

## Directors' Report

### Year Ended December 31, 2014

The Directors of Sindh Engro Coal Mining Company Limited (SECMC), a joint venture between Government of Sindh (GoS), Engro Powergen Limited (EPL) and its Affiliates, are pleased to present the audited financial statements and a review of the Thar Coal Mining Project for the year ended December 31, 2014.

#### **Progress Update**

During the year the Company's main sponsors' Engro Powergen Limited (EPL) and Government of Sindh (GoS), signed a revised Joint Venture Agreement (JVA). Under the revised agreement, it was mutually agreed that GoS will increase its shareholding in the Company to at least 51% while EPL and its affiliates will retain management control as long as they maintain minimum shareholding of 26%. This change was put to effect in order to meet the requirement of the Sovereign Guarantee (SG) granted by the Government of Pakistan.

GoS increased its shareholding in the Company via injection of additional equity including additional funds to commence physical work on site. As a result, the Company held a momentous Ground Breaking Ceremony on January 31, 2014, to mark the start of physical work on site. The Ceremony was performed by the Honorable Prime Minister and former President of Pakistan as Chief Guests along with other high-ranking dignitaries. The Company's Coal Mining project has since been termed as a "Project of National Importance" and has also been listed as Early Harvest Projects under the China Pakistan Economic Corridor (CPEC) by the Ministry of Planning and Reforms.

Following the inaugural ground breaking, SECMC shortlisted and awarded a contract for 3 million Bank Cubic Meters (BCM) over-burden removal to a local contractor. The work commenced in May 2014 and over 2 million BCM of overburden has been removed to date. The Company has procured four mining dump trucks from China to test their performance under Thar site conditions and to select the best one for its mining project. The Company has engaged almost forty percent of Local Thari workforce through contractor.

In order to meet international safety standards and create a safe working environment at site, a comprehensive HSE Management Plan and HSE Policy & Guidelines have been developed for the first time in Pakistan based on best international mining practices, US MSHA (Mine Safety & Health Authority) and US EPA guidelines. As a result, the Company has clocked 0.47 million safe man-hours on site with a TRIR (Total Recordable Injury Rate) without an LWI (Lost Workday Injury) of 1.3 versus a target of 4.6. The Company has also imparted 3,900 man-hours of HSE trainings to ensure HSE awareness at Site.

During the year, SECMC initiated the process of acquisition of land and has taken possession of approximately 6,000 acres in Block II for Phase I of the Mining Project. The same has been approved by the DC of Tharparkar District under the Land Acquisition Act. Company has deposited Rs. 450 million to date in lieu of privately held land. An additional mining lease of 15.9 Sq Km has also been granted to the Company, bringing the total area of mining lease to 95.5 Sq Km.

With the acquisition of the land, the Company has drafted a Resettlement Action Plan (RAP) to cater to the communities that will need to be resettled in Block II. The draft RAP has been submitted to the Energy Department (ED) and following discussions a final RAP would be submitted in due course. The Company is in the process of engaging town planning and architect firm for the design of resettled villages & associated infrastructure..



In its commitment to serving the communities of Thar, SECMC has been active in conducting CSR activities in the region. Two 3-day medical camps were held in Block II providing consultation and medicines free of charge to more than 2,400 local people. SECMC is working with Indus Hospital Karachi to develop a proposal for setting up healthcare units in Block-II. As part of this activity, a team from Indus Hospital visited the region to assess the medical needs of the local people and existing facilities available in the area. Meetings have also been conducted with JHPIEGO, an international health organization affiliated with Johns Hopkins University, for the development of maternal care and awareness in the area. Other welfare and community development organizations are also being engaged to help develop awareness.

The Company and the region of Block II has been given special coverage in the media with multiple visits from journalists from local & national print and electronic media. Several groups of journalists visited the area and met with SECMC CEO who briefed them on the developments on site and in the communities.

#### **Commercial / Technical Update**

After receiving firm EPC bids during 2013, the Company shortlisted CMEC (China Machinery & Engineering Company) for the EPC and O&M Contracts for mining. Following thorough deliberations on project cost and scope, the Board approved the award of EPC contract to CMEC which was signed in China in September 2014.

On November 27, 2014, TCEB notified the Coal Tariff Rules and formed a committee for tariff determination. SECMC has submitted its coal tariff petition on December 30, 2014 to TCEB based on revised feasibility of 3.8 and 6.5 mtpa mine size. Tariff Petition was admitted on 5<sup>th</sup> January 2015 and salient features of the tariff petition were advertised on January 16, 2015.

Various rounds of meetings were held between SECMC and TCEB with their consultants (Grant Thornton/SRK/Orr Dignam) in Karachi, Islamabad and London for technical, commercial/financial and legal evaluation of the petition. First-ever public hearing on tariff petition was held on February 03, 2015 in Karachi and final determination is expected by February 10, 2015.

The revised Project Execution Strategy for a reduced mine size of 3.8 MTPA due to changes in power plant configuration was submitted to Sindh Coal Authority (SCA) and approved by them on January 2<sup>nd</sup>, 2015. The Company is also conducting coal quality testing with the help of renowned consultants RWE Power International. Geotechnical and topographic surveys have been done by the mining Contractor in order to re-confirm the mine design parameters.

The draft Coal Supply Agreement is under discussion between SECMC and the Power Company teams and is expected to be finalized soon.

#### **Financing Update**

The Company has, during the year, firmed up its project cost to USD 875 million. Out of this USD 263 million is to be raised through equity while USD 612 million is to be financed through debt. HBL has been selected as lead arranger for the local financing and have submitted a draft term sheet for USD 400 million for MoF approval under Sovereign Guarantee.

During the year the Sinasure coverage was made available for the Sovereign Guarantee backed projects. As a result Chinese institutions are viewing the Thar Mining and Power Projects with renewed interest and have requested further information.

During the year, the Board also approved the induction of new equity partners, HUBCO and Thal Limited. They contributed Rs. 240 and Rs. 360 million and shares were allotted on January 2, 2015. HBL is also expected to contribute towards equity in due course.



### **Infrastructure Update**

The development of Phase I of LBOD fresh water supply scheme is lagging behind schedule due to slow funding and technical issues related to Pre-Treatment Unit, however a revised proposal for new allocation is under review. Simultaneously, the Company is monitoring to expedite the design of the Pre-treatment Unit. Company has engaged engineering firms for designing of the pre-treatment system, water quality & quantity and construction quality monitoring. ESIA report for the LBOD Scheme has been submitted to SEPA for approval. Similarly, Phase II is being continuously monitored for development and third party contractor has been engaged to help monitor progress and quality of construction. Phase I is expected to be completed by June 2016 and Phase II by December 2016.

During the year, SECMC also finalized the design of the 50 Cusecs Effluent Disposal Scheme and has finalized the designated area for the disposal site in consultation with SCA, RWE and GoS Consultants for its Master Water Plan Study. The scheme has been ratified by RWE, which has also developed a report on the project. SEPA has issued interim NOC through IEE for the scheme and a detailed EIA study is in progress. EPC contract for the development of the effluent pipeline has been awarded to a local company.

### **Results for the Period**

Sindh Engro Coal Mining Company Limited declared a net profit of PKR 52.60 million for the year ended. This profit represents earnings from bank deposits off-set by expenses incurred in respect of general administration and considered as not directly attributable to Development Properties. Since the Company is in Project phase and has not started commercial production, it has not declared any dividend or bonus share issue for the year and has transferred PKR 52.60 to Un-appropriated Profit / Accumulated Loss reserve.

### **Key Operating & Financial Data for the last 5 years**

	PKR ('000)				
Profit / (Loss) Before Tax	53,526	(17,740)	(6,566)	5,490	19,824
Profit / (Loss) After Tax	52,598	(12,112)	(4,225)	3,979	12,886
Development Properties	1,392,906	755,751	-	-	-
Exploration and Evaluation Assets	-	-	539,753	432,485	356,286
Property, Plant & Equipment	506,097	7,204	6,873	9,792	11,716
Capital Expenditure	56,534	4,457	647	1,540	12,883
Intangible Assets	178	272	365	-	-
Net Current Assets	1,407,792	63,638	12,466	76,742	139,263
Shareholders' Fund	3,535,131	846,399	554,905	511,880	507,901
Shares Outstanding at Year End (No. of shares)	218,138	80,216	54,525	49,800	49,800

## **Allocation of Reserves**

The Company has allocated reserves as follows for the year:

### **Unappropriated Profit**

	<b><u>PKR ('000)</u></b>
Balance as at January 1, 2014	(2,457)
Total unappropriated profit for the year	52,598
Balance as at December 31, 2014	<u>50,141</u>

## **Training of Directors'**

One of the directors has completed the directors' training course conducted by the PICG.

## **Key Shareholding & Shares Traded**

Following is the key shareholding position as at December 31, 2014:

	<b><u>No. of shares held</u></b>
	<b><u>2014</u></b>
Engro Powergen Limited	57,292,569
Government of Sindh	160,845,616
Shamsuddin A. Sheikh	1
M. Aliuddin Ansari	1
Dr. Mahesh Kumar Malani	1
Sarfaraz Ahmed Rehman	1
Naz Khan	1
Kurshid Anwar Jamali	1
Arif Ahmed Khan	1
Mohammad Sohail Khan Rajput	1
Mir Hayat Khan	1
Agha Wasif Abbas	1
	<u>218,138,195</u>

## **Retirement Funds**

The Company contributes to plans that provide post-employment and retirement benefits for its employees. These include defined contribution (DC) gratuity plan, defined benefit (DB) gratuity plan and DC provident fund. The DC provident fund and DC gratuity plan are managed by Engro Corporation Limited for its employees and those of its associates including Sindh Engro Coal Mining Company Limited. The DB gratuity plan is maintained by an associated undertaking Engro Powergen Qadirpur Limited.

The value of total assets of the respective fund and plans based on their respective latest audited accounts are:

DC gratuity plan as of Dec 31, 2013	PKR 838 Million
DB gratuity plan as of June 30, 2014	PKR 1 Million
DC provident fund as of June 30, 2014	PKR 2,037 Million



## **Statement of Director Responsibilities**

The directors confirm compliance with Corporate and Financial Reporting Framework of the SECP Code of Governance for the following:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures there from have been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.

There is no material departure from the best practices of corporate governance, as applicable to SECMC.

## **Board Meetings & Attendance**


In 2014, the Board of Directors held 12 meetings and Board Audit Committee held 4 meetings. The attendance record of the Directors is as follows:

Sr. No.	Name	BoD Meetings attended	BAC Meetings attended
1.	Khurshid A. Jamali	12	-
2.	Shamsuddin A. Shaikh	12	-
3.	M. Ali Ansari	10	-
4.	Agha Wasif Abbas	12	4
5.	M. Sohail Rajput	11	3
6.	Muhammed Waseem^	1	-
7.	Sarfaraz A. Rehman^*	6	1
8.	Naz Khan*	7	1
9.	Mahesh K. Malani^	9	-
10.	Mir Hayat Khan Talpur^	1	-
11.	Inam ur Rahman*	4	3
12.	Shabbir Hashmi*	4	3
13.	Ruhail Mohammed*	1	-
14.	Arif Ahmed Khan*	2	-

**Note:**

^ Directors who joined the Board during the year.

\* Directors who resigned from the Board during the year.

  
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Chief Executive Officer  
February 06, 2014

  
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Director