

Directors' Report

Year Ended December 31, 2015

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 Consolidated and Standalone Financial Statements and a review of the Thar Coal Mining Project for the year ended December 31, 2015.

Progress Update

During the year, overburden removal of 3.7 Mn BCM was completed. The Company has clocked 0.95 million safe man-hours on Site with a TRIR (Total Recordable Injury Rate) without an LWI (Lost Workday Injury) of 0.84 versus a target of 4.6.

EPC Contractor, CMEC, completed 80% of Basic Engineering Design which has been reviewed by SECMC and RWE. SECMC engineers received training at Huolinhe Open Cast Mine, a subsidiary of CPI Mengdong in Inner Mongolia, China. CMEC team has mobilized to site for the construction of temporary site facilities and main access road for Mine and Power Plant.

Efforts for land acquisition continued for approximately 6,000 acres of Phase-I and approximately 5,400 acres of Phase-II. SECMC has deposited Rs.670 million with Revenue Department in lieu of privately held land out of which approximately 439 million has been paid to land-owners. Around 2,574 privately owned land has been mutated in favor of the Company, while Notices under Section 4 & 6 of the Land Acquisition Act have been issued for Phase-II land.

Company continued its CSR efforts and a number of interventions were conducted during the year including Vet Camps, Marvi Mother and Child clinic and scholarship to students at Hunar Foundation. MoUs with Indus Hospital and Health Foundation have been signed for setting up health facilities in Block-II & surrounding areas in Thar.

Commercial / Technical Update

Coal Tariff Petition submitted by SECMC was admitted and public hearing on tariff petition was held on February 03, 2015 in Karachi. Determination for SECMC's Contract Stage Coal Tariff was signed by MD TCEB on June 6, 2015. A review petition was filed with TCEB on June 30, 2015 on recommendation of the Tariff Committee. Furthermore, first-ever Coal Supply Agreement of Thar Coal was negotiated and executed between SECMC and Engro Powergen Thar Limited (the 2x330 MW power plant IPP) during the year.

Financing Update

During the year, project cost for Phase I was firmed up at USD 845 million. Out of this USD 211 million is to be raised through equity while USD 634 million is to be financed through debt. Four new equity partners; HUBCO, Thal, HBL and CMEC, were inducted during the year. As of 31st December 2015, shareholding of each equity partner is as follows:

GOS	55.6%
EPL	19.8%
Thal	8.4%
HUBCO	5.6%
HBL	7.8%
CMEC	2.8%

Critical Financing documents such as Common Terms Agreement, Accounts Agreements, USD Facility Agreement, Inter-creditor Agreement and the Sovereign Guarantee for Chinese Lenders were signed in a signing ceremony held on Dec 21, 2015 in Beijing. Local Syndicate Term Finance Agreements were executed earlier on December 18 whereas the Islamic Finance Agreements were executed on December 21, 2015. Financial close and disbursement of loan is expected soon after execution of security documents and completion of legal formalities. Subsequent to year end, Sovereign Guarantee for local lenders was issued on January 11, 2016.

Infrastructure Update

Work on both Phase I & II of LBOD water supply scheme remained in progress with 68% & 38% project completion respectively. Target completion date for both Phase I & II is Sep 2017 and the project is on-track for on-schedule completion.

Progress on 50 Cusec effluent disposal scheme remained behind schedule. However, GoS has recently taken some concrete measures to increase the pace of work. Land issues related to the scheme are being resolved on fast-track basis by GoS. Current completion target is March 31, 2016. However, under the IA signed with GoS target completion for the scheme is end June 2016.

SECMC has been continuously monitoring the Quality & Progress of both LBOD & 50 Cusec Effluent Disposal schemes through in-house resources & by engaging reputable 3rd party consultants to ensure optimum quality of work in addition to achieving and on-schedule completion of both infrastructure projects.

Results for the Year

Sindh Engro Coal Mining Company Limited declared a net profit of PKR 39.04 million (Consolidated profit of PKR 22.11 million) for the year ended December 31, 2015. 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 period and has transferred PKR 39.04 million (Consolidated profit of PKR 22.11 million) to Un-appropriated Profit reserve.

Key Operating & Financial Data for the last 6 years (Consolidated financial statements)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	-----Rupees in 000-----					
Profit / (Loss) Before Tax	22,882	48,643	(23,053)	(6,566)	5,490	19,824
Profit / (Loss) After Tax	21,913	47,695	(17,425)	(4,225)	3,979	12,886
Development Properties	2,362,480	1,397,162	755,751	-	-	-
Exploration and Evaluation Assets	-	-	-	539,753	432,485	356,286
Property, Plant & Equipment	685,059	739,801	169,270	6,873	9,792	11,716
Capital Expenditure	240,317	575,260	166,523	647	1,540	12,883
Intangible Assets	202,218	178	272	365	-	-
Net Current Assets	532,743	1,366,514	(88,741)	12,466	76,742	139,263
Shareholders' Fund	4,000,366	3,525,813	841,086	554,905	511,880	507,901
Shares Outstanding at Year End (No. of shares)	289,393	218,138	80,216	54,525	49,800	49,800

Allocation of Reserves

The Company has consolidated reserves as follows for the year:

Unappropriated Profit

	<u>PKR ('000)</u>
Balance as at January 1, 2015	39,925
Total unappropriated profit for the period	21,913
Balance as at December 31, 2015	<u>61,838</u>

Key Shareholding & Shares Traded

Following is the key shareholding position as at December 31, 2015:

Shareholders	No. of shares held
Engro Powergen Limited	57,292,568
The Government of Sindh	160,845,616
Shamsuddin A. Sheikh	1
Syed Khalid Siraj Subhani	1
Dr. Mahesh Kumar Malani	1
Syed Firdous Shamim Naqvi	1
Khalid Mansoor	1
Kurshid Anwar Jamali	1
Muhammad Waseem	1
Mir Hayat Khan	1
Agha Wasif Abbas	1
Mohammad Sohail Khan Rajput	1
Thal Limited	24,291,498
Hub Power Company Ltd	16,194,332
Habib Bank Limited	22,672,065
CMEC Thar Mining Investment Limited	8,097,166
	<u>289,393,255</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.

Statement of Director Responsibilities

The directors confirm compliance with Public Sector Companies (Corporate Governance) Rules for the following:

1. The Board has complied with the relevant principles of corporate governance.
2. 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.
3. Proper books of accounts of the Company have been maintained.
4. Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable prudent judgment.
5. 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.
6. The system of internal control is sound in design and has been effectively implemented and monitored.
7. The appointment of chairman and other members of Board and the terms of their appointment alongwith the remuneration policy adopted are in the best interest of the Company as well as in line with best practices.
8. There are no significant doubts upon the Company's ability to continue as a going concern.

Board Meetings & Attendance


In 2015, the Board of Directors held 8 meetings and Board Audit Committee held 4 meetings. The attendance record of the Directors is as follows:


S. No.	Directors	BoD Meetings attended	BAC Meetings attended
1	Khurshid A. Jamali	8	-
2	Shamsuddin A. Shaikh	8	-
3	Agha Wasif Abbas	8	4
4	Firdous S. Naqvi**	7	4
5	Khalid Mansoor**	5	1
6	M. Sohail Khan Rajput	8	4
7	Muhammed Waseem	7	-
8	Mahesh Kumar Malani	7	-
9	Mir Hayat Khan Talpur	-	-
10	Khalid Siraj Subahi**	4	-
11	Ms. Naz Khan*	1	-
12	Sarfraz A. Rehman*	1	-
13	M. Ali Ansari*	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


 Director

January 25, 2016