SECMC
Sindh Engro Coal Mining Company

SINDH ENGRO COAL MINING COMPANY LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

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SECMC
Sindh Engro Coal Mining Company

DIRECTORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

Directors' Report

Year Ended December 31, 2018

The Directors of Sindh Engro Coal Mining Company Limited (SECMC) 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, 2018.

Project Update

Development of the 3.8 Mt/a mine at Block II continued at full pace. During the year, overburden removal remained ahead of schedule with ~39 M BCM removed during the year. Cumulatively, ~108 M BCM (97% of the total overburden volume) has been removed as of December 31, 2018 vs plan of ~101M BCM. During this process, the Company, its Contractors and sub-contractors logged in over 24 M safe man-hours without loss workday injury.

To date, as part of full-scale dewatering operations, over 46 Mm^3 of underground water has been discharged to the reservoir at Gorano.

During the year, the first phase of resettlement of residents of Sehnri Dars was completed. 72 families out of the 172 Households have been relocated to New Sehnri Dars Resettlement village. Work on second phase is underway and the remaining residents will be relocated prior to COD.

For community development, a number of initiatives were taken during the year including establishment of a clinic at Gorano, successful operations of Marvi Mother and Child clinic, Reverse Osmosis Water Treatment Plants and Primary Schools in villages of Block II.

Further, Thar Foundation signed an MOU with the United Nation (UN) and GOS for the implementation of Sustainable Development Goals (SDGs) in Islamkot by 2024; this remained a highlight of the year on the community development front. Additionally, Thar Foundation commenced work on the construction of an 82-Bed, State-of-the-art Hospital at Islamkot in collaboration with the Government of Sindh (GOS).

Mine Expansion

During the year, the Company was issued Contract Stage Tariff for the expansion of the mine up to 7.6 Mt/a by Thar Coal Energy Board (TCEB) against the Petition filed with TCEB.

Further, the Company signed a 30-year Coal Supply Agreement with Lucky Electric Power Company Ltd (LEPCL) for the supply of 3.6 Mt/a coal.

Financing Update

During the year, Huolinhe Open Pit Coal (HK) Investment Co. Limited (HOCIC) injected USD 1.5 million in Preference shares whereas Ordinary shareholders injected USD 31.50 million. As of 31st December 2018, shareholding of each equity partner is as follows:

Sponsor	Equity injection to date (USD Million)	No. of shares (Million)	Percentage holding
Ordinary shares			
GoS	69.34	511.40	54.7%
EEL	14.05	111.25	11.9%
Thal	15.26	111.25	11.9%
HBL	12.17	88.82	9.5%
HUBCO	10.26	74.79	8.0%
CMEC	5.09	37.40	4.0%
Total Ordinary Shares	***126.17***	***934.91***	***100%***
Preference shares			
HOCIC	**5.00**	**53.94**	**100%**
Total equity (Ordinary + Preference)	***131.17***		

On the borrowing side, six drawdowns under the USD Facility amounting to USD 67 million were made during the year. The drawdowns were made to make payments for milestones achieved under the Onshore and Offshore contracts. Further, four drawdowns under the PKR Facility amounting to Rs. 7.6 billion were also made during the year. Fourth and fifth installment of interest and commitment fee against both USD and PKR facilities were made during the year in April and October respectively.

Results for the Year

Sindh Engro Coal Mining Company Limited declared a net loss of PKR 17.70 million (Consolidated loss of PKR 27.13 million) for the year ended December 31, 2018. This loss represents expenses incurred in respect of general administration and considered as not directly attributable to Development Properties partly offset by earnings from bank deposits. 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 loss of PKR 17.70 million (Consolidated loss of PKR 27.13 million) to Un-appropriated profit reserve.

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

	2018	2017	2016	2015	2014	2013
	PKR / No. of shares in 000					
Profit / (Loss) Before Tax	(26,292)	(18,566)	(34,705)	22,882	48,643	(23,053)
Profit / (Loss) After Tax	(27,132)	(19,802)	(36,834)	21,913	47,695	(17,425)
Development Properties	51,510,606	28,566,101	11,148,610	2,362,480	1,397,162	755,751
Property, Plant & Equipment	9,889,070	8,860,395	8,102,339	685,059	739,801	169,270
Capital Expenditure	2,322,019	1,888,156	7,770,075	240,317	575,260	166,523
Intangible Assets	50,674	104,092	156,819	202,218	178	272
Net Current Assets	(5,026,567)	(4,309,061)	(2,465,510)	532,743	1,366,514	(88,741)
Shareholders' Fund	13,984,874	10,074,559	7,519,490	4,000,366	3,525,813	841,086
Ordinary Shares Outstanding at Year End	934,909	591,807	509,092	289,393	218,138	80,216
Preference Shares Outstanding at Year End	53,938	36,612	31,369	-	-	-

Allocation of Reserves

The Company has consolidated reserves as follows for the year:

Un-appropriated loss

	PKR ('000)
Balance as at January 1, 2018	4,478
Total un-appropriated loss for the year	(27,132)
Balance as at December 31, 2018	(22,654)

Key Shareholding & Shares Traded

Following is the key shareholding position as at December 31, 2018:

Shareholders	No. of shares held
The Government of Sindh	511,395,245
Engro Energy Limited	111,254,175
Thal Limited	111,254,175
Habib Bank Limited	88,816,359
Hub Power Company Ltd	74,792,723
CMEC Thar Mining Investment Limited	37,396,362
Syed Abul Fazal Rizvi (Share transfer in process)	1
Ghias Khan	1
Dr. Mahesh Kumar Malani	1
Salman Burney (Share transfer in process)	1
Khalid Mansoor	1
Kurshid Anwar Jamali	1
Muhammad Waseem	1
Musaddiq Ahmed Khan (Share transfer in process)	1
Najam Ahmed Shah (Share transfer in process)	1
Salim Azhar	1
Khalid Mohsin Shaikh	1
	934,909,050

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 plan / funds are managed by Engro Corporation Limited for its employees and those of its associates including Sindh Engro Coal Mining Company 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, reviewed 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.

SECMC
Sindh Engro Coal Mining Company

Board Meetings & Attendance

In 2018, the Board of Directors held 7 meetings and Board Audit Committee (BAC) held 4 meetings. The attendance record of the Directors is as follows:

S. No.	Directors	Member of BAC	Executive / Non-Executive****	BoD Meetings attended	BAC Meetings attended
1.	Khurshid A. Jamali		Non-Executive	7	
2.	Muhammed Waseem*****	✓	Non-Executive	5	
3.	Mahesh Kumar Malani		Non-Executive	5	
4.	Salim Azhar		Non-Executive	7	
5.	Ghias Khan		Non-Executive	6	
6.	Bao Jianjun		Non-Executive	1	
7.	Khalid Mohsin Shaikh	✓	Non-Executive	4	3
8.	Khalid Mansoor		Non-Executive	5	
9.	Shamsuddin A. Shaikh*		Executive	5	
10.	Firdous S. Naqvi*	✓	Non-Executive	4	3
11.	Agha Wasif Abbas*	✓	Non-Executive	4	3
12.	Noor Alam***	✓	Non-Executive	2	1
13.	Tanveer Ahmed Qureshi***	✓	Non-Executive	1	
14.	Salman Burney**	✓	Non-Executive	2	1
15.	Musaddiq Ahmed Khan**	✓	Non-Executive	1	
16.	Najam Ahmed Shah**	✓	Non-Executive	2	
17.	Syed Hasan Naqvi*	✓	Non-Executive	-	

Note:

* Directors who resigned from the Board during the year.
** Directors who joined the Board during the year.
*** Directors who joined and resigned from the Board during the year
**** Company has exemption from the requirement of Independent Directors
***** Directors who joined BAC during the year

Chief Executive Officer

February 12, 2019

Director

SECMC
Sindh Engro Coal Mining Company

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

SINDH ENGRO COAL MINING COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the members of Sindh Engro Coal Mining Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Sindh Engro Coal Mining Company Limited (the Company), which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), 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, 2018 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

(a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

(b) the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

(c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

(d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Waqas Aftab Sheikh.

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Date: March 4, 2019

SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

(Amounts in thousand)

	Note	2018	2017
		------Rupees------	
ASSETS			
Non-current assets			
Development properties	3	51,510,606	28,566,101
Property, plant and equipment	4	9,889,070	8,860,395
Intangible assets	5	3,791	5,977
Long-term investment	6	206,000	206,000
Long-term advances, deposits and prepayments	7	1,012,662	1,904,700
		62,622,129	39,543,173
Current assets			
Advances, deposits and prepayments	8	42,975	59,990
Other receivables	9	67,678	35,892
Taxes recoverable		52,868	48,363
Balances with banks	10	1,968,077	1,030,570
		2,131,598	1,174,815
Non-current assets held for sale	11	94,123	-
TOTAL ASSETS		64,847,850	40,717,988
EQUITY AND LIABILITIES			
Equity			
Share capital			
- Ordinary shares	12	9,349,091	5,918,071
- Preference shares	12	539,379	366,120
		9,888,470	6,284,191
Share premium		4,119,058	2,484,896
Advance against issue of share capital		-	1,300,994
Unappropriated profit		44,368	62,070
		14,051,896	10,132,151
Non-current liabilities			
Borrowings	13	43,419,167	24,983,853
Current liabilities			
Accrued and other liabilities	14	6,431,424	5,168,209
Mark-up on long-term borrowings		945,363	433,775
		7,376,787	5,601,984
Contingencies and commitments	15		
TOTAL EQUITY AND LIABILITIES		64,847,850	40,717,988

The annexed notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Director

SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts in thousand)

	Note	2018	2017
		---Rupees---	
Administrative expenses	16	(30,316)	(23,656)
Auditors' remuneration	17	(1,185)	(1,178)
Other income	18	15,158	16,333
Finance cost		(1,063)	(670)
Loss before taxation		(17,406)	(9,171)
Taxation	19	(296)	(710)
Loss for the year		(17,702)	(9,881)
Other comprehensive income		-	-
Total comprehensive loss for the year		(17,702)	(9,881)

The annexed notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer **Director**

SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts in thousand)

	ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		Advance against issue of share capital	RESERVES			
				CAPITAL	REVENUE		
	Ordinary shares	Preference shares		Share premium	Remeasurement of retirement benefit obligation - Actuarial gain / (loss)	Unappropriated profit	Total
	-----	-----	-----	Rupees	-----	-----	-----
Balance as at January 1, 2017	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
Total comprehensive loss for the year ended December 31, 2018	-	-	-	-	-	(17,702)	(17,702)
Transactions with owners:							
Share capital issued during the year (including share premium, net of share issuance cost of Rs. 19,590)	3,431,020	173,259	(1,300,994)	1,634,162	-	-	3,937,447
Balance as at December 31, 2018	9,349,091	539,379	-	4,119,058	-	44,368	14,051,896

The annexed notes 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Director

SINDH ENGRO COAL MINING COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts in thousand)

	Note	2018	2017
		---Rupees---	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(17,406)	(9,171)
Working capital changes:			
- Increase in current assets		(9,550)	(40,091)
- Increase in current liabilities		1,263,215	626,158
		1,253,665	586,067
Gain on disposal of operating assets		(138)	-
Loans and advances to employees, net		(13,000)	(13,353)
Taxes paid		(4,801)	(10,958)
Net cash generated from operating activities		1,218,320	552,585
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on:			
- development properties		(15,614,012)	(14,447,017)
- property, plant and equipment		(2,322,019)	(1,888,156)
- intangible assets		-	(704)
Proceeds from disposal of property, plant & equipment		914	-
Net cash utilised in investing activities		(17,935,117)	(16,335,877)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital, net		3,937,447	1,273,877
Advance against issue of share capital, net		-	1,300,994
Proceeds from long-term borrowings		15,963,737	13,294,194
Payment of markup on long-term borrowings		(2,246,880)	(1,119,788)
Net cash generated from financing activities		17,654,304	14,749,277
Net increase / (decrease) in cash and cash equivalents		937,507	(1,034,015)
Cash and cash equivalents at beginning of the year		1,030,570	2,064,585
Cash and cash equivalents at end of the year	10	1,968,077	1,030,570

The annexed notes 1 to 27 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, 2018

(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. 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 mid 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 advances of USD 45,044 and USD 24,184 were 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, 2018, the Onshore Contractor has removed approximately 104 M BCM which is over and above 4 M BCM removed through local contractor before the financial close.

In 2017, the Company also entered into Coal Supply Agreements (CSA) with Thal Nova Power Thar (Private) Limited and Thar Energy Limited for annual supply of 1.9 million tonnes of coal to 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 MW 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. The process of financial close of this expansion phase is under way.

(Amounts in thousand)

1.3 **Summary of significant transactions and events:**

- **Coal Supply Agreement with Lucky Electric Power Company Limited**

  During the year, the Company also signed CSA with Lucky Electric Power Company Limited for annual supply of 3.6 million tonnes of coal for its power plant being set up at Port Qasim, Karachi.

- **Power purchase agreement with Reon Alpha (Private) Limited**

  During the year, the Company signed a power purchase agreement with Reon Alpha (Private) Limited. Under the agreement, Reon Alpha (Private) Limited has agreed to install a Solar Photovoltaic Plant of upto 5 MW whose generated power will be utilised for mining related activities.

1.4 The business units of the Company include the following:

Business Unit	**Geographical Location**
Head Office	16th floor, The Harbor Front Building, Plot Number HC-3, Block 4, Scheme No. 5, Clifton, Karachi.
Mining Site	Thar Coal Block-II, Islamkot, Tharparkar.

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.

2.1.2 The financial statements have been prepapred in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable on the Company comprise of:

- Internation Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

- Provisions and directives issued under the Companies Act, 2017 (the Act).

Where provisions and directives issued under the Act differ from the IFRS, the provisions of and directives issued under the Act 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

(Amounts in thousand)

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 for the year

The following interpretation to the accounting and reporting standards as applicable in Pakistan is effective for the first time for the financial year beginning January 1, 2018 and is relevant to the Company:

- IFRIC 22 ' Foreign Currency Transactions and Advance Consideration': 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 impact of above interpretation is not considered material on the financial statements of the Company.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2018 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 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, 2018 and have not been early adopted by the Company:

- 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

(Amounts in thousand)

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.

- IFRS 16 'Leases' (effective for accounting periods beginning on or after January 1, 2019). This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

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.

(Amounts in thousand)

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 profit or loss and other 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 profit or loss and other 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 profit or loss and other 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 profit or loss and other 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 profit or loss and other comprehensive income.

(Amounts in thousand)

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.

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 reporting 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 profit or loss and other 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 profit or loss.

(Amounts in thousand)

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 profit or loss and other comprehensive income.

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

The Company assesses at each reporting 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 profit or loss and other comprehensive income. Impairment losses previously recognised in the statement of profit or loss and other comprehensive income on equity instruments are not reversed through the statement of profit or loss and other 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 reporting 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 statement of financial position 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 reporting 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 statement of profit or loss and other comprehensive income 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.

(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 reporting date and adjusted to reflect current best estimate.

2.16 **Impairment losses**

The carrying amount of the Company's assets is reviewed at each reporting 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 profit or loss and other 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)

3. DEVELOPMENT PROPERTIES

	2017	Additions during the year	2018
	-----------	Rupees	-----------
Overburden removal cost (note 3.1)	755,607	-	755,607
Onshore contractor cost	17,154,621	12,592,210	29,746,831
Project development costs	1,737,077	(2,405)	1,734,672
Village relocation	456,461	795,330	1,251,791
Utility system	202,984	(29,011)	173,973
Depreciation (note 4.1)	1,477,859	1,198,445	2,676,304
Amortisation (note 5)	4,165	2,186	6,351
Consultancy and studies	920,020	551,869	1,471,889
Gorano water pond	1,229,366	45,250	1,274,616
Financial charges	429,421	238,860	668,281
Markup on long term borrowings - net (note 3.2)	1,843,630	2,747,581	4,591,211
Salaries, wages and staff welfare	787,488	1,040,446	1,827,934
Purchased services	69,720	79,213	148,933
Operating expenses	808,256	578,927	1,387,183
Insurance	326,327	2,514	328,841
Exchange loss	404,211	3,033,881	3,438,092
Share issuance cost	8,672	19,590	28,262
Legal and professional charges	193,309	99,664	292,973
	28,809,194	22,994,550	51,803,744
Expenses charged-off in the statement of profit or loss and other comprehensive income	(213,337)	(30,455)	(243,792)
Expenses netted-off in equity - Share issuance cost	(29,756)	(19,590)	(49,346)
Balance as at December 31	28,566,101	22,944,505	51,510,606

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.

3.2 This includes borrowing costs of Rs. 4,663,322 (2017: Rs. 1,904,854) incurred to-date on borrowings obtained for the Project net of income on bank deposits of Rs. 72,111 (2017: Rs. 61,224).

3.3 Movement during the year

	2018	2017
	Rupees	
Balance at beginning of the year	28,566,101	11,148,610
Add: Additions during the year	22,994,550	17,448,103
Less: Expenses charged-off in the statement of profit or loss and other comprehensive income	(30,455)	(26,214)
Less: Expenses netted-off in equity - Share issuance cost	(19,590)	(4,398)
Balance at end of the year	51,510,606	28,566,101

(Amounts in thousand)

	2018	2017
	------Rupees------	

4. PROPERTY, PLANT AND EQUIPMENT

	2018	2017
Operating assets (note 4.1)	3,418,669	3,525,349
Capital work-in-progress (note 4.3)	6,470,401	5,335,046
	9,889,070	8,860,395

4.1 Operating assets

	Freehold land	Buildings	Computers, office and other equipment	Plant & machinery	Vehicles	Total
	------	------	------Rupees------	------	------	------
As at January 1, 2017						
Cost	448,210	-	71,093	4,340,127	125,091	4,984,521
Accumulated depreciation	-	-	(24,235)	(323,010)	(35,871)	(383,116)
Net book value	448,210	-	46,858	4,017,117	89,220	4,601,405
Year ended December 31, 2017						
Opening net book value	448,210	-	46,858	4,017,117	89,220	4,601,405
Additions (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)	(16,995)	(1,085,244)	(27,329)	(1,130,100)
Net book value	448,210	5,896	61,319	2,933,336	76,588	3,525,349
As at December 31, 2017						
Cost	448,210	6,450	102,527	4,341,590	139,788	5,038,565
Accumulated depreciation	-	(554)	(41,208)	(1,408,254)	(63,200)	(1,513,216)
Net book value	448,210	5,896	61,319	2,933,336	76,588	3,525,349
Year ended December 31, 2018						
Opening net book value	448,210	5,896	61,319	2,933,336	76,588	3,525,349
Additions (note 4.3)	-	4,864	39,872	1,141,928	-	1,186,664
Assets classifed as held for sale (note 11)						
- Cost	(94,123)	-	-	-	-	(94,123)
- Accumulated depreciation	-	-	-	-	-	-
	(94,123)	-	-	-	-	(94,123)
Disposals						
- Cost	-	-	(1,407)	-	-	(1,407)
- Accumulated depreciation	-	-	631	-	-	631
	-	-	(776)	-	-	(776)
Depreciation charge (note 4.2)	-	(1,952)	(27,197)	(1,136,762)	(32,534)	(1,198,445)
Net book value	354,087	8,808	73,218	2,938,502	44,054	3,418,669
As at December 31, 2018						
Cost	354,087	11,314	140,992	5,483,518	139,788	6,129,699
Accumulated depreciation	-	(2,506)	(67,774)	(2,545,016)	(95,734)	(2,711,030)
Net book value	354,087	8,808	73,218	2,938,502	44,054	3,418,669
Annual rate of depreciation (%)	-	25	25	25	25	

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

(Amounts in thousand)

		2018	2017
		----Rupees----	
4.3	**Capital work-in-progress**		
	Balance as at January 1	5,335,046	3,500,934
	Add: Additions during the year (note 4.4)	2,322,019	1,888,156
	Less: Transferred to operating assets (note 4.1)	(1,186,664)	(54,044)
	Balance as at December 31	6,470,401	5,335,046

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

		2018	2017
		----Rupees----	
5.	**INTANGIBLE ASSETS - Computer software**		
	Net carrying value		
	Balance at beginning of the year	5,977	7,469
	Add: Additions during the year	-	704
	Less: Amortisation charge for the year (note 3)	(2,186)	(2,196)
	Balance at end of the year	3,791	5,977
	Gross carrying value		
	Cost	10,142	10,142
	Less: Accumulated amortisation	(6,351)	(4,165)
	Net book value	3,791	5,977
	Annual rate of amortisation (%)	25	25
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	206,000	206,000
7.	**LONG-TERM ADVANCES, DEPOSITS AND PREPAYMENTS - Considered good**		
	Loan arrangement charges (note 7.1)	3,076,138	3,076,138
	Less: Transaction cost netted-off from borrowings (note 13.3)	(2,112,748)	(1,212,931)
		963,390	1,863,207
	Security deposit (note 7.2)	14,450	14,450
	Advances for employee benefits (notes 7.3, 7.4 and 7.5)	49,630	36,630
	Less: Current portion shown under current assets (note 8)	(14,808)	(9,587)
		34,822	27,043
		1,012,662	1,904,700

(Amounts in thousand)

7.1 Loan arrangement charges of Rs. 3,076,138 (2017: Rs. 3,076,138) have been incurred in connection with the long-term loan / financing arrangements. Out of this Rs. 2,112,748 (2017: Rs. 1,212,931) 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, 2018. Accordingly, transaction costs of Rs. 963,390 (2017: Rs. 1,863,207) have been carried forward as long term advances as at December 31, 2018 and will be recognised as transaction costs as and when the draw downs are made against remaining limits of loan facilities.

7.2 Represents amount deposited with Hyderabad Electric Supply Corporation in respect of sanction for supply of power to Thar Coal Block II, Islamkot,Tharparkar.

		2018	2017
		---Rupees---	
7.3	**Reconciliation of the carrying amount of advances for employee benefits**		
	Balance at beginning of the year	36,630	23,277
	Add: Disbursements	33,658	31,917
	Less: Repayments/Amortisation	(20,658)	(18,564)
	Balance at end of the year	49,630	36,630

7.4 Includes interest free loans under investment loan plan to executives of Rs. 20,266 (2017: Rs. 13,003) repayable after three years in lump sum. It also includes advances to executives for car earn out assistance and house rent given to certain employees amounting to Rs. 18,733 (2017: Rs. 17,558) and Nil (2017: Rs. 2,777) 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. 49,630 (2017: Rs. 41,189).

		2018	2017
		---Rupees---	
8.	**ADVANCES, DEPOSITS AND PREPAYMENTS**		
	Current portion of advances for employee benefits (note 7)	14,808	9,587
	Advances to employees	4,081	3,855
	Advances to suppliers	14,341	37,189
	Prepayments for rent	1,800	1,500
	Security deposits	7,945	7,859
		42,975	59,990

8.1 As at December 31, 2018 and 2017, advances and deposits were neither past due nor impaired.

(Amounts in thousand)

		2018	2017
		---Rupees---	
9.	**OTHER RECEIVABLES**		
	Due from associated Companies:		
	- Engro Energy Limited	6,327	14,737
	- Engro Corporation Limited	3,553	-
	- Engro Powergen Thar (Private) Limited	2,070	2,309
	- Thar Foundation	1,507	-
	- Engro Powergen Qadirpur Limited	152	-
	Others (note 9.1)	54,069	18,846
		67,678	35,892

9.1 Includes Rs. 52,960 (2017: Rs. 16,143) incurred on behalf of the Onshore contractor of the Company.

9.2 As at December 31, 2018 and 2017, other receivables were neither past due nor impaired.

9.3 The maximum amount outstanding at the end of any month from associated undertakings aggregated to Rs. 44,338 (2017: Rs. 24,314).

		2018	2017
		---Rupees---	
10.	**BALANCES WITH BANKS**		
	Deposits with banks		
	- Foreign currency accounts (note 10.1)	1,400,385	380,484
	- Local currency accounts (note 10.2)	522,692	630,635
	Cheques in hand	45,000	19,451
		1,968,077	1,030,570

10.1 Represents deposits with scheduled banks amounting to US Dollars 10,085 (2017: US Dollars 3,446) at profit rate of Nil (2017: 0.1%) per annum.

10.2 Represents deposits with scheduled banks at profit rates of upto 9% (2017: 5%) per annum.

11. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale comprise of 488 acres of land that will be mutated to the benefit of Thal Nova Thar (Private) Limited and Thar Energy Limited for the construction of mine-mouth power plants at Thar Block II within the next financial year. The land will be transferred at its cost which amounts to approximately Rs. 94,123 (note 4.1).

(Amounts in thousand)

	2018	2017
	---Rupees---	
12. SHARE CAPITAL		
Authorised capital		
1,462,000,000 (2017: 1,462,000,000) Ordinary shares of Rs. 10 each	14,620,000	14,620,000
110,900,000 (2017: 110,900,000) Preference shares of Rs. 10 each	1,109,000	1,109,000
Issued, subscribed and paid-up capital		
934,909,050 (2017: 591,807,097) Ordinary shares of Rs. 10 each fully paid in cash (note 12.1)	9,349,091	5,918,071
53,937,925 (2017: 36,612,025) Preference shares of Rs. 10 each fully paid in cash (note 12.2)	539,379	366,120

12.1 Ordinary shares

2018	2017		2018	2017
---Number of shares---			---Rupees---	
591,807,097	509,091,522	At beginning of the year	5,918,071	5,090,916
343,101,953	82,715,575	Ordinary shares of Rs. 10 each issued for cash at a premium of Rs. 4.82 per share, as fully paid right shares (note 12.1.1)	3,431,020	827,155
934,909,050	591,807,097	At end of the year	9,349,091	5,918,071

12.1.1 Ordinary shares issued during the year

	2017	Shares issued during the year	2018
	---Number of shares---		
Government of Sindh	323,718,483	187,676,767	511,395,250
Engro Energy Limited	70,425,044	40,829,133	111,254,177
Thal Limited	70,425,044	40,829,133	111,254,177
Habib Bank Limited	56,221,674	32,594,686	88,816,360
The Hub Power Company Limited	47,344,568	27,448,156	74,792,724
CMEC Thar Mining Investments Limited	23,672,284	13,724,078	37,396,362
	591,807,097	343,101,953	934,909,050

12.1.2 These fully paid ordinary shares carry one vote per share and right to dividend.

(Amounts in thousand)

12.2 **Preference shares**

2018	2017		2018	2017
---------Number of shares---------			----------------Rupees----------------	
36,612,025	31,368,870	At beginning of the year	366,120	313,689
17,325,900	5,243,155	Preference shares of Rs. 10 each issued for cash as fully paid right shares (note 12.2.1)	173,259	52,431
53,937,925	36,612,025	At end of the year	539,379	366,120

12.2.1 During the year, the Company issued and allotted 17,325,900 (2017: 5,243,155) 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 Act, 2017.

13. BORROWINGS

	2018	2017
	------------------Rupees------------------	
Local currency borrowings (notes 13.1 and 13.2)	24,550,163	17,000,163
Foreign currency borrowings (notes 13.1 and 13.2)	20,791,158	9,135,923
	45,341,321	26,136,086
Less: Transaction costs (note 13.3)	(1,922,154)	(1,152,233)
	43,419,167	24,983,853

13.1 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, 2018, the Company has made draw down of Rs. 18,003,453 (2017: Rs. 12,466,786) against this facility;

- 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, 2018, the Company has made draw down of Rs. 6,546,710 (2017: Rs. 4,533,377) 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, 2018, the Company has made draw down of USD 149,725 (2017: USD 82,740) against this facility.

(Amounts in thousand)

13.2 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 have pledged 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.

	2018	**2017**
	(Rupees)	
13.3 Transaction costs		
Transaction costs netted-off from borrowings (note 7)	2,112,748	1,212,931
Less: Amortization recognised in development properties (note 3)	(190,594)	(60,698)
	1,922,154	1,152,233

13.4 Following are the changes in the borrowings for which cash flows have been classified as financing activities in the statement of cash flows:

	2018	**2017**
	(Rupees)	
Balance as at January 1	24,983,853	12,148,127
Proceeds from borrowings	15,963,737	13,294,194
Transaction costs netted-off from borrowings	(899,817)	(947,384)
Amortization of transaction cost	129,896	52,635
	(769,921)	(894,749)
Exchange loss	3,241,498	436,281
Balance as at December 31	43,419,167	24,983,853

14. ACCRUED AND OTHER LIABILITIES

Accrued liabilities (notes 14.1 and 14.2)	6,340,572	5,108,407
Retention money	84,101	52,138
Workers' welfare fund	-	2,405
Withholding tax payable	6,751	5,259
	6,431,424	5,168,209

14.1 Includes accruals against Offshore and Onshore Agreements amounting to Rs. 2,584,282 (2017: Rs. 1,915,436) and Rs. 1,939,847 (2017: Rs. 2,482,828), respectively.

14.2 Includes amount refundable to employees under Long Term Incentive Plan - Personal Contribution Scheme amounting to Rs. 43,240 (2017: Nil).

(Amounts in thousand)

15. CONTINGENCIES AND COMMITMENTS

15.1 Capital commitments for civil works construction and equipment procurement as at December 31, 2018 amounts to Rs. 8,324,362 (2017: Rs. 28,729,092).

15.2 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.

15.3 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.

15.4 The above guarantees are secured through lien on deposits of Thar Power Company Limited, the wholly owned subsidiary of the Company.

15.5 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.

15.6 Commitment (net of charge recognised during the period) under Long Term Incentive Programme - Cash Incentive Scheme to certain eligible employees, upon achievement of COD subject to certain corporate objectives including approval of tariff true-up, amounts to approximately USD 1,190 (2017: Nil) which is equivalent to approximately Rs. 144,542 (2017: Nil).

	2018	2017
	---Rupees---	
16. ADMINISTRATIVE EXPENSES		
Salaries, wages and staff welfare	11,677	9,519
Purchased services	7,921	3,697
Directors' fee (note 20)	3,900	3,250
Others	6,818	7,190
	30,316	23,656

17. AUDITORS' REMUNERATION

	2018	2017
Fee for the:		
- audit of annual financial statements	675	600
- review of half yearly financial information	250	225
- review of compliance with the Public Sector Companies (Corporate Governance) Rules, 2013	75	75
- taxation services	-	100
- reimbursement of expenses	185	178
	1,185	1,178

(Amounts in thousand)

	2018	2017
	---Rupees---	
18. OTHER INCOME		
On financial assets		
Profit / Interest income on deposits with banks	12,615	16,333
On non-financial assets		
Reversal of workers' welfare fund	2,405	-
Gain on disposal of property, plant and equipment	138	-
	15,158	16,333

19. TAXATION

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.

20. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2018			2017		
	Directors			Directors		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	---(Rupees)---					
Managerial remuneration	18,368	-	297,144	15,379	-	198,545
Contribution for staff retirement benefits	2,323	-	28,459	2,499	-	21,000
Other benefits	17,618	-	95,791	17,572	-	67,148
Fees (notes 16 and 20.3)	-	3,900	-	-	3,250	-
Total	38,309	3,900	421,394	35,450	3,250	286,693
Number of persons, including those who worked part of the year	2	11	52	1	11	44

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

20.2 Premium charged during the year in respect of directors indemnity insurance amounts to Rs. 929 (2017: Rs. 755).

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

21. RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS

21.1 Provident fund

The investments out of the provident fund have been made in accordance with the provisions of Section 218 of the Companies Act, 2017 and the conditions specified there under.

(Amounts in thousand)

21.2 **Other defined contribution plans**

An amount of Rs. 70,727 (2017: Rs. 53,772) has been charged during the year in respect of defined contribution plans.

	2018	2017
	Rupees	
22. FINANCIAL INSTRUMENTS BY CATEGORY		
Financial assets		
- Loans and receivables at amortised cost		
Deposits	22,395	22,309
Other receivables	67,678	35,892
Balances with banks	1,968,077	1,030,570
	2,058,150	1,088,771
Financial liabilities		
- At amortised cost		
Borrowings	43,419,167	24,983,853
Accrued and other liabilities	6,424,673	5,160,545
Mark-up on long-term borrowings	945,363	433,775
	50,789,203	30,578,173

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

23.1 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.

(Amounts in thousand)

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 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 related parties, 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**
Industrial and Commercial Bank of China	P-1	A1
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 statement of financial position liquidity ratios against internal and external regulatory requirements.

(Amounts in thousand)

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 reporting date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2018			2017		
	Maturity upto one year	**Maturity after one year**	**Total**	**Maturity upto one year**	**Maturity after one year**	**Total**
	Rupees					
Financial liabilities						
Borrowings	-	43,419,167	43,419,167	-	24,983,853	24,983,853
Accrued and other liabilities	6,424,673	-	6,424,673	5,160,545	-	5,160,545
Mark-up on long-term borrowings	945,363	-	945,363	433,775	-	433,775
	7,370,036	**43,419,167**	**50,789,203**	**5,594,320**	**24,983,853**	**30,578,173**

23.2 Fair value of financial assets and financial liabilities

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

23.3 Capital Risk Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for share holders and benefit for other stake holders and to maintain an optimal capital structure to reduce the cost of capital.

The gearing ratios of the Company as at December 31, 2018 and 2017 are as follows:

	2018	**2017**
	Rupees	
Total Borrowings (note 13.4)	40,177,669	24,547,572
Less: Balances with Banks (note 10)	1,968,077	1,030,570
Net Debt	38,209,592	23,517,002
Total equity	14,051,896	10,132,151
Total capital	52,261,488	33,649,153
Gearing Ratio	0.73	0.70

(Amounts in thousand)

24. TRANSACTIONS WITH RELATED PARTIES

24.1 Following are the related parties with whom the Company had entered into transactions or had agreements or arrangements in place during the year:

Name of related parties	Direct shareholding	Relationship
Engro Corporation Limited	N/A	Associated Company
Engro Energy Limited	11.90%	Associated Company
Engro Fertilizers Limited	N/A	Associated Company
Engro Powergen Qadirpur Limited	N/A	Associated Company
Engro Powergen Thar (Private) Limited	N/A	Associated Company
Thar Foundation	N/A	Associated Company
Engro Foundation	N/A	Associated Company
Engro Vopak Terminal Limited	N/A	Associated Company
Shamsuddin Ahmed Shaikh	N/A	Key Management Personnel
Syed Abul Fazal Rizvi	N/A	Key Management Personnel
Mohammed Saqib	N/A	Key Management Personnel
Kashif Ahmed Soomro	N/A	Key Management Personnel
Atif Muhammad Ali	N/A	Key Management Personnel
Syed Murtaza Azhar Rizvi	N/A	Key Management Personnel
Tarique Quadir Lakhiar	N/A	Key Management Personnel
Naseer Memon	N/A	Key Management Personnel
Agha Wasif Abbas	N/A	Director
Noor Alam	N/A	Director
Musaddiq Ahmed Khan	N/A	Director
Najam Ahmed Shah	N/A	Director
Tanveer Ahmed Qureshi	N/A	Director
Firdous Shamim Naqvi	N/A	Director
Salman Burney	N/A	Director
Khalid Mohsin Shaikh	N/A	Director
Khalid Mansoor	N/A	Director
Khurshid Anwar Jamali	N/A	Director
Mahesh Kumar Malani	N/A	Director
Muhammad Waseem	N/A	Director
Salim Azhar	N/A	Director

(Amounts in thousand)

24.2 Details of transactions, with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2018	2017
	---Rupees---	
Associated companies		
Reimbursement of expenses incurred by:		
- Engro Corporation Limited	77,877	31,871
- Engro Energy Limited	24,793	52
- Engro Fertilizers Limited	7,952	7,135
- Engro Powergen Qadirpur Limited	7,332	5,166
- Thar Foundation	1,983	404
- Engro Foundation Limited	60	60
- Engro Foods Limited	-	110
- Elengy Terminal (Private) Limited	-	1,445
- Engro Powergen Thar (Private) Limited	-	2,697
Reimbursement of expenses incurred for:		
- Engro Energy Limited	129,511	47,709
- Engro Powergen Thar (Private) Limited	45,124	41,742
- Engro Corporation Limited	8,635	589
- Engro Powergen Qadirpur Limited	3,288	1,348
- Engro Fertilizers Limited	1,060	655
- Engro Vopak Terminal Limited	204	-
- Thar Foundation	123	12,880
- Engro Foods Limited	-	25
- Engro Polymer and Chemicals Limited	-	2
Key management personnel		
- Managerial remuneration	84,457	92,213
- Contribution for staff retirement benefits	9,638	9,256
- Bonus payments	68,077	63,926
Contribution to retirement benefit funds	70,727	53,772

25. NUMBER OF EMPLOYEES

	Number of employees as at		Average number of employees	
	December 31, 2018	December 31, 2017	2018	2017
Management employees	105	95	100	82

Ayres.

(Amounts in thousand)

26. CORRESPONDING FIGURES

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

27. DATE OF AUTHORISATION FOR ISSUE

12 FEB 2019

These financial statements were authorised for issue on ________________ by the Board of Directors of the Company.

Chief Executive Officer

Director

SECMC
Sindh Engro Coal Mining Company

STATEMENT OF COMPLIANCE WITH PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013

FOR THE YEAR ENDED DECEMBER 31, 2018

pwc

A·F·FERGUSON&Co.

REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors of Sindh Engro Coal Mining Company Limited (the Company) for the year ended December 31, 2018.

The responsibility for compliance with the Rules is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Rules.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Rules require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Company for the year ended December 31, 2018.

Chartered Accountants
Karachi
Date: May 10, 2019

Engagement Partner: Waqas A. Sheikh

Statement of Compliance with the
Public Sector Companies (Corporate Governance) Rules, 2013

Name of the Company: Sindh Engro Coal Mining Company Limited.

Name of the line ministry: Energy Department, Government of Sindh.

For the year ended: December 31, 2018.

I. This statement presents the overview of the compliance with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

II. The Company has complied with the provisions of the Rules in the following manner:

<table>
<tr><th>S. No.</th><th>Provisions of the Rules</th><th>Rule No.</th><th colspan="2">Yes / No/ N/A</th></tr>
<tr><td>1</td><td>The independent directors meet the criteria of independence, as defined under the Rules.</td><td>2(d)</td><td colspan="2">N/A. An exemption has been granted by the Securities and Exchange Commission (the Commission) to the Company from the requirement of having independent directors on the Board of Directors.</td></tr>
<tr><td>2</td><td>The Board has at least one-third of its total members as independent directors. At present the Board includes:
<table>
<tr><th>Category</th><th>Names</th><th>Date of appointment</th></tr>
<tr><td>Independent Directors</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Executive Directors</td><td>Syed Abul Fazal Rizvi</td><td>22-Nov-18</td></tr>
<tr><td rowspan="11">Non-Executive Directors</td><td>Muhammad Waseem</td><td>24-Nov-16</td></tr>
<tr><td>Dr. Mahesh Kumar Malani</td><td>24-Nov-16</td></tr>
<tr><td>Khurshid Anwar Jamali</td><td>24-Nov-16</td></tr>
<tr><td>Khalid Mansoor</td><td>24-Nov-16</td></tr>
<tr><td>Bao Jianjun</td><td>24-Nov-16</td></tr>
<tr><td>Ghiasuddin Khan</td><td>2-Dec-16</td></tr>
<tr><td>Salim Azhar</td><td>24-Nov-16</td></tr>
<tr><td>Khalid Mohsin Shaikh</td><td>14-Jun-17</td></tr>
<tr><td>Salman Burney</td><td>9-Oct-18</td></tr>
<tr><td>Musaddiq Ahmed Khan</td><td>23-Nov-18</td></tr>
<tr><td>Najam Ahmed Shah</td><td>23-Nov-18</td></tr>
</table></td><td>3(2)</td><td colspan="2">N/A. An exemption has been granted by the Commission to the Company from the requirement of having independent directors on the Board of Directors.</td></tr>
<tr><td>3</td><td>The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.</td><td>3(5)</td><td>Yes</td><td></td></tr>
<tr><td>4</td><td>The appointing authorities have applied the fit and proper criteria given in the Annexure to the Rules in making nominations of the persons for election as Board members under the provisions of the Act.</td><td>3(7)</td><td>Yes</td><td></td></tr>
<tr><td>5</td><td>The chairman of the Board is working separately from the chief executive of the Company.</td><td>4(1)</td><td>Yes</td><td></td></tr>
<tr><td>6</td><td>The chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government.</td><td>4(4)</td><td>Yes</td><td></td></tr>
<tr><td>7</td><td>The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.
(Not applicable where chief executive has been nominated by the Government).</td><td>5(2)</td><td colspan="2">N/A. An exemption has been granted by the Commission to the Company from the requirement of appointing the Chief Executive in line with Rule 5(2).</td></tr>
</table>

8	(a) The company has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place. (b) The Board has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures, including posting the same on the company's website. The Code of Conduct of the Company can be obtained from the Company's website i.e. www.engroenergy.com. (c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	Yes	
9	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.	5(5)	Yes	
10	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b)(ii)	Yes	
11	The Board has developed and implemented a policy on anti- corruption to minimize actual or perceived corruption in the company.	5(5)(b)(vi)	Yes	
12	The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.	5(5)(c)(ii)	Yes	
13	The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.	5(5)(c)(iii)	N/A. The Company has been exempted from the Sindh Public Procurement Act, 2009 through notification dated May 29, 2014. However, the Company has standard operating procedures for public procurement, tender regulations and purchasing and technical standards which are followed stringently.	
14	The Board has developed a vision or mission statement and corporate strategy of the company.	5(6)	Yes	
15	The Board has developed significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended, has been maintained.	5(7)	Yes	
16	The Board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation and has submitted its request for appropriate compensation to the Government for consideration.	5(8)	N/A	
17	The Board has ensured compliance with policy directions requirements received from the Government.	5(11)	N/A	
18	(a) The Board has met at least four times during the year. (b) Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. (c) The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	Yes Yes Yes	
19	The Board has monitored and assessed the performance of senior management on annual basis and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.	8 (2)	Yes	
20	The Board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	Yes	

<table>
<tr><td rowspan="3">21</td><td>(a) The Board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end.</td><td rowspan="3">10</td><td>Yes</td><td></td></tr>
<tr><td>(b) In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors.</td><td colspan="2">N/A</td></tr>
<tr><td>(c) The Board has placed the annual financial statements on the company's website.</td><td>Yes</td><td></td></tr>
<tr><td>22</td><td>All the Board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.</td><td>11</td><td>Yes</td><td></td></tr>
<tr><td>23</td><td>(a) The Board has formed the requisite committees, as specified in the Rules.

(b) The committees were provided with written term of reference defining their duties, authority and composition.

(c) The minutes of the meetings of the committees were circulated to all the Board members.

(d) The committees were chaired by the following non-executive directors:

<table>
<tr><th>Committee</th><th>Number of members</th><th>Name of Chair</th></tr>
<tr><td>Audit Committee</td><td>Muhammad Waseem
Khalid Mohsin Shaikh
Najam Ahmed Shah
Salman Burney
Musaddiq Ahmed Khan</td><td>Muhammad Waseem</td></tr>
<tr><td>Risk Management Committee</td><td>Khurshid Anwar Jamali
Khalid Mansoor
Syed Abul Fazal Rizvi</td><td>Khurshid Anwar Jamali</td></tr>
<tr><td>Human Resource Committee</td><td>Ghiasuddin Khan
Khalid Mansoor
Musaddiq Ahmed Khan
Muhammad Waseem
Salim Azhar</td><td>Ghiasuddin Khan</td></tr>
<tr><td>Procurement Committee</td><td>Najam Ahmed Shah
Syed Abul Fazal Rizvi
Ghiasuddin Khan
Salamn Burney</td><td>Najam Ahmed Shah</td></tr>
<tr><td>Nomination Committee</td><td>N/A</td><td>N/A</td></tr>
</table></td><td>12</td><td>Yes. However, the requirement for Nomination Committee doesn't apply to the Company as the Company only has sponsor nominated directors.</td><td></td></tr>
<tr><td>24</td><td>The Board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, by whatever name called, with their remuneration and terms and conditions of employment.</td><td>13</td><td>Yes</td><td></td></tr>
<tr><td>25</td><td>The Chief Financial Officer and the Company Secretary have requisite qualification prescribed in the Rules.</td><td>14</td><td colspan="2">N/A. The Company has obtained exemption from the Commission with respect to the qualification of the CFO as envisaged by Rule 14.</td></tr>
<tr><td>26</td><td>The company has adopted International Financial Reporting Standards notified by the Commission in terms of sub-section (1) of section 225 of the Act.</td><td>16</td><td>Yes</td><td></td></tr>
</table>

<table>
<tr><td>27</td><td>The directors' report for this year has been prepared in compliance with the requirements of the Act and the Rules and fully describes the salient matters required to be disclosed.</td><td>17</td><td>Yes</td><td></td></tr>
<tr><td>28</td><td>The directors, CEO and executives, or their relatives, are not, directly or indirectly, concerned or interested in any contract or arrangement entered into by or on behalf of the company except those disclosed to the company.</td><td>18</td><td>Yes</td><td></td></tr>
<tr><td>29</td><td>(a) A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place and no director is involved in deciding his own remuneration.

(b) The annual report of the company contains criteria and details of remuneration of each director.</td><td>19</td><td colspan="2">N/A. No remuneration is paid except for a fixed fee to attend director's meetings.</td></tr>
<tr><td>30</td><td>The financial statements of the company were duly endorsed by the chief executive and chief financial officer before consideration and approval of the audit committee and the Board.</td><td>20</td><td>Yes</td><td></td></tr>
<tr><td>31</td><td>The Board has formed an audit committee, with defined and written terms of reference, and having the following members:
<table>
<tr><th>Name of member</th><th>Category</th><th>Professional background</th></tr>
<tr><td>Muhammad Waseem (Chairman)</td><td>Non-Executive Director</td><td>Finance</td></tr>
<tr><td>Khalid Mohsin Shaikh</td><td>Non-Executive Director</td><td>Finance</td></tr>
<tr><td>Najam Ahmed Shah</td><td>Non-Executive Director</td><td>Healthcare</td></tr>
<tr><td>Salman Burney</td><td>Non-Executive Director</td><td>Finance</td></tr>
<tr><td>Musaddiq Ahmed Khan</td><td>Non-Executive Director</td><td>Engineering</td></tr>
</table>
The chief executive and chairman of the Board are not members of the audit committee.</td><td>21 (1) and 21 (2)</td><td>Yes</td><td></td></tr>
<tr><td>32</td><td>(a) The chief financial officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed.

(b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditor and other executives.

(c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of chief financial officer and the external auditors.</td><td>21(3)</td><td>Yes</td><td></td></tr>
<tr><td>33</td><td>(a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee.

(b) The chief internal auditor has requisite qualification and experience prescribed in the Rules.

(c) The internal audit reports have been provided to the external auditors for their review.</td><td>22</td><td>Yes</td><td></td></tr>
<tr><td>34</td><td>The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.</td><td>23(4)</td><td>Yes</td><td></td></tr>
<tr><td>35</td><td>The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.</td><td>23(5)</td><td>Yes</td><td></td></tr>
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KHURSHID A. JAMALI
Chairman

SYED ABUL FAZAL RIZVI
Chief Executive Officer