

**SINDH ENGRO COAL MINING COMPANY LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of Sindh Engro Coal Mining Company Limited as at December 31, 2016 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 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, 2016 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: February 15, 2017**

**Engagement Partner: Waqas A. Sheikh**

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*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network*  
*State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan*  
*Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>*

**SINDH ENGRO COAL MINING COMPANY LIMITED**

**BALANCE SHEET**

**AS AT DECEMBER 31, 2016**

(Amounts in thousand)

	Note	2016	2015
		-----Rupees-----	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Development properties	3	11,148,610	2,362,480
Property, plant and equipment	4	8,102,339	685,059
Intangible assets	5	7,469	1,494
Long term investment	6	206,000	206,000
Long term advances and prepayments	7	2,814,135	303,778
Long term security deposit with Hyderabad Electric Supply Corporation		14,450	14,450
		<u>22,293,003</u>	<u>3,573,261</u>
<b>Current assets</b>			
Advances, deposits, prepayments and other receivables	8	51,312	43,812
Taxes recoverable		38,115	32,041
Short term investments - Held to maturity		-	275,000
Mark-up receivable		-	6,186
Balances with banks	9	2,064,585	354,729
		<u>2,154,012</u>	<u>711,768</u>
<b>TOTAL ASSETS</b>		<u><u>24,447,015</u></u>	<u><u>4,285,029</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital			
- Ordinary shares	10	5,090,916	2,893,933
- Preference shares	10	313,689	-
Share premium		2,090,605	1,044,213
Remeasurement of retirement benefit obligation		(724)	382
Unappropriated profit		72,675	88,983
		<u>7,567,161</u>	<u>4,027,511</u>
<b>Non-current liabilities</b>			
Borrowings	11	12,148,127	-
<b>Current liabilities</b>			
Accrued and other liabilities	12	4,527,426	179,806
Short term loan		-	76,841
Mark-up on long-term borrowings		204,301	-
Mark-up on short term loan		-	871
		<u>4,731,727</u>	<u>257,518</u>
<b>Contingencies and commitments</b>	13		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>24,447,015</u></u>	<u><u>4,285,029</u></u>

The annexed notes 1 to 26 form an integral part of these financial statements.

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Chief Executive Officer

Director



**SINDH ENGRO COAL MINING COMPANY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts in thousand)

	Note	2016 -----Rupees-----	2015
Administrative expenses	14	(32,160)	(50,313)
Other income	15	18,733	93,923
Finance cost	16	(1,260)	(3,033)
Workers' welfare fund		-	(796)
<b>(Loss) / Profit before taxation</b>		<b>(14,687)</b>	<b>39,781</b>
Taxation	17	(1,621)	(939)
<b>(Loss) / Profit for the year</b>		<b>(16,308)</b>	<b>38,842</b>
<b>Other Comprehensive Income:</b>			
<b>Items not potentially re-classifiable to Statement of Comprehensive Income</b>			
- Remeasurement of post employment benefits obligation		(1,106)	202
<b>Total comprehensive (loss) / income for the year</b>		<b>(17,414)</b>	<b>39,044</b>

The annexed notes 1 to 26 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, 2016**

(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, 2015	2,181,382	-	600,000	704,326	180	50,141	3,536,029
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	202	38,842	39,044
Transactions with owners							
Share capital issued during the year (including share premium, net of share issuance cost of Rs. 3,563)	712,551	-	(600,000)	339,887	-	-	452,438
Balance as at December 31, 2015	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

The annexed notes 1 to 26 form an integral part of these financial statements.

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**Chief Executive Officer**

  
**Director**

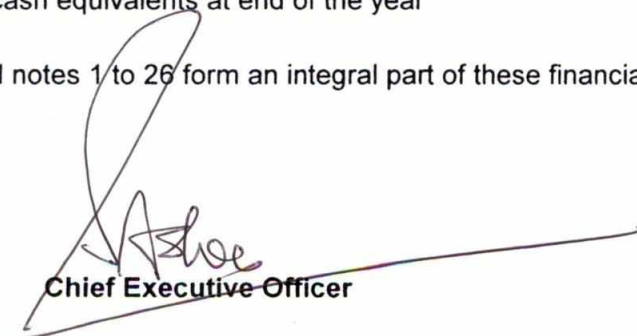
**SINDH ENGRO COAL MINING COMPANY LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts in thousand)

	2016	2015
	-----Rupees-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss) / Profit before taxation	(14,687)	39,781
<b>Working capital changes:</b>		
- (Increase) / decrease in current assets	(1,576)	70,166
- Increase in current liabilities	4,551,921	40,167
	4,550,345	110,333
Remeasurement of retirement and other service benefits	(1,106)	202
Mark-up on short-term loan from Subsidiary company	605	2,712
Loans and advances disbursed to employees, net	(1,283)	4,964
Taxes paid	(7,695)	(10,163)
Net cash generated from operating activities	4,526,179	147,829
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditure on:		
- development properties	(8,072,942)	(949,559)
- property, plant and equipment	(7,770,075)	(234,837)
- intangible assets	(7,014)	(2,050)
Proceeds from transfer of land	-	40,850
Proceeds from maturity of treasury bills	-	197,242
Investments made in treasury bills	-	(99,972)
Net cash utilised in investing activities	(15,850,031)	(1,048,326)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital, net	3,557,064	452,438
Proceeds from long-term borrowings	12,405,611	-
Loan arrangement charges	(2,774,359)	(301,779)
Payment of markup on long term borrowings	(351,291)	-
Short term loan from Subsidiary company	-	75,000
Repayment of short term loan and markup thereon to Subsidiary company	(78,317)	-
Net cash generated from financing activities	12,758,708	225,659
Net increase / (decrease) in cash and cash equivalents	1,434,856	(674,838)
Cash and cash equivalents at beginning of the year	629,729	1,304,567
Cash and cash equivalents at end of the year	2,064,585	629,729

The annexed notes 1 to 26 form an integral part of these financial statements.

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**Chief Executive Officer**

  
**Director**



**SINDH ENGRO COAL MINING COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

(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 Companies Ordinance, 1984. The Company has its registered office at the 4th 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 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).

During the year, 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. Other key agreements entered into for the Project include Engineering, Procurement and Construction (EPC) contract with China Machinery Engineering Corporation (CMEC) dated September 10, 2014 and Implementation Agreement with GoS dated November 19, 2015.

Total cost of the Project is estimated at 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. Partial drawdowns against the local and foreign financing agreements have been made during the year.

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 EPC contractor in April 2016. Mine construction of 3.8 millions tonnes per annum essentially entails removal of around 112m Bank Cubic Meters (BCM) earth before coal production. As at December 31, 2016, the EPC Contractor has removed approximately 15 M BCM which is over and above 4 M BCM removed through local contractor before the financial close.

**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.





**(Amounts in thousand)**

2.1.2 These financial statements have been prepared in accordance with the requirements of 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.

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 2016**

The following new amendments to published standards are mandatory for the financial year beginning January 1, 2016 and are relevant to the Company:

- IFRS 7 'Financial instruments: Disclosures'. The amendment clarifies that the additional disclosure required by the amendments is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective. The amendment does not have any impact on the Company's financial statements.
- IAS 34 'Interim financial reporting'. This amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. The amendment does not have any impact on the Company's financial statements.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2016 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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

The following new amendment to published standard is not effective for the financial year beginning on January 1, 2016 and has not been early adopted by the Company:

- IAS 7 'Cashflow statements: Disclosure initiative' (effective for periods beginning on or after January 1, 2017). 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.

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**(Amounts in thousand)**

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company 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.

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.

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(Amounts in thousand)

## 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.

## 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.



(Amounts in thousand)

## 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.

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 term deposits 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.

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**(Amounts in thousand)**

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.

**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 recognized 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

**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.

As the project is exempt from tax, deferred tax asset in respect of carry forward taxable loss amounting to Rs. 12,331,657 as at December 31, 2016 has not been recognised by the Company.

**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.

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**(Amounts in thousand)**

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.

Further, certain permanent employees who are not members of the gratuity fund (note 2.14.2) are members of 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. The calculations are performed annually by a qualified actuary using the projected unit credit method. Actuarial valuation requires assumptions to be made of future outcomes which mainly include increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

**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, term deposit receipts and treasury bills**

Profit on bank deposits, term deposit receipts and treasury bills is recognised on accrual basis.

**2.19 Transactions with related parties**

Sales, purchases and other transactions with related parties are carried out on terms and conditions agreed between the parties.

(Amounts in thousand)

	2015	Additions during the year Rupees	2016
<b>3. DEVELOPMENT PROPERTIES</b>			
Overburden removal cost (note 3.1)	697,378	58,229	755,607
EPC contractor cost	-	5,442,922	5,442,922
Project development costs (note 3.2)	1,566,173	176,076	1,742,249
Village relocation	4,000	100,404	104,404
Utility system	2,237	22,264	24,501
Depreciation / Amortisation (notes 4.1 and 5)	-	349,728	349,728
Consultancy and studies (note 3.3)	111,450	243,118	354,568
Gorano water pond	-	835,973	835,973
Financial charges (note 11.3)	47,040	148,276	195,316
Markup on long term borrowings - net (note 3.4)	-	534,855	534,855
Salaries, wages and staff welfare	-	248,344	248,344
Purchased services	-	32,749	32,749
Operating expenses	-	270,653	270,653
Insurance	-	318,961	318,961
Exchange gain	-	(1,952)	(1,952)
Share issuance cost	-	4,274	4,274
Legal and professional charges	99,089	48,850	147,939
	<u>2,527,367</u>	<u>8,833,724</u>	<u>11,361,091</u>
Expenses charged-off in the Statement of Comprehensive Income	(152,082)	(35,041)	(187,123)
Expenses netted-off in equity - Share issuance cost	(12,805)	(12,553)	(25,358)
Balance as at December 31	<u>2,362,480</u>	<u>8,786,130</u>	<u>11,148,610</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.

	2015	Additions during the year Rupees	2016
<b>3.2 Project Development Costs</b>			
Consultancy charges	336,554	141	336,695
Legal expenses	24,901	2,535	27,436
Fees and charges	51,596	905	52,501
Subscription for intellectual data	12,011	-	12,011
Depreciation / Amortisation (notes 4.1 and 5)	32,895	4,106	37,001
Salaries, wages and staff welfare	632,629	86,072	718,701
Purchased services	124,923	7,656	132,579
Share issuance cost	12,805	8,279	21,084
Rent, security and accommodation expenses	245,105	19,253	264,358
Other expenses	92,754	47,129	139,883
	<u>1,566,173</u>	<u>176,076</u>	<u>1,742,249</u>

3.3 These represent expenses incurred for advance engineering being part of construction phase.

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## (Amounts in thousand)

- 3.4 This represents borrowing costs of Rs. 555,592 (2015: Nil) incurred on borrowings obtained for the Project net-off income on bank deposits of Rs. 20,737 (2015: Nil).

## 3.5 Movement during the year

	2016	2015
	-----Rupees-----	
Balance at beginning of the year	2,362,480	1,397,162
Add: Additions during the year	8,833,724	1,023,962
Less: Expenses charged-off in the Statement of Comprehensive Income	(35,041)	(55,081)
Less: Expenses netted-off in equity - Share issuance cost	(12,553)	(3,563)
Balance at end of the year	<u>11,148,610</u>	<u>2,362,480</u>

## 4. PROPERTY, PLANT AND EQUIPMENT

Operating assets (note 4.1)	4,601,405	496,411
Capital work-in-progress (note 4.4)	3,500,934	188,648
	<u>8,102,339</u>	<u>685,059</u>

## 4.1 Operating assets

	Freehold land	Furniture and fixtures	Computers, office and other equipment	Plant & machinery	Vehicles	Total
	-----Rupees-----					
<b>As at January 1, 2015</b>						
Cost	-	15,268	10,319	544	45,262	71,393
Accumulated depreciation	-	(9,663)	(4,144)	(215)	(1,274)	(15,296)
Net book value	-	5,605	6,175	329	43,988	56,097
<b>Year ended December 31, 2015</b>						
Opening net book value	-	5,605	6,175	329	43,988	56,097
Transfers from capital work-in-progress (note 4.4)	489,060	-	4,422	-	2,707	496,189
Disposal (note 4.2)						
- Cost	(40,850)	-	-	-	-	(40,850)
- Accumulated depreciation	-	-	-	-	-	-
	(40,850)	-	-	-	-	(40,850)
Depreciation charge (note 4.3)	-	(1,480)	(2,086)	(136)	(11,323)	(15,025)
Net book value	448,210	4,125	8,511	193	35,372	496,411
<b>As at January 1, 2016</b>						
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
<b>Year ended December 31, 2016</b>						
Opening net book value	448,210	4,125	8,511	193	35,372	496,411
Transfers from capital work-in-progress (note 4.4)	-	1,192	39,892	4,339,583	77,122	4,457,789
Depreciation charge (note 4.3)	-	(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
<b>As at December 31, 2016</b>						
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
Annual rate of depreciation (%)	-	25	25	25	25	

(Amounts in thousand)

4.2 Disposals during the year amounted to Nil (2015: 215 acres of land was transferred to EPTL for its power project for a consideration of Rs. 40,850, equivalent to the cost).

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

	2016	2015
	-----Rupees-----	
4.4 <b>Capital work-in-progress</b>		
Balance as at January 1	188,648	450,000
Add: Additions during the year (note 4.5)	7,770,075	234,837
Less: Transferred to operating assets (note 4.1)	(4,457,789)	(496,189)
Balance as at December 31	<u>3,500,934</u>	<u>188,648</u>

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

## 5. INTANGIBLE ASSETS - Computer software

### Net carrying value

Balance at beginning of the year	1,494	178
Add: Additions during the year	7,014	2,050
Less: Amortisation charge for the year	(1,039)	(734)
Balance at end of the year	<u>7,469</u>	<u>1,494</u>

### Gross carrying value

Cost	9,438	2,424
Less: Accumulated amortisation	(1,969)	(930)
Net book value	<u>7,469</u>	<u>1,494</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 (2015: 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 (notes 7.1 and 7.2)	3,076,138	301,779
Less: Transaction cost netted-off from borrowings (note 11.3)	(265,547)	-
	<u>2,810,591</u>	<u>301,779</u>
Advances for employee benefits (notes 7.3, 7.4 and 7.5)	8,652	7,369
Less: Current portion shown under current assets (note 8)	(5,108)	(5,370)
	<u>3,544</u>	<u>1,999</u>
	<u>2,814,135</u>	<u>303,778</u>



## (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. 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, 2016. Accordingly, transaction costs of Rs. 2,810,591 have been carried forward as long term advances as at December 31, 2016 and will be recognised as transaction costs as and when the draw downs are made against remaining limits of loan facilities.

7.2 Includes Rs. 2,069,356 (2015: Rs. 301,779) paid to China Export and Credit Insurance Corporation (Sinosure) for the credit insurance policy issued in respect of Company's financing from Chinese lenders.

2016                      2015  
-----Rupees-----

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

Balance at beginning of the year	7,369	12,333
Add: Disbursements	20,357	14,733
Less: Repayments/Amortisation	(19,074)	(19,697)
Balance at end of the year	<u>8,652</u>	<u>7,369</u>

7.4 Mainly includes advances to executives for car monetization / car earn out assistance, house rent and long term incentive given to certain employees amounting to Rs. 9,240 (2015: Rs. 2,731), Rs. 1,400 (2015: 1,424) and Nil (2015: Rs. 4,596) respectively, as per the Company's policy. These are amortised over the period as per the terms of employment.

7.5 The maximum amount outstanding at the end of any month from employees aggregated to Rs. 13,404 (2015: Rs. 15,682).

2016                      2015  
-----Rupees-----

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

Current portion of advances for employee benefits (note 7)	5,108	5,370
Advances to employees	369	1,999
Advances to suppliers	14,137	2,213
Prepayments for rent	1,500	1,500
Security deposits	3,090	1,843
Receivable from gratuity fund	-	380
Other receivables (notes 8.1 and 8.2)	27,108	30,507
	<u>51,312</u>	<u>43,812</u>

8.1 Includes Rs. 25,636 (2015: Rs. 14,856) incurred on behalf of China Machinery Engineering Corporation (CMEC), the EPC contractor of the Company.

8.2 Includes Nil (2015: Rs. 15,163) in respect of payorder submitted with Chief Collector of Customs as security against custom duty in respect of dump trucks imported for Company's mining Project.



## (Amounts in thousand)

- 8.3 As at December 31, 2016 and 2015, advances and other receivables were neither past due nor impaired.

2016                      2015  
-----Rupees-----

**9. BALANCES WITH BANKS**

Deposits with banks

- Foreign currency accounts (note 9.1)
- Local currency accounts (note 9.2)

Cheques in hand

	570,389	244,256
	1,477,120	110,473
	17,076	-
	2,064,585	354,729

- 9.1 Represents deposits with scheduled banks amounting to US Dollars 5,453 (2015: US Dollars 2,335) at profit rates of 0.1% (2015: Nil) per annum.

- 9.2 Represents deposits with scheduled banks at profit rates of upto 5% (2015: 6.50%) per annum.

2016                      2015  
-----Rupees-----

**10. SHARE CAPITAL**

**Authorised capital**

708,300,000 (2015: 541,100,000) Ordinary shares of Rs. 10 each (note 10.1)

	7,083,000	5,411,000
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38,500,000 (2015: 33,000,000) Preference shares of Rs. 10 each (note 10.1)

	385,000	330,000
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**Issued, subscribed and paid-up capital**

509,091,522 (2015: 289,393,255) Ordinary shares of Rs. 10 each fully paid in cash (note 10.2)

	5,090,916	2,893,933
--	-----------	-----------

31,368,870 (2015: Nil) Preference shares of Rs. 10 each fully paid in cash (note 10.3)

	313,689	-
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- 10.1 During the year, the Company increased its authorised share capital from:

- 541,100,000 Ordinary shares to 708,300,000 Ordinary shares of Rs. 10 each; and
- 33,000,000 Preference shares to 38,500,000 Preference shares of Rs. 10 each.

**10.2 Ordinary shares**

2016                      2015  
-----Number of shares-----

289,393,255      218,138,194

219,698,267      71,255,061

509,091,522      289,393,255

At January 1

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)

2016                      2015  
-----Rupees-----

2,893,933      2,181,382

2,196,983      712,551

5,090,916      2,893,933

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(Amounts in thousand)

## 10.2.1 Ordinary shares issued during the year

	2015	Shares issued during the year	2016
	-----Number of shares-----		
Government of Sindh	160,845,622	117,374,316	278,219,938
Engro Powergen Limited	57,292,570	3,359,331	60,651,901
Thal Limited	24,291,499	36,360,401	60,651,900
Habib Bank Limited	22,672,065	25,674,304	48,346,369
The Hub Power Company Limited	16,194,333	24,617,705	40,812,038
CMEC Thar Mining Investments Limited	8,097,166	12,312,210	20,409,376
	<u>289,393,255</u>	<u>219,698,267</u>	<u>509,091,522</u>

## 10.3 Preference shares

2016	2015		2016	2015
-----Number of shares-----			-----Rupees-----	
31,368,870	-	Preference shares of Rs. 10 each issued as fully paid right shares (note 10.3.1)	313,689	-
<u>31,368,870</u>	<u>-</u>		<u>313,689</u>	<u>-</u>

- 10.3.1 During the year, the Company issued and allotted 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 Companies Ordinance, 1984.

	2016	2015
	-----Rupees-----	
<b>11. BORROWINGS</b>		
Local currency borrowings (notes 11.1 and 11.2)	11,400,163	-
Foreign currency borrowings (notes 11.1 and 11.2)	<u>1,005,448</u>	<u>-</u>
	12,405,611	-
Less: Transaction costs (note 11.3)	<u>(257,484)</u>	<u>-</u>
	<u>12,148,127</u>	<u>-</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, 2016, the Company has made draw down of 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, 2016, the Company has made draw down of 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, 2016, the Company has made draw down of 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 mark-up / profit at the rate of 6 months KIBOR plus 1.75% except for the USD facility which carries mark-up 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 have also provided Stand-By Letter of Credit (SBLC) as coverage for their equity commitments to the Project.

	2016	2015
	------(Rupees)-----	
11.3 <b>Transaction costs</b>		
Transaction costs netted-off from borrowings (note 7)	265,547	-
Less: Amortization recognised in development properties (note 3)	(8,063)	-
	<u>257,484</u>	<u>-</u>
<b>12. ACCRUED AND OTHER LIABILITIES</b>		
Accrued liabilities (note 12.1)	4,508,270	177,059
Workers' welfare fund	2,405	2,405
Withholding tax payable	6,673	342
Retention money	9,372	-
Payable to gratuity fund	706	-
	<u>4,527,426</u>	<u>179,806</u>

- 12.1 Represents accruals in respect of project related costs.

**13. CONTINGENCIES AND COMMITMENTS**

- 13.1 Capital commitments for civil works construction and equipment procurement as at December 31, 2016 amounts to Rs. 36,073,280 (2015: Nil).
- 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.

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## (Amounts in thousand)

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 During the year, the petition has been filed before 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 the good defence in this petition, accordingly no provision has been recognised against the expenditure incurred for the construction of water reservoir.

	2016	2015
	-----Rupees-----	
<b>14. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and staff welfare	17,232	18,614
Travelling	581	4,169
Purchased services	4,042	2,367
Directors' fee	3,850	4,500
Others (note 14.1)	6,455	20,663
	<u>32,160</u>	<u>50,313</u>

14.1 Includes auditor's remuneration amounting to Rs. 804 (2015: Rs. 290).

	2016	2015
	-----Rupees-----	
<b>15. OTHER INCOME</b>		
From financial assets		
Profit/ Interest income on:		
- Deposits with banks	16,924	16,298
- Term deposit receipts	1,809	71,168
- Treasury bills	-	6,457
	<u>18,733</u>	<u>93,923</u>

<b>16. FINANCE COST</b>		
Mark-up on short term loan from Subsidiary company	605	2,712
Bank charges	655	321
	<u>1,260</u>	<u>3,033</u>

<b>17. TAXATION</b>		
Current		
- for the year (note 17.1)	395	939
- for prior year	1,226	-
	<u>1,621</u>	<u>939</u>

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 project, 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% on profit on bank deposits of the Company in accordance with section 113 of the Income Tax Ordinance, 2001.

aprs.

(Amounts in thousand)

2016                      2015  
-----Rupees-----

**18. CASH AND CASH EQUIVALENTS**

Cash and bank balances (note 9)	2,064,585	354,729
Short term investments -Term deposit receipts	-	275,000
	<u>2,064,585</u>	<u>629,729</u>

**19. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

	2016			2015		
	Directors			Directors		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	-----Rupees-----					
Managerial remuneration	14,200	-	168,613	12,562	-	110,613
Contribution for staff retirement benefits	2,070	-	17,588	1,919	-	12,656
Other benefits	14,670	-	56,074	10,562	-	36,482
Fees (note 19.3)	-	3,850	-	-	4,500	-
Total	<u>30,940</u>	<u>3,850</u>	<u>242,275</u>	<u>25,043</u>	<u>4,500</u>	<u>159,751</u>
Number of persons including those who worked part of the year	<u>1</u>	<u>11</u>	<u>49</u>	<u>1</u>	<u>9</u>	<u>27</u>

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

19.2 Premium charged during the year in respect of directors indemnity insurance amounts to Rs. 26 (2015: Rs. 627).

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

**20. RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS****20.1 Provident Fund**

20.1.1 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, 2015 and unaudited financial statements as at June 30, 2016:

	June 30, 2016	June 30, 2015
	-----Rupees-----	
Size of the fund - Net assets	<u>3,205,658</u>	<u>3,063,502</u>
Cost of the investments made	<u>2,800,793</u>	<u>2,333,996</u>
Percentage of investments made	<u>94%</u>	<u>89%</u>
Fair value of investments	<u>3,015,867</u>	<u>2,736,879</u>

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

	2016		2015	
	Rupees	%	Rupees	%
National savings scheme	790,505	26%	223,037	8%
Government securities	702,336	23%	1,045,090	38%
Listed securities	927,211	31%	1,164,311	43%
Balances with banks in savings account	<u>595,815</u>	<u>20%</u>	<u>304,441</u>	<u>11%</u>
	<u>3,015,867</u>	<u>100%</u>	<u>2,736,879</u>	<u>100%</u>





(Amounts in thousand)

20.2.2 Out of the total member balances of Rs. 3,205,658 (2015: Rs. 3,063,502), member balances pertaining to employees of the Company amounts to Rs. 147,484 (2015: Rs. 121,017).

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

## 20.2 Defined contribution plan

An amount of Rs. 40,243 (2015: Rs. 28,835) has been charged during the year in respect of defined contribution plans.

	2016	2015
	-----Rupees-----	
<b>21. FINANCIAL INSTRUMENTS BY CATEGORY</b>		
<b>Financial assets as per balance sheet</b>		
- Held to maturity		
Short term investments	-	281,186
- Loans and receivables		
Advances for employee benefits	1,469	1,549
Advances to employees	369	1,999
Long term security deposit	14,450	14,450
Other receivables	30,198	32,350
Cash and bank balances	2,064,585	354,729
	2,111,071	405,077
	2,111,071	686,263
<b>Financial liabilities as per balance sheet</b>		
- Financial liabilities at cost		
Borrowings	12,405,611	-
Accrued and other liabilities	4,517,642	177,059
Mark-up on long-term borrowings	204,301	-
Short term loan	-	76,841
Mark-up on short term loan	-	871
	17,127,554	254,771

## 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 22.1 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.

(Amounts in thousand)

**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

**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 EPC Contractors, loans to employees, other receivables and deposits with banks and financial institutions. The credit risk against advances to EPC Contractor 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 reasonably high credit rating. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The credit quality of Company's bank balances 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.

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## (Amounts in thousand)

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 for the amounts equivalent to initial project cost estimate of USD 845,200.

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.

	2016			2015		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
<b>Financial liabilities</b>						
Borrowings	-	12,405,611	12,405,611	-	-	-
Accrued and other liabilities	4,517,642	-	4,517,642	177,059	-	177,059
Mark-up on long-term borrowings	204,301	-	204,301	-	-	-
Short term loan	-	-	-	76,841	-	76,841
Mark-up on short term loan	-	-	-	871	-	871
	<b>4,721,943</b>	<b>12,405,611</b>	<b>17,127,554</b>	<b>254,771</b>	<b>-</b>	<b>254,771</b>

## 22.2 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.

## 23. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise, 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:

	2016	2015
	-----Rupees-----	
<b>Subsidiary company</b>		
- Reimbursement of expenses incurred by the Company	-	705
- Reimbursement of expenses incurred for the Company	-	15,842
- Receipt of short-term loan	-	76,841
- Payment / Accrual of short-term loan and mark-up thereon	78,317	871
<b>Associated companies</b>		
- Reimbursement of expenses incurred for the Company	123,075	140,935
- Reimbursement of expenses incurred by the Company	72,752	120,931
<b>Key management personnel</b>		
- Managerial remuneration	72,322	63,756
- Contribution for staff retirement benefits	7,269	7,116
- Bonus payments	46,210	34,058
<b>Contribution to retirement benefit funds</b>	<b>40,243</b>	<b>28,835</b>

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(Amounts in thousand)

## 24. NUMBER OF EMPLOYEES

	Number of employees as at		Average number of employees	
	December 31, 2016	December 31, 2015	2016	2015
Management employees	<u>68</u>	<u>39</u>	<u>54</u>	<u>33</u>

## 25. CORRESPONDING FIGURES

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

## 26. DATE OF AUTHORISATION OF ISSUE

These financial statements were authorised for issue on 26 JAN 2017 by the Board of Directors of the Company.

appo.

  
Chief Executive Officer

  
Director