

Directors' Report

Year Ended December 31, 2016

The Directors of Sindh Engro Coal Mining Company Limited (SECMC), a joint venture between Government of Sindh (GoS), Engro Powergen Limited (EPL) and its Affiliates, are pleased to present the Consolidated and Standalone Financial Statements and a review of the Thar Coal Mining Project for the year ended December 31, 2016.

Project Update

SECMC achieved financial close on April 4, 2016. Notices to commence were subsequently issued to EPC Contractors (China Machinery Engineering Corporation and China-East Resources Import & Export Company).

Pursuant to Issuance of Notice to Commence, Chinese Contractors have mobilized on the site. Round the clock overburden removal began in May and current progress is ahead of schedule with ~15 M BCM of overburden removed as of Dec 31, 2016. This is in addition to the 4 M BCM that was removed prior to Financial Close.

As a result of visible management commitment and dedicated and focused approach by the Company, its Contractors, and Sub-Contractors, the Company has achieved 3 million safe man-hours without a Lost Workday Injury (LWI).

As a part of resettlement framework, a number of interventions were conducted during the year including Vet Camps, Marvi Mother and Child clinic, Reverse Osmosis Water Treatment Plants and scholarship to students at Hunar Foundation. The Company has also started number of skill development projects under Khushhal Thar wherein hundreds of locals are being given opportunities to first train and then employed on the project. The courses that being covered under skill development are masonry, scaffolding, fitting, plumbing, dumper drivers, steel fixing and so on.

Dewatering

Major milestones have been achieved on the mine dewatering infrastructure projects. Drilling of all 27 wells has been completed which will enable the Company to start dewatering of 3 aquifers by 1st quarter of 2017.

The Company took up the construction of the Effluent Disposal Reservoir at Gorano after seeking due permission from the Board of Directors. Gorano reservoir construction is expected to be completed in January 2017.

During the year, the petition has been filed before Honourable High Court of Sindh against the Company and other respondents to challenge the legality of the establishment of water reservoir by the Company at Gorano for the purposes of storage and containment of sub-soil water required to be extracted for sustained mining operations at Thar Block II. In view of the legal advisor of the Company, the Company has the good defense in this petition.

Financing Update

During the year, SECMC completed all conditions precedent under the financing agreements. The financial close was achieved on April 4, 2016, upon confirmation by the lenders that all CPs have been satisfied, and SECMC's shareholders injected USD 23.44 M of equity in the Company.

Further, Huolinhe Open Pit Coal (HK) Investment Co. Limited (HOCIC) injected USD 3 million on 4th August 2016 and thereafter, the remaining shareholders further injected USD 7.6 million. As of 31st December 2016, shareholding of each equity partner is as follows:

<u>Sponsor</u>	<u>Equity injection to date (USD Million)</u>	<u>No. of shares (Million)</u>	<u>Percentage holding</u>
<u>Ordinary shares</u>			
GoS	39.15	278.22	54.7%
EPL	7.50	60.65	11.9%
Thal	8.71	60.65	11.9%
HUBCO	5.86	40.81	8.0%
HBL	6.93	48.35	9.5%
CMEC	2.89	20.41	4.0%
Total Ordinary Shares	71.04	509.09	100%
<u>Preference shares</u>			
HOCIC	3.00	31.37	100%
Total equity (Ordinary + Preference)	74.04		

On the borrowing side, four drawdowns under the USD Facility amounting to USD 9.6 million were made during the year. The drawdowns were made to make payments for milestones achieved under the EPC contract. Further, three drawdowns under the PKR Facility amounting to Rs. 11.4 billion were also made during the year. First payment of interest and commitment fee against both USD and PKR facilities were made during the year.

Results for the Year

Sindh Engro Coal Mining Company Limited declared a net loss of PKR 16.31 million (Consolidated loss of PKR 36.83 million) for the year ended December 31, 2016. 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 16.31 million (Consolidated loss of PKR 36.83 million) to Un-appropriated profit reserve.

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

	2016	2015	2014	2013	2012	2011
	PKR / No. of shares in 000					
Profit / (Loss) Before Tax	(34,705)	22,882	48,643	(23,053)	(6,566)	5,490
Profit / (Loss) After Tax	(36,834)	21,913	47,695	(17,425)	(4,225)	3,979
Development Properties	11,148,610	2,362,480	1,397,162	755,751	-	-
Exploration and Evaluation Assets	-	-	-	-	539,753	432,485
Property, Plant & Equipment	8,102,339	685,059	739,801	169,270	6,873	9,792
Capital Expenditure	7,770,075	240,317	575,260	166,523	647	1,540
Intangible Assets	156,819	202,218	178	272	365	-
Net Current Assets	(2,465,510)	532,743	1,366,514	(88,741)	12,466	76,742
Shareholders' Fund	7,519,490	4,000,366	3,525,813	841,086	554,905	511,880
Ordinary Shares Outstanding at Year End	509,092	289,393	218,138	80,216	54,525	49,800
Preference Shares Outstanding at Year End	31,369	-	-	-	-	-

Allocation of Reserves

The Company has consolidated reserves as follows for the year:

Un-appropriated Profit

	PKR ('000)
Balance as at January 1, 2016	61,838
Total un-appropriated loss for the year	(36,834)
Balance as at December 31, 2016	<u>25,004</u>

Key Shareholding & Shares Traded

Following is the key shareholding position as at December 31, 2016:

Shareholders	No. of shares held
The Government of Sindh	278,219,933
Engro Powergen Limited	60,651,899
Thal Limited	60,651,898
Habib Bank Limited	48,346,368
Hub Power Company Ltd	40,812,037
CMEC Thar Mining Investment Limited	20,409,376
Shamsuddin A. Sheikh	1
Ghias Khan	1
Dr. Mahesh Kumar Malani	1
Syed Firdous Shamim Naqvi	1
Khalid Mansoor	1
Kurshid Anwar Jamali	1
Muhammad Waseem	1
Agha Wasif Abbas	1
Syed Hasan Naqvi	1
Salim Azhar	1
Rayomond Kotwal	1
	<u>509,091,522</u>

Retirement Funds

The Company contributes to plans that provide post-employment and retirement benefits for its employees. These include defined contribution (DC) gratuity plan, defined benefit (DB) gratuity plan and DC provident fund. The 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.



Board Meetings & Attendance

In 2016, the Board of Directors held 10 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	10	
2.	Shamsuddin A. Shaikh		Executive	10	
3.	Agha Wasif Abbas	✓	Non-Executive	9	3
4.	Firdous S. Naqvi	✓	Non-Executive	7	4
5.	Khalid Mansoor	✓	Non-Executive	8	4
6.	Muhammad Waseem		Non-Executive	8	
7.	Mahesh Kumar Malani		Non-Executive	10	
8.	Syed Hassan Naqvi**	✓	Non-Executive	1	2
9.	Mir Hayat Khan Talpur*		Non-Executive	6	
10.	M. Sohail Khan Rajput*	✓	Non-Executive	7	2
11.	Khalid Siraj Subhani*		Non-Executive	7	
12.	Ghias Khan**		Non-Executive	N/A	
13.	Salim Azhar**		Non-Executive	N/A	
14.	Rayomond Kotwal**		Non-Executive	N/A	
15.	Bao Jinjuan**		Non-Executive	N/A	

Note:

* Directors who resigned from the Board during the year.

** Directors who joined the Board during the year.

*** Company has exemption from the requirement of Independent Directors



Chief Executive Officer

January 26, 2017



Director