</u>	<u>82,715,575</u>	<u>591,807,097</u>

10.3 Preference shares

2017	2016		2017	2016
-----Number of shares-----			-----Rupees-----	
31,368,870	-	At January 1	313,689	-
5,243,155	31,368,870	Preference shares of Rs. 10 each issued as fully paid right shares (note 10.3.1)	52,431	313,689
<u>36,612,025</u>	<u>31,368,870</u>		<u>366,120</u>	<u>313,689</u>

- 10.3.1 During the year, the Company issued and allotted 5,243,155 (2016: 31,368,870) preference shares of Rs. 10 each as fully paid right shares to Huolinhe Open Pit Coal (HK) Investment Co. Limited. These preference shares shall be cumulative, non-redeemable, non-convertible, non-participatory and non-voting and carry dividend at fixed return rate of 15.4% per annum (after commercial operations date) computed in US Dollars. These preference shares have been classified in equity as per the requirements of the repealed Companies Ordinance, 1984.

2017	2016
-----Rupees-----	

11. BORROWINGS

Local currency borrowings (notes 11.1 and 11.2)	17,000,163	11,400,163
Foreign currency borrowings (notes 11.1 and 11.2)	9,135,923	1,005,448
	<u>26,136,086</u>	<u>12,405,611</u>
Less: Transaction costs (note 11.3)	<u>(1,152,233)</u>	<u>(257,484)</u>
	<u>24,983,853</u>	<u>12,148,127</u>

- 11.1 On December 21, 2015, the Company entered into following loan agreements:

- Syndicate Facility Agreement with eight commercial banks namely Habib Bank Limited, United Bank Limited, Bank Alfalah Limited, Askari Bank Limited, Sindh Bank Limited, Bank of Punjab, NIB Bank Limited and Habib Metropolitan Bank Limited for an aggregate amount of Rs. 40,000,000 for a period of 14 years of which amount of Rs. 33,000,000 pertains to Phase 1 of mine development. As at December 31, 2017, the Company has made draw down of Rs. 12,466,786 (2016: Rs. 8,360,119) against this facility;

(Amounts in thousand)

- Islamic Finance Agreement with three commercial banks namely Meezan Bank Limited, Faysal Bank Limited and Habib Bank Limited for an aggregate amount of Rs. 12,000,000 for a period of 14 years. As at December 31, 2017, the Company has made draw down of Rs. 4,533,377 (2016: Rs. 3,040,044) against this facility; and
- US Dollar Term Loan Facility Agreement with three foreign banks namely China Development Bank Corporation, China Construction Bank Corporation and Industrial and Commercial Bank of China Limited for an aggregate amount of USD 200,000 for a period of 14 years. As at December 31, 2017, the Company has made draw down of USD 82,740 (2016: USD 9,613) against this facility.

11.2 These loans are repayable in 20 semi-annual installments commencing from the earlier of (i) First fixed date falling after 48 months since facility effective date; and (ii) Second fixed date falling after Commercial Operations Date; where fixed dates are defined as June 1 or December 1 of any year. These loans carry annual mark-up / profit at the rate of 6 months KIBOR plus 1.75% except for the USD facility which carries annual mark-up / profit at the rate of 6 months LIBOR plus 3.30%. These facilities are secured by Project assets of the Company. Further, shareholders of the Company have committed to provide cost overrun support for 5% of the Project cost and pledge shares in favor of the Security Trustee. Additionally, shareholders other than Habib Bank Limited (HBL) have also provided Stand-By Letter of Credit (SBLC) as coverage for their equity commitments to the Project.

	2017	2016
	------(Rupees)-----	
11.3 Transaction costs		
Transaction costs netted-off from borrowings (note 7)	1,212,931	265,547
Less: Amortization recognised in development properties (note 3)	(60,698)	(8,063)
	<u>1,152,233</u>	<u>257,484</u>

11.4 Following are the changes in the borrowings (i.e. for which cash flows have been classified as financing activities in the statement of cash flows):

	2017	2016
	------(Rupees)-----	
Balance as at January 1	12,148,127	-
Proceeds from borrowings	13,294,194	12,407,193
Transaction costs netted-off from borrowings	(947,384)	(265,547)
Amortization of transaction cost	52,635	8,063
	(894,749)	(257,484)
Exchange loss / (gain)	436,281	(1,582)
Balance as at December 31	<u>24,983,853</u>	<u>12,148,127</u>

12. ACCRUED AND OTHER LIABILITIES

Accrued liabilities (note 12.1)	5,089,044	4,508,270
Retention money	52,138	9,372
Workers' welfare fund	2,405	2,405
Withholding tax payable	5,259	6,673
Payable to gratuity fund	-	706
	<u>5,148,846</u>	<u>4,527,426</u>

12.1 Includes accruals against Offshore and Onshore Contracts amounting to Rs. 1,915,436 (2016: Rs. 2,288,873) and Rs. 2,482,828 (2016: Rs. 1,541,250), respectively.

(Amounts in thousand)

13. CONTINGENCIES AND COMMITMENTS

- 13.1 Capital commitments for civil works construction and equipment procurement as at December 31, 2017 amounts to Rs. 28,729,092 (2016: Rs. 36,073,280).
- 13.2 Bank guarantee amounting to Rs. 2,200 has been issued by the Company in favour of Nazir of the Sindh High Court (the Court). The guarantee has been submitted under the interim order made by the Court for release of mining dump trucks imported by the Company, without payment of advance income tax, subject to furnishing of security for the amount of tax involved.
- 13.3 Performance guarantee amounting to USD 500 has been issued in favour of Director General, Coal Mines Development Department. The guarantee was issued on September 11, 2014, in lieu of requirement of the Mining Lease of the Project. This guarantee is valid upto commercial operations date or four years and six months from the date of issue or March 14, 2019, whichever falls earlier.
- 13.4 The above guarantees are secured through lien on deposits of Thar Power Company Limited, the wholly owned subsidiary of the Company.
- 13.5 In 2016, a petition was filed before the Honourable High Court of Sindh against the Company and other respondents to challenge the legality of the establishment of water reservoir by the Company at Gorano for the purposes of storage and containment of sub-soil water required to be extracted for sustained mining operations at Thar Block II. In view of the legal advisor of the Company, the Company has a good defence in this petition, accordingly, no provision has been recognised against the expenditure incurred to-date for the construction of water reservoir.

	2017	2016
	-----Rupees-----	
Salaries, wages and staff welfare	9,519	17,232
Travelling	-	581
Purchased services	3,697	4,042
Directors' fee (note 18)	3,250	3,850
Others (note 14.1)	8,368	6,455
	<u>24,834</u>	<u>32,160</u>

14. ADMINISTRATIVE EXPENSES

- 14.1 Includes auditor's remuneration amounting to Rs. 1,178 (2016: Rs. 804).

	2017	2016
	-----Rupees-----	
Profit / Interest income on:		
- Deposits with banks	16,333	16,924
- Term deposit receipts	-	1,809
	<u>16,333</u>	<u>18,733</u>

15. OTHER INCOME**16. FINANCE COST**

Mark-up on short term loan from Subsidiary company	-	605
Bank charges	670	655
	<u>670</u>	<u>1,260</u>

(Amounts in thousand)

2017 2016
-----Rupees-----

17. TAXATION

Current

- for the year (note 17.1)

710

395

- for prior year

-

1,226

7101,621

17.1 Pursuant to the amendment in Second Schedule to the Income Tax Ordinance, 2001, through Finance Act 2014, profits and gains derived from a coal mining project in Sindh, supplying coal exclusively to power generation projects, have been exempted from the provisions of Income Tax Ordinance, 2001. However, current tax for the year represents minimum turnover tax at the rate of 1.25% on profit on bank deposits of the Company in accordance with section 113 of the Income Tax Ordinance, 2001.

17.2 As the Project is exempt from tax, deferred tax asset in respect of carried forward taxable loss amounting to Rs. 29,076,558 as at December 31, 2017 has not been recognised by the Company.

18. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2017			2016		
	Directors			Directors		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	------(Rupees)-----					
Managerial remuneration	15,379	-	220,791	14,200	-	168,613
Contribution for staff retirement benefits	2,499	-	23,453	2,070	-	17,588
Other benefits	17,572	-	69,105	14,670	-	56,074
Fees (notes 14 and 18.3)	-	3,250	-	-	3,850	-
Total	<u>35,450</u>	<u>3,250</u>	<u>313,349</u>	<u>30,940</u>	<u>3,850</u>	<u>242,275</u>
Number of persons including those who worked part of the year	<u>1</u>	<u>11</u>	<u>62</u>	<u>1</u>	<u>11</u>	<u>49</u>

18.1 The Company has also provided Company owned vehicles for use of certain executives of the Company.

18.2 Premium charged during the year in respect of directors indemnity insurance amounts to Rs. 755 (2016: Rs. 26).

18.3 Represents fixed fee paid to Directors for attending the meetings.

(Amounts in thousand)

19. RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS**19.1 Provident Fund**

- 19.1.1 The employees of the Company participate in provident fund maintained by Engro Corporation Limited (ECL). Monthly contributions are made both by the Company and employees to the fund maintained by ECL at the rate of 10% of basic salary. Accordingly, the following information is based upon the latest audited financial statements of provident fund as at June 30, 2016 and unaudited financial statements as at June 30, 2017:

	June 30, 2017	June 30, 2016
	-----Rupees-----	
Size of the fund - Net assets	<u>3,941,927</u>	<u>3,386,894</u>
Cost of the investments made	<u>2,493,496</u>	<u>2,920,257</u>
Percentage of investments made	<u>92%</u>	<u>92%</u>
Fair value of investments	<u>3,643,638</u>	<u>3,108,948</u>

The break-up of fair value of investments is as follows:

	2017		2016	
	Rupees	%	Rupees	%
National savings scheme	824,473	23%	808,579	26%
Government securities	1,152,661	32%	727,842	23%
Listed securities	817,729	22%	974,172	31%
Balances with banks in savings account	<u>848,775</u>	<u>23%</u>	<u>598,355</u>	<u>20%</u>
	<u>3,643,638</u>	<u>100%</u>	<u>3,108,948</u>	<u>100%</u>

- 19.1.2 Out of the total member balances of Rs. 3,941,927 (2016: Rs. 3,205,658), member balances pertaining to employees of the Company amounts to Rs. 182,461 (2016: Rs. 147,484).

- 19.1.3 The investments out of the fund have been made in accordance with the provisions of section 227 of the repealed Companies Ordinance, 1984 and the rules formulated for the purpose.

19.2 Defined contribution plan

An amount of Rs. 53,772 (2016: Rs. 40,243) has been charged during the year in respect of defined contribution plans.

	2017	2016
	-----Rupees-----	

20. FINANCIAL INSTRUMENTS BY CATEGORY**Financial assets as per balance sheet****- Loans and receivables**

Advances for employee benefits	2,997	1,469
Advances to employees	3,855	369
Long term security deposit	14,450	14,450
Short-term deposits and other receivables	26,705	30,198
Balances with banks	1,030,570	2,064,585
	<u>1,078,577</u>	<u>2,111,071</u>

(Amounts in thousand)

	2017	2016
	-----Rupees-----	
Financial liabilities as per balance sheet		
- Financial liabilities at amortised cost		
Borrowings	24,983,853	12,148,127
Accrued and other liabilities	5,141,182	4,517,642
Mark-up on long-term borrowings	433,775	204,301
	<u>30,558,810</u>	<u>16,870,070</u>

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

21.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost effective funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to the shareholders.

Risk management is carried out by the Company's Finance and Planning department under policies approved by the Board of Directors.

a) Market risk

i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates due to outstanding foreign currency payments, foreign currency borrowings and bank account balances. The Company's exposure to currency risk is limited as the fluctuation in the foreign exchange rates are covered through adjustment in tariff as per the Implementation Agreement with Government of Sindh.

ii) Interest rate risk

In 2015, the Company has entered into long-term borrowing agreements with various local and foreign lenders on a floating rate based on KIBOR (local currency loans) and LIBOR (foreign currency loans). The Company's exposure to fair value interest rate risk is limited to the Company's borrowings and this exposure is limited as the fluctuation in the market interest rates are covered through adjustment in tariff as per the Implementation Agreement with Government of Sindh.

iii) Other price rate risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. During the Project phase the Company is only exposed to USD inflation rate risk but the exposure is covered through adjustments in tariff as per Implementation Agreement with Government of Sindh.

(Amounts in thousand)

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Major credit risk of the Company arises from advances to Offshore and Onshore Contractors, loans to employees, other receivables and deposits with banks and financial institutions. The credit risk against advances to the Contractors is covered through SBLCs of equal amount of high credit rated financial institutions. The credit risk on other liquid funds is limited because the counter parties are either employees of the Company or banks with a reasonably high credit ratings. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The credit quality of Company's financial assets can be assessed with reference to external credit ratings as follows:

Name of bank/financial institution	Rating	
	Short term	Long term
Habib Bank Limited	A1+	AAA
National Bank of Pakistan	A1+	AAA

c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities.

The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements.

Through financial close achievement in April 2016, the Company have secured debt financing from leading national and international financial institutions and also made in place equity contribution SBLCs from all the sponsors except HBL for the amounts equivalent to initial Project cost estimate of USD 845,000.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2017			2016		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
Financial liabilities						
Borrowings	-	24,983,853	24,983,853	-	12,148,127	12,148,127
Accrued and other liabilities	5,141,182	-	5,141,182	4,517,642	-	4,517,642
Mark-up on long-term borrowings	433,775	-	433,775	204,301	-	204,301
	5,574,957	24,983,853	30,558,810	4,721,943	12,148,127	16,870,070

21.2 Fair value of financial assets and financial liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

(Amounts in thousand)

22. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of joint venture companies, associated companies, other companies with common directors, retirement benefit funds, directors and key management personnel. Details of transactions, with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2017	2016
	-----Rupees-----	
Subsidiary company		
Payment of short-term loan and mark-up thereon	-	78,317
Associated companies		
Reimbursement of expenses incurred by:		
- Engro Corporation Limited	31,871	69,475
- Engro Fertilizers Limited	7,135	5,610
- Engro Foods Limited	110	10,240
- Engro Foundation Limited	60	60
- Elengy Terminal (Private) Limited	1,445	-
- Engro Powergen Qadirpur Limited	5,166	16,879
- Engro Polymer and Chemicals Limited	-	579
- Engro Powergen Thar (Private) Limited	2,697	19,856
- Engro Energy Limited (formerly Engro Powergen Limited)	52	376
- Thar Foundation	404	-
Reimbursement of expenses incurred for:		
- Engro Fertilizers Limited	655	2,301
- Engro Corporation Limited	589	-
- Engro Foods Limited	25	8,325
- Engro Powergen Qadirpur Limited	1,348	30
- Engro Powergen Thar (Private) Limited	41,742	31,375
- Engro Energy Limited (formerly Engro Powergen Limited)	47,709	27,632
- Engro Polymer and Chemicals Limited	2	611
- Engro Elengy Terminal (Private) Limited	-	2,479
- Thar Foundation	12,880	-
Key management personnel		
- Managerial remuneration	92,213	72,322
- Contribution for staff retirement benefits	9,256	7,269
- Bonus payments	63,926	46,210
Contribution to retirement benefit funds	53,772	40,243

23. NUMBER OF EMPLOYEES

	Number of employees as at		Average number of employees	
	December 31, 2017	December 31, 2016	2017	2016
Management employees	95	68	82	54

(Amounts in thousand)

24. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever considered necessary, for the purpose of comparison, the effects of which are not material.

25. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 24 JAN 2013 by the Board of Directors of the Company.

gr.


Ashok
Chief Executive Officer


Director