

Directors' Report

Year Ended December 31, 2017

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, 2017.

Project Update

Development of the 3.8 Mt/a mine at Block II continued at full steam. During the year, overburden removal remained ahead of schedule with ~51 M BCM removed during the year. Cumulatively, ~70 M BCM, 62% of the total overburden volume, has been removed as of December 31, 2017. During this process, the Company, its Contractors and sub-contractors logged in over 10.7 M safe man-hours without loss workday injury.

During the year, pursuant to the completion of Gorano reservoir, full-scale dewatering operations began in April 2017. During the year, over 18.3 Mm³ discharged to the reservoir at Gorano. This has helped lower the water table from 55 m to 125 m, thereby enabling the mine to achieve maximum depth of 116 m.

Litigation against the construction of the Gorano Reservoir continued in the Honorable Sindh High Court during the year. The Court formed a fact-finding Committee consisting of reputable and experts in the field. The Committee submitted its report to the Court during the year, outlining that Gorano was indeed the most feasible location for the construction of this reservoir.

As a part of resettlement framework, work began to clear the land for construction of Resettlement Village to relocate Senhri Dars. The Company aims to complete construction of the village by end of 2018 and start relocation.

On the Community Development front, a number of interventions were conducted during the year including Eye Camps, Marvi Mother and Child clinic, establishment of Reverse Osmosis Water Treatment Plants and establishment of Primary Schools in villages of Block II through Thar 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.

Mine Expansion

During the year, the Company signed 30-year Coal Supply Agreements with Thar Energy Limited and ThalNova Power Thar Limited for the supply of 1.9 Mt/a coal each. To cater to the demand of these IPPs, the mine will be expanded to 7.6 Mt/a.

To enable this expansion, the Company has signed Offshore contract worth ~USD 77 M and Onshore contract worth ~USD 20 M with China Machinery Engineering Corporation and China East Resource Import & Export Corporation respectively. Under the agreed timeframe in these Agreements, the mine will be constructed within a 33-month period from issuance of Notice to Commence.

The Company has also filed the Contract Stage Tariff with Thar Coal Energy Board for expansion of the mine to 7.6 Mt/a following the execution of the key contracts.

Financing Update

During the year, Huolinhe Open Pit Coal (HK) Investment Co. Limited (HOCIC) injected USD 0.5 million in Preference shares whereas Ordinary shareholders injected USD 23.63 million. As of 31st December 2017, shareholding of each equity partner is as follows:

<u>Sponsor</u>	<u>Equity injection to date*</u> (USD Million)	<u>No. of shares*</u> (Million)	<u>Percentage holding</u>
<u>Ordinary shares</u>			
GoS	52.11	371.74	54.7%
EEL	10.30	80.87	11.9%
Thal	11.51	80.87	11.9%
HBL	9.18	64.56	9.5%
HUBCO	7.74	54.37	8.0%
CMEC	3.83	27.18	4.0%
Total Ordinary Shares	94.67	679.59	100%
<u>Preference shares</u>			
HOCIC	3.50	36.61	100%
Total equity (Ordinary + Preference)	98.17		

*Including equity for which share issuance is in process as at December 31, 2017

On the borrowing side, seven drawdowns under the USD Facility amounting to USD 73 million were made during the year. The drawdowns were made to make payments for milestones achieved under the Onshore and Offshore contracts. Further, three drawdowns under the PKR Facility amounting to Rs. 5.6 billion were also made during the year. Second and third 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 9.88 million (Consolidated loss of PKR 19.80 million) for the year ended December 31, 2017. 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 9.88 million (Consolidated loss of PKR 19.80 million) to Un-appropriated profit reserve.

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

	2017	2016	2015	2014	2013	2012
	PKR / No. of shares in 000					
Profit / (Loss) Before Tax	(18,566)	(34,705)	22,882	48,643	(23,053)	(6,566)
Profit / (Loss) After Tax	(19,802)	(36,834)	21,913	47,695	(17,425)	(4,225)
Development Properties	28,566,101	11,148,610	2,362,480	1,397,162	755,751	-
Exploration and Evaluation Assets	-	-	-	-	-	539,753
Property, Plant & Equipment	8,860,395	8,102,339	685,059	739,801	169,270	6,873
Capital Expenditure	1,888,156	7,770,075	240,317	575,260	166,523	647
Intangible Assets	104,092	156,819	202,218	178	272	365
Net Current Assets	(4,294,231)	(2,465,510)	532,743	1,366,514	(88,741)	12,466
Shareholders' Fund	10,074,559	7,519,490	4,000,366	3,525,813	841,086	554,905
Ordinary Shares Outstanding at Year End	591,807	509,092	289,393	218,138	80,216	54,525
Preference Shares Outstanding at Year End	36,612	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, 2017	25,004
Total un-appropriated loss for the year	(19,802)
Transfer of remeasurement gain	(724)
Balance as at December 31, 2017	<u>4,478</u>

Key Shareholding & Shares Traded

Following is the key shareholding position as at December 31, 2017:

Shareholders	No. of shares held
The Government of Sindh	323,718,483
Engro Energy Limited formerly Engro Powergen Limited	70,425,044
Thal Limited	70,425,044
Habib Bank Limited	56,221,674
Hub Power Company Ltd	47,344,568
CMEC Thar Mining Investment Limited	23,672,284
Shamsuddin A. Shaikh	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
Khalid Mohsin Shaikh	1
	<u>591,807,108</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 2017, the Board of Directors held 5 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	4	
2.	Shamsuddin A. Shaikh		Executive	5	
3.	Agha Wasif Abbas	✓	Non-Executive	5	4
4.	Firdous S. Naqvi	✓	Non-Executive	5	4
5.	Khalid Mansoor***	✓	Non-Executive	3	1
6.	Muhammad Waseem		Non-Executive	3	
7.	Mahesh Kumar Malani		Non-Executive	5	
8.	Salim Azhar		Non-Executive	5	
9.	Ghias Khan		Non-Executive	4	
10.	Rayomond Kotwal*	✓	Non-Executive	2	1
11.	Syed Hassan Naqvi	✓	Non-Executive	4	4
12.	Bao Jianjun		Non-Executive	2	
13.	Khalid Mohsin Shaikh**	✓	Non-Executive	3	2

Note:

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



 Chief Executive Officer



 Director

January 24, 2018