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January 16, 2018
664

The Board of Directors (the Board)
FFBL Power Company Limited
FFBL Tower, DHA-II
Islamabad

Dear Sirs

AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

We enclose three copies of the above referred financial statements of FFBL Power Company Limited (the Company) for the year ended December 31, 2017 together with our draft report thereon initialed by us for identification purposes. We shall be pleased to sign our audit report, in present or amended form, after:

i) the financial statements have been approved by the Board and signed by the Chairman, Chief Executive and a Director authorised by the Board in this behalf;

ii) we have seen the Board's specific approval for items listed in Annexure I to this letter;

iii) we have received responses to our requests for direct confirmations from legal advisor, customer, supplier and others as at December 31, 2017, as listed in Annexure II to this letter;

iv) we have performed physical verification of stock in trade - coal present at plant site and reconciled it with the books of accounts as at December 31, 2017; and

v) we have received a management representation letter on the lines of the enclosed draft duly signed by the Chief Executive Officer and Chief Financial Officer. Annexed thereto is a summary of uncorrected misstatements. We request these misstatements to be corrected. However, these uncorrected misstatements do not have any effect on our opinion.

2. Responsibilities of the auditors and the management in relation to the financial statements

The responsibilities of the independent auditors, in a usual examination of financial statements, are explained in the International Standards on Auditing - "Overall objectives of the Independent Auditor and conduct of an audit in accordance with International Standard on Auditing". While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for the preparation of the financial statements is primarily that of the Company's management. The management's responsibilities include the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, safeguarding the assets of the Company and prevention and detection of fraud and irregularities. The audit of financial statements does not relieve the management of its responsibilities. Accordingly, our examination of the books of accounts and records should not be relied upon to disclose all the errors or irregularities in relation to the financial statements.

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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3. Approval of Power Purchase Agreement (PPA) with K-Electric Limited and tariff revision

National Electric Power Regulatory Authority (NEPRA) approved PPA with K-Electric vide its letter dated December 19, 2017 subject to incorporation of certain amendments in PPA and requested the Company to submit the finalized version of PPA for its information and record. Currently the PPA with KE has only been initialled by K-Electric. The Company is in the process of incorporating the amendments in PPA and expects to sign the finalized version of PPA with KE and submit to NEPRA in few months. Sales with K-Electric have been recoginised in the financial statements on the basis of the above PPA and tariff approved by NEPRA vide its letter dated December 20, 2015, further indexed provisionally vide its letters dated June 20, 2017, July 11, 2017, August 31, 2017 and October 19, 2017. Accordingly, the management believes that incorporation of said changes in PPA will not have any impact on the current year financial statements.

Further, the management of the Company has applied for further revision in tariff based on the actual cost at the Commercial Operation Date. Since the ultimate outcome of NEPRA's decision on tariff revision is uncertain, the differential amount of sales due to change in tariff amount cannot be quantified and would be recognised in the financial statements of the period when it is approved by NEPRA.

4. Insurance claim receivable from Admajee Insurance

During the year, the Company lodged insurance claim of Rs 198,008 thousand on account of revenue loss due to repair of a turbine with Adamjee Insurance Limited and recorded it as sales. Although the claim has not yet been received, the same has been booked as receivable by the Company, since the management believes that, based on correspondence with insurance brokers, recovery of claim is virtually certain as of year end. The amount has been recognised in the financial statements as "Sales – Power", instead of "other income", which is a non-compliance with the requirements of approved accounting standards as applicable in Pakistan. The same has been included in our representation letter as summary of uncorrected misstatement. We request this misstatement to be corrected in the financial statements.

We wish to place on record our appreciation of the co-operation and courtesy extended to us by the management and staff of the Company during the course of our audit.

Yours truly

AFFerguson & Co

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ANNEXURE I

FFBL POWER COMPANY LIMITED
AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Items requiring the Board's specific approval as referred to in point (ii) of first paragraph in our letter 664 dated January 16, 2018:

	Rupees '000
a) Additions to operating fixed assets - at cost (net of transfers from CWIP)	369,818
b) Additions to Capital Work in Progress - at cost	3,737,317
c) Right shares issued during the year	130,000
d) Long term finance facilities received during the year	293,160
e) Short term borrowings received during the year	1,316,000
f) Provision for gratuity – charge for the year	19,567
g) Bonus to employees - charge for the year	60,470
h) Related party transactions as disclosed in Note 26 to the financial statements	

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ANNEXURE II

FFBL POWER COMPANY LIMITED (FPCL)
AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

List of parties, from whom reply to our confirmation request is outstanding, as referred to in point (iii) of first paragraph of our letter 664 dated January 16, 2018:

Legal advisor:
Naeem Law Associates
Mohsin Tayebally & Co.

Tax advisor:
KPMG Chartered Accountants

Customer:
K-Electric Limited

Supplier:
Mercuria Energy Trading SA

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AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of FFBL Power Company Limited (the Company) as at December 31, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion

  (i) the balance sheet and profit and loss account, together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2017 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

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

A.F.Ferguson & Co.

Chartered Accountants
Islamabad
Date: January 25, 2018

Engagement partner: Asim Masood Iqbal

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FFBL POWER COMPANY LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2017

	Note	2017	2016
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Authorised share capital	5	9,000,000	9,000,000
Issued, subscribed and paid up capital	5	8,587,500	7,287,500
Accumulated profit / (loss)		1,625,673	(112,259)
		10,213,173	7,175,241
NON-CURRENT LIABILITIES			
Long term finance facilities - secured	6	18,852,214	20,138,722
Staff retirement benefits	7	22,745	3,178
		18,874,959	20,141,900
CURRENT LIABILITIES			
Trade and other payables	8	2,604,269	381,936
Current portion of long-term finance facilities - secured	6	1,590,646	1,100,224
Accrued mark-up on finance facilities and borrowings		9,780	243,893
Short term borrowings - secured	9	1,316,000	-
		5,520,695	1,726,053
CONTINGENCIES AND COMMITMENTS	10		
TOTAL EQUITY AND LIABILITIES		34,608,827	29,043,194

	Note	2017	2016
		(Rupees '000)	
NON-CURRENT ASSETS			
Property, plant and equipment	11	27,910,392	24,471,628
CURRENT ASSETS			
Stock in trade	12	779,972	486,777
Stores and spares		48,479	-
Trade debts - unsecured, considered good	13	1,382,058	-
Advances, prepayments and other receivables	14	569,141	833,836
Income tax refundable		431,706	116,536
Short term investments	15	2,900,000	2,635,000
Cash and bank balances	16	587,079	499,417
		6,698,435	4,571,566
TOTAL ASSETS		34,608,827	29,043,194

The annexed notes 1 to 29 form an integral part of these financial statements.

CHAIRMAN | CHIEF EXECUTIVE | DIRECTOR | CHIEF FINANCIAL OFFICER

FFBL POWER COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		(Rupees '000)	
Sales	17	7,956,722	-
Cost of sales	18	(4,952,347)	-
Gross profit		3,004,375	-
Administrative and general expenses	19	(112,901)	(33,701)
Other income	21	73,504	10,238
Profit / (loss) from operations		2,964,978	(23,463)
Finance cost	20	(1,088,734)	(140)
Workers' profit participation fund		(94,372)	-
Profit / (loss) before taxation		1,781,872	(23,603)
Taxation	22	(41,914)	(29,335)
Profit / (loss) for the year		1,739,958	(52,938)

The annexed notes 1 to 29 form an integral part of these financial statements.

CHAIRMAN CHIEF EXECUTIVE DIRECTOR CHIEF FINANCIAL OFFICER

FFBL POWER COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	(Rupees '000)	
Profit / (loss) for the year	1,739,958	(52,938)
Items that will not be reclassified to profit or loss:		
Re-measurement loss on staff retirement benefits	(2,026)	-
Total comprehensive income/(loss) for the year	1,737,932	(52,938)

The annexed notes 1 to 29 form an integral part of these financial statements.

CHAIRMAN CHIEF EXECUTIVE DIRECTOR CHIEF FINANCIAL OFFICER

FFBL POWER COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Issued, subscribed and paid up capital	Advance against shares to be issued	Accumulated profit/(loss)	Total
	..................(Rupees '000).....................			
Balance as at January 1, 2016	6,890,000	397,500	(59,321)	7,228,179
Total comprehensive loss for the year				
Loss for the year	-	-	(52,938)	(52,938)
Other comprehensive income for the year	-	-	-	-
	-	-	(52,938)	(52,938)
Transactions with owners:				
Ordinary shares issued against advance	397,500	(397,500)	-	-
Balance as at January 1, 2017	7,287,500	-	(112,259)	7,175,241
Total comprehensive income / (loss) for the year				
Profit for the year	-	-	1,739,958	1,739,958
Other comprehensive (loss) for the year	-	-	(2,026)	(2,026)
	-	-	1,737,932	1,737,932
Transactions with owners:				
Ordinary shares issued during the year	1,300,000	-	-	1,300,000
Balance as at December 31, 2017	8,587,500	-	1,625,673	10,213,173

The annexed notes 1 to 29 form an integral part of these financial statements.

CHAIRMAN CHIEF EXECUTIVE DIRECTOR CHIEF FINANCIAL OFFICER

FFBL POWER COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before taxation	1,781,872	(23,603)
Adjustments for:		
Depreciation	667,509	6,682
Provision for staff retirement benefits	17,541	-
Foreign exchange loss / (gain)	10,946	(800)
(Gain) on sale of fixed assets	(148)	-
Interest on bank deposits and short term investments	(70,560)	-
Finance cost	1,077,788	940
	1,703,076	6,822
	3,484,948	(16,781)
Changes in working capital:		
Increase in stock in trade	(293,195)	(486,777)
(Increase) / decrease in stores and spares	(48,479)	90
Increase in trade debts	(1,382,058)	-
Decrease / (increase) in advances, prepayments and other receivables	268,472	(787,110)
Increase in trade and other payables	2,222,333	371,917
	767,073	(901,880)
Cash generated from / (used) in operations	4,252,021	(918,661)
Interest on bank deposits and short term investments received	117,774	137,115
Finance cost paid	(1,943,888)	(987,337)
Income tax paid	(357,084)	(28,590)
Net cash generated from / (used) in operating activities	2,068,823	(1,797,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions in capital work in progress	(3,142,488)	(11,431,369)
Additions to operating fixed assets - direct	(369,818)	(7,152)
Proceeds from sale of fixed assets	1,010	-
Net cash used in investing activities	(3,511,296)	(11,438,521)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term finance facilities - received	293,160	21,569,340
Long term finance facilities - paid	(1,114,025)	-
Proceeds from issuance of shares	1,300,000	-
Short term borrowings received / (repaid) - net	1,316,000	(7,348,500)
Net cash generated from financing activities	1,795,135	14,220,840
Net increase in cash and cash equivalents during the year	352,662	984,846
Cash and cash equivalents at beginning of the year	3,134,417	2,149,571
Cash and cash equivalents at end of the year	3,487,079	3,134,417
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents comprise of the following:		
- Short term investments	2,900,000	2,635,000
- Cash and bank equivalents	587,079	499,417
	3,487,079	3,134,417

The annexed notes 1 to 29 form an integral part of these financial statements.

CHAIRMAN **CHIEF EXECUTIVE** **DIRECTOR** **CHIEF FINANCIAL OFFICER**

1. THE COMPANY AND ITS OPERATIONS

FFBL Power Company Limited (the Company) is a public limited company incorporated on June 27, 2014 in Pakistan under the Companies Ordinance, 1984. The Company has been established to build, own and operate a 118 Megawatt coal based power generation facility at Port Qasim Karachi. The Company sells electricity produced to its parent company Fauji Fertilizer Bin Qasim Limited (FFBL) (48 Megawatt) and K-Electric Limited (K-Electric) (52 Megawatt) under a Power Purchase Agreement (PPA) for a period of 30 years which commenced from May 19, 2017. The Company also sells steam produced from the facility to its parent company FFBL under a Steam Supply Agreement (SSA) for a term of 30 years which commenced from May 19, 2017. The registered office of the Company is situated at FFBL Tower, Plot No. C1&C2, Sector B, Jinnah Boulevard, Phase II, DHA, Islamabad.

The Company is a subsidiary of Fauji Fertilizer Bin Qasim Limited (FFBL) and its ultimate parent is Fauji Foundation (FF). The Company commenced its commercial operations on May 19, 2017.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. As per the requirements of circular No. CLD/CCD/PR (11)/2017 dated October 4, 2017 issued by the Securities and Exchange Commission of Pakistan (SECP) companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with provisions of the repealed Companies Ordinance, 1984. Accordingly, approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 The Securities and Exchange Commission of Pakistan (SECP) granted waiver from the application of IFRIC interpretation 4 "Determining whether an Arrangement Contains a Lease" to all companies including power sector companies. However, the SECP has made it mandatory to disclose the impact of the application of IFRIC - 4 on the results of the Company.

Under IFRIC 4, the consideration required to be made by lessees FFBL and K-Electric for the right to use the asset is to be accounted for as finance lease under IAS - 17 "Leases". If IFRIC 4 is applied, the effect on the financial statements would be as follows:

	2017	2016
	Rs ('000)	
Increase in unappropriated profit at the beginning of the year	-	-
Increase in profit for the year	780,256	-
Increase in unappropriated profit at the end of the year	780,256	-

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3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards 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 historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgement was exercised in application of accounting policies are as follows:

i) Estimated useful life and residual value of property, plant and equipment - note 4.3
ii) Provision for taxation - note 4.17
iii) Staff retirement benefits - note 4.16.1

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in respective accounting policies.

4.2 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Pakistani Rupees, the Company's functional and presentation currency.

4.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses except to capital work in progress which stated at cost. Cost of plant and equipment consists of historical cost, borrowing cost pertaining to erection/construction period of qualifying assets, other directly attributable cost of bringing the asset to working condition and cost of dismantling and removing the items and restoring the site on which they are located.

Depreciation on property, plant and equipment is charged to profit and loss account applying the straight line method so as to write off the cost/depreciable amount of the assets over their estimated useful lives at the rates given in note 11.1.

Depreciation on additions is charged for the full month in which an asset is available for use and on disposals up to the month immediately preceding the disposals. Gains and losses on disposals are taken to the profit and loss account.

The residual value, depreciation method and the useful lives of the significant items of property, plant and equipment are reviewed and adjusted, if required, at each balance sheet date.

4.4 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to depreciation / amortisation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Reversals of the impairment losses are restricted to the extent that assets carrying amount does not exceed carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. An impairment loss or reversal of impairment loss is recognised in the profit and loss account.

4.5 Stock in trade

Stock in trade is valued at lower of cost, calculated on weighted average cost basis and net realisable value. Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management's best estimate. Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

4.6 Stores and spares

These are valued at lower of weighted average cost and net realizable value, less provision for slow moving and obsolete items, if any.

4.7 Trade and other receivables

Raw material consumed include Rs 199,348 thousand (2016: Rs Nil) charged by FFBL, parent company.

4.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest rate method.

4.9 Borrowing costs

Interest, mark up and other charges on long term finances are capitalised up to date of commissioning of respective qualifying assets acquired out of the proceeds of such long term finances. All other interest, markup and other charges are recognised in profit and loss account. Qualifying assets are assets that necessarily take substantial period of time to get ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing cost eligible for capitalisation.

4.10 Trade and other payables

Liabilities for trade and other accounts payable are carried at amortised cost, which approximates the fair value of consideration to be paid in the future for the goods and/or services received, whether or not billed to the Company.

4.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances at banks and short term highly liquid investments with original maturity of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

4.12 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 will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimates.

4.13 Revenue Recognition

Revenue represents fair value of the consideration received or receivable for steam and electricity sale to FFBL and K-Electric. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably.

Revenue from generation of electricity and steam is recorded based upon the output delivered whereas on account of capacity is recognized when due, on the basis of rates determined in accordance with the mechanism laid down in PPA/SSA and NEPRA notifications.

4.14 Interest on bank deposits and short term investments

Interest on bank deposits and short term investments is recognised on time proportion basis using the effective yield method.

4.15 Foreign currency transactions and translation

Transactions in foreign currency are accounted for at exchange rates prevailing on the date of transaction. All monetary assets and liabilities denominated in foreign currencies at the year-end are translated at exchange rates prevailing at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Exchange differences are included in profit and loss account for the year.

4.16 Staff retirement benefits

4.16.1 Defined benefit scheme

The Company operates an unfunded gratuity scheme covering employees eligible as per their term of appointment. Previously, the Company was providing for its liability for staff gratuity on the basis of one month gross salary for each completed year of service at the balance sheet date. From the current year, the liability for staff gratuity is based on actuarial valuation carried out as at December 31, 2017 using Project Unit Credit method, related details of which are given in note 7 to the financial statements. Actuarial valuation determined a liability of Rs 6,057 thousand against a provision of Rs 3,178 thousand as at December 31, 2016. Excess of liability against provision as determined by actuary of Rs 2,879 thousand has been recognised during the year in the statement of comprehensive income and comparative figures have not been restated due to immaterial impact.

4.16.2 Defined contribution plan

The Company operates a funded provident fund plan for its employees. Equal monthly contributions are made by the employees and the Company respectively at the rate of 10% of basic salary. Company's contribution for the year was Rs 14,639 thousand (2016: Rs 6,709 thousand).

4.17 Taxation

Current

The profits and gains of the Company derived from electric power generation are exempt from tax in terms of Clause (132) of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the conditions and limitations provided therein. Under clause (11A) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001, the Company is also exempt from levy of minimum tax on 'turnover' under section 113 of the Income Tax Ordinance, 2001 to the extent of receipts from sale of electricity.

However, full provision is made in the profit and loss account on income from sources not covered under the above clauses at current rates of taxation after taking into account, tax credits and rebates available, if any.

Deferred

Deferred Taxation

Deferred tax has not been provided in these financial statements as the Company's management believes that temporary differences will not reverse in the foreseeable future due to the fact that the profits and gains of the Company are exempt from tax.

4.18 *Financial instruments*

Financial assets

Recognition and measurement

Financial assets are recognized on the trade-date i.e. the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to profit and loss account. Financial assets are derecognized 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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account.

Classification

The Company classifies its financial assets in the following categories: held to maturity, financial assets at fair value through profit or loss, available for sale investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Held to maturity

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held to maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less impairment losses, if any.

Financial assets 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.

Loans and receivables

Loans and receivables are 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. These are classified as non-current assets. The Company's loans and receivables comprise 'Advances, prepayments and other receivables', 'short term investments' and ' cash and bank balances' in the balance sheet. Loans and receivables are recorded at amortized cost using the effective interest method less allowance for any doubtful amounts.

Available-for-sale financial assets

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 period.

Financial liabilities

The Company initially recognizes financial liabilities on the date that they are originated or the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

4.19 Off setting

Financial assets and liabilities are offset and net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Company intends either to settle on net basis, or to realise the assets and to settle the liabilities simultaneously.

4.20 Adoption of new and revised standards and interpretations

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company.

		Effective date (annual periods beginning on or after)
IAS 28	Investment in associates and joint ventures (Amendments)	January 1, 2018
IAS 40	Investment Property (Amendments)	January 1, 2018
IFRS 2	Share-based Payment (Amendments)	January 1, 2018
IFRS 4	Insurance Contracts (Amendments)	January 1, 2018
IFRS 9	Financial Instruments	July 1, 2018
IFRS 15	Revenue from Contracts with Customers	July 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

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The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the financial statements other than in presentation/disclosures.

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan, for the purpose of their applicability in Pakistan:

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 14	Regulatory Deferral Accounts
IFRS 16	Leases
IFRS 17	Insurance Contracts

The following interpretations issued by the IASB have been waived off by SECP:

IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 12	Service Concession Arrangements

5. SHARE CAPITAL

AUTHORISED SHARE CAPITAL	**2017**	**2016**
	(Rupees '000)	
900,000,000 (2016: 900,000,000) ordinary shares of Rs10 each	**9,000,000**	**9,000,000**
ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
858,750,000 (2016: 728,750,000) ordinary shares of Rs 10 each issued for consideration in cash	**8,587,500**	**7,287,500**

5.1 Movement in number of shares

	2017	**2016**
Number of shares at beginning of the year	728,750,000	689,000,000
Ordinary shares issued during the year	130,000,000	39,750,000
Number of shares at end of the year	**858,750,000**	**728,750,000**

5.2 Fauji Fertilizer Bin Qasim Limited (FFBL) has a controlling interest in the Company by holding 644,062,491 (75%) ordinary shares as at December 31, 2017 (December 31, 2016: 546,562,491 (75%)).

5.3 Fauji Foundation (FF) holds 214,687,500 (25%) ordinary shares of the Company as at December 31, 2017 (December 31, 2016: 182,187,500 (25%)).

5.4 9 shares (2016: 9 Shares) are held by nominee directors.

6. LONG TERM FINANCE FACILITIES - SECURED

The Company entered into the following long term finance facilities under Commercial and Islamic Facility arrangements.

	2017	2016
	(Rupees '000)	
Commercial facility		
National Bank of Pakistan	3,760,587	3,962,500
United Bank Limited	1,043,948	1,100,000
Bank Alfalah Limited	2,372,610	2,500,000
Soneri Bank Limited	949,044	1,000,000
Bank of Punjab	949,044	1,000,000
NIB Bank Limited	1,423,566	1,500,000
	10,498,799	11,062,500
Islamic facility		
National Bank of Pakistan	949,044	1,000,000
Habib Bank Limited	3,321,654	3,206,840
United Bank Limited	1,043,948	1,100,000
Dubai Islamic Bank Limited	1,423,566	1,500,000
Meezan Bank Limited	1,423,566	1,500,000
Faysal Bank Limited	1,138,853	1,200,000
Sindh Bank Limited	949,044	1,000,000
	10,249,675	10,506,840
Total outstanding	20,748,474	21,569,340
Less:		
Current portion of long term finance facilities	(1,590,646)	(1,100,224)
Unamortised transaction cost of long term finance facilities - note 6.3	(305,614)	(330,394)
	18,852,214	20,138,722

6.1 The Company has entered into long term finance facilities under commercial facility of Rs 11,062,500 thousand and musharika facility of Rs 10,800,000 thousand with various banks/ financial institutions, at an interest / variable rental rate of 3 months KIBOR plus 1.75% per annum.The interest / variable rental rate is payable on quarterly basis. Any delay in payments to banks by the Company is subject to liquidated damages at the rate of applicable interest rate plus 2% per annum. The interest / variable rental is payable on quarterly basis. The loan is repayable in 40 quarterly installments, commencing from June 30, 2017.The total unavailed amount as at December 31, 2017 is Rs Nil (2016: Rs 293,160 thousand). Rs 1,114 million (2016: Rs Nil) has been repaid till December 31, 2017. The Company is also required to maintain certain financing ratios during the period of the facility.

6.2 Facilities mentioned above are secured by way of, inter alia,:

(a) First ranking pari passu charge over:

all the movable and immovable property (excluding land and building) of the Company comprising of present and future fixed assets (excluding land and building) of the obligator with 25% margin; and

ii. all the present and future current assets of the Company excluding the assigned project receivables.

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(b) Assignment of assigned project receivables from K-Electric and FFBL in favor of financiers;

(c) Lien over project accounts opened with various banks;

(d) Undertaking by the Holding Company to fund the following:

i. Uncapped support to fund any payment shortfall i.e. amount less than the required finance payment balance up to technical completion date and thereafter up to financing service cap i.e. up to Rs 8,000 million till project completion date;

ii. In case of event of default and termination before technical completion date uncapped support to fund the payment of the outstanding secured obligations as defined in common term agreement;

iii. Sponsor shall fund 25% of the project costs inclusive of budgeted contingencies, (approx. USD 66.25 million); and

iv. Debt service support up to Rs 300 million per annum (subject to revision due to changes in KIBOR) as result of a shortfall in revenues owing to below par dispatch under the PPA with K-

(e) Share representing 100% of the paid up share capital of the Company have been pledged till achievement of project completion date and thereafter shares not exceeding 51% of the paid up capital.

6.3 Unamortised transaction cost	**2017**	**2016**
	(Rupees '000)	
Opening Balance	330,394	-
Addition during the year	-	330,394
Amortisation during the year	(24,780)	-
Closing balance	305,614	330,394

7. STAFF RETIREMENT BENEFITS

Provision for staff gratuity	22,745	3,178

7.1 Provision for staff gratuity

The details of actuarial valuation of staff gratuity carried out as at year end is as follows:

	2017
	(Rupees '000)
Present value of defined benefit obligation	22,745

The movement in the present value of defined benefit obligation is as follows:

As at January 1, 2017	3,178
Current service cost	16,966
Interest cost	575
Remeasurement gain on present value of defined benefit obligation	(853)
Transitional liability	2,879
As at December 31, 2017	22,745

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	2017 (Rupees '000)
Expenses recognized in profit and loss account:	
Current service cost	16,966
Interest cost	575
	17,541
Expenses recognized in statement of comprehensive income:	
Remeasurement gain on present value of defined benefit obligation	(853)
Transitional liability	2,879
	2,026
Discount rate	9.25%
Salary increase rate	9.25%
Withdrawal rate	Low
Mortality rate	SLIC 2001-05

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarize how these assumptions impact on the defined benefit obligation at the end of the reporting period and would have increased/(decreased) as a result of a change in respective assumptions.

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumptions	Decrease in assumptions
		(Pak Rs '000)	
Discount rate	1%	(2,564)	2,966
Salary increase rate	1%	3,055	(2,679)

The expected staff gratuity cost for the next year is Rs 16,479 thousand.

8. TRADE AND OTHER PAYABLES

	Note	2017	2016
		(Rupees '000)	
Creditors	8.1	1,447,579	8,390
Accrued expenses		868,350	1,189
Retention money payable		106,071	332,785
Provident fund payable		2,532	13,419
Workers profit participation fund		94,372	-
Tax withheld at source		55,498	12,600
Others		29,867	13,553
		2,604,269	381,936

8.1 This includes Rs 160,166 thousand (2016: Rs Nil) payable to FFBL, parent company.

9. SHORT TERM BORROWINGS - SECURED

This represents working capital borrowing obtained from National Bank of Pakistan as approved facility of Rs 2,800 million (2016: Rs Nil) out of which Rs 1,316 million was availed during the year. Unavailed balance of the facility at year end is Rs 1,484 million (2016: Rs Nil). The facility carries markup at 3 months-KIBOR + 0.40 % per annum.

The facilities is secured by way of the following:

a) First exclusive assignment with 20% margin, over present and future energy purchase price receivable under PPA with FFBL, PPA with K-Electric and SSA with FFBL;

b) First exclusive hypothecation charge on all present and future fuel stocks/inventory and spare parts,(whether at sight or in transit) with 20% margin;

c) Lien over all accounts established in connection with the facilities;

d) 2nd ranking hypothecation charge over the present and future fixed assets with 20% margin;

e) Lien over import documentation with respect to d) above, national bank of Pakistan to have clear right of enforcement (subject to a standstill period) in the event of payment default under the Facilities.

10. CONTINGENCIES AND COMMITMENTS

Commitments

(i) Commitments in respect of capital expenditure amounting Rs 309,490 thousand (2016: Rs 2,969,730 thousand).

(ii) The outstanding Letter of Credit's (LC's) at December 31, 2017 in respect of capital expenditure is Rs 194,490 thousand (2016: Rs 1,470,336 thousand) out of total facility of Rs 1,080,561 thousand (2016: Rs 6,426,000 thousand). The aggregate facilities for opening of LC's are secured by lien on valid import documents and undertaking from the parent company, FFBL, for outstanding LC's amounting to Rs 121,925 thousand, in case if the Company is unable to retire the documents through own sources, then FFBL would require to retire the documents. The facility will expire by March 31, 2018.

11. PROPERTY, PLANT AND EQUIPMENT	2017 (Rupees '000)	2016 (Rupees '000)
Operating fixed assets	27,886,881	1,431,075
Capital work in progress	23,511	23,040,553
	27,910,392	24,471,628

11.1 Operating Fixed Assets

	Leasehold land	Buildings on leasehold land	Plant and machinery	Operational vehicles	Furniture and fittings	Other vehicles	Computer and ancillary equipment	Capital work in progress	Total
	(Rupees '000)								
As at January 1, 2016									
Cost	-	-	-	-	5,713	4,706	13,663	12,051,121	12,075,203
Accumulated depreciation	-	-	-	-	(727)	(498)	(5,057)	-	(6,282)
Net book amount	**-**	**-**	**-**	**-**	**4,986**	**4,208**	**8,606**	**12,051,121**	**12,068,921**
Year ended December 31, 2016									
Opening net book amount	-	-	-	-	4,986	4,208	8,606	12,051,121	12,068,921
Additions	1,417,248	-	-	-	86	6,416	650	12,406,680	13,831,080
Transfers	-	-	-	-	-	-	-	(1,417,248)	(1,417,248)
Disposals	-	-	-	-	-	-	-	-	-
Depreciation charge	(4,443)	-	-	-	(577)	(1,554)	(4,551)	-	(11,125)
Closing net book amount	**1,412,805**	**-**	**-**	**-**	**4,495**	**9,070**	**4,705**	**23,040,553**	**24,471,628**
As at January 1, 2017									
Cost	1,417,248	-	-	-	5,799	11,122	14,313	23,040,553	24,489,035
Accumulated depreciation	(4,443)	-	-	-	(1,304)	(2,052)	(9,608)	-	(17,407)
Net book amount	**1,412,805**	**-**	**-**	**-**	**4,495**	**9,070**	**4,705**	**23,040,553**	**24,471,628**
Year ended December 31, 2017									
Opening net book amount	1,412,805	-	-	-	4,495	9,070	4,705	23,040,553	24,471,628
Additions - note 11.1.1	158,584	4,742,458	21,854,117	276,674	12,045	37,753	42,546	3,737,317	30,861,494
Transfers	-	-	-	-	-	-	-	(26,754,359)	(26,754,359)
Disposals									
Cost	-	-	-	-	-	(1,100)	-	-	(1,100)
Accumulated depreciation	-	-	-	-	-	238	-	-	238
	-	-	-	-	-	(862)	-	-	(862)
Depreciation charge	(53,289)	(105,388)	(485,638)	(4,618)	(798)	(3,112)	(14,666)	-	(667,509)
Closing net book amount	**1,518,100**	**4,637,070**	**21,368,479**	**272,056**	**15,742**	**42,849**	**32,585**	**23,511**	**27,910,392**
At December 31, 2017									
Cost	1,575,832	4,742,458	21,854,117	276,674	17,844	47,775	56,859	23,511	28,595,070
Accumulated depreciation	(57,732)	(105,388)	(485,638)	(4,618)	(2,102)	(4,926)	(24,274)	-	(684,678)
Net book amount	**1,518,100**	**4,637,070**	**21,368,479**	**272,056**	**15,742**	**42,849**	**32,585**	**23,511**	**27,910,392**
Annual rate of depreciation (%)	**3.76**	**3.33**	**3.33**	**5**	**10**	**20**	**33**		

11.1.1 Additions to property, plant and equipment includes borrowing cost capitalised of Rs 594, 829 thousand (2016: Rs 970,868 thousand).

11.2 Capital work in progress	2016	Additions	Transfers	2017
	(Rupees '000)			
Plant, machinery and civil works	19,613,749	2,068,346	(21,658,584)	23,511
Insurance	138,824	-	(138,824)	-
Professional services	564,363	250,183	(814,546)	-
Borrowing costs	1,075,895	594,829	(1,670,724)	-
Other directly attributable cost	1,609,569	703,528	(2,313,097)	-
Leasehold land	38,153	120,431	(158,584)	-
	23,040,553	3,737,317	(26,754,359)	23,511

12. STOCK IN TRADE

Coal	779,571	486,777
Limestone	401	-
	779,972	486,777

13. TRADE DEBTS - UNSECURED, CONSIDERED GOOD

This includes Rs 555,991 thousand (2016: Rs Nil) receivable from FFBL, parent company.

14. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2017	2016
		(Rupees '000)	
Advances - Considered good			
Suppliers		18,061	9,083
Customs clearing agent		198,509	5,967
Insurance claim receivable		198,008	-
Sales tax refundable		81,672	445,161
Margin against letter of credit		30,421	347,017
Interest accrued		6,484	2,707
Prepayments		29,701	5,844
Other receivable	14.1	6,285	18,057
		569,141	833,836

14.1 This amount includes Rs 706 thousand (31 December 2016 : Rs 706 thousand) receivable from Fauji Foods Limited, a related party.

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15. SHORT TERM INVESTMENTS

These represent investments in Term Deposit Certificates maturing within 3 months from the date of investment at interest rate ranging from 5.10% to 6.85% per annum (2016: 6% to 7% p.a).

16. CASH AND BANK BALANCES

	Note	2017	2016
		(Rupees '000)	
Cash in hand - local currency		930	20
Cash at bank			
- Local currency current accounts		82,899	34,933
- Local currency deposit accounts	16.1	503,250	464,464
		587,079	499,417

16.1 The balances in deposit accounts carry interest rates ranging from 2.85% to 5.5% (2016: 2.% to 6% per annum).

16.2 Bank balances of Rs 386,835 thousand (2016: Rs 168,485 thousand) are held with banks which are under lien as explained in note 6.

17. SALES

	Note	2017		2016	
		(Rupees '000)			
Sale of electricity					
Energy		2,537,891		-	
Capacity		4,604,356		-	
			7,142,247		-
Sale of steam					
Energy		1,645,335		-	
Capacity		658,064		-	
			2,303,399		-
Less:					
Sales tax		1,337,823		-	
Advance tax u/s 235	17.3	151,101		-	
			1,488,924		-
			7,956,722		-

17.1 National Electric Power Regulatory Authority (NEPRA) approved the PPA with K-Electric vide its letter dated December 19, 2017 subject to incorporation of certain amendments in PPA and requested the Company to submit the finalized version of PPA for its information and record. Currently the PPA with KE has only been initialed by K-Electric. The Company is in the process of incorporating the amendments in PPA and expects to sign the finalised version of PPA with KE and submit to NEPRA in few months. Sales with K-Electric have been recognised in the financial statements on the basis of the above PPA and tariff approved by NEPRA vide its letter dated December 20, 2015, further indexed provisionally vide its letters dated June 20, 2017, July 11, 2017, August 31, 2017 and October 19, 2017. Accordingly, the management believes that finalisation of PPA with KE and incorporation of said amendments in PPA will not have any impact on the current year financial statements.

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17.2 Further, the management of the Company has applied for further revision in tariff based on the actual cost at the Commercial Operation Date. Since the ultimate outcome of NEPRA's decision on tariff revision is uncertain, the differential amount of sales due to change in tariff amount cannot be quantified and would be recognised when it is approved by NEPRA.

17.3 This represents advance income tax collected @ 5% on the gross amount of electricity sales to industrial consumer - FFBL, parent company.

18. COST OF SALES

	Note	2017 (Rupees '000)	2016
Raw material consumed		3,639,960	-
Ash dumping charges		48,194	-
Depreciation		648,933	-
Salaries, wages and other benefits		479,934	-
Insurance		44,403	-
Utilities		37,074	-
Stores & spares consumed		22,428	-
Travelling & lodging		13,170	-
Others		18,251	-
		4,952,347	-

18.1 Raw material consumed include Rs 199,348 thousand (2016: Rs Nil) charged by FFBL, parent company.

19. ADMINISTRATIVE AND GENERAL EXPENSES

	Note	2017	2016
Salaries, wages and benefits		58,051	9,869
Depreciation		18,576	6,682
Travelling and conveyance		7,268	1,944
Legal and professional charges		7,179	2,740
Printing, stationery and subscriptions		1,302	6,354
Fee & subscription		5,924	-
Utilities and communication		8,253	1,354
Repair and maintenance and insurance		4,596	164
Auditor's remuneration	19.1	788	4,046
Others		964	548
		112,901	33,701

19.1 Breakup of auditor's remuneration is as follows:

	2017	2016
Statutory audit fee	385	350
Reporting to group auditors	150	150
Special certifications	188	314
Tax advisory services	-	3,207
Out of pocket expenses	65	25
	788	4,046

20. FINANCE COST

	2017	2016
	(Rupees '000)	
Mark-up on long term finance facilities	1,697,020	854,265
Interest earned on borrowings / finance facilities	(50,991)	(139,822)
Mark-up on short term borrowings	978	256,425
Amortization of transaction cost of long term finance facilities	24,780	-
Exchange loss/(gain)	10,946	(800)
Bank charges	830	940
	1,683,563	971,008
Less: Amount capitalised under capital work in progress	(594,829)	(970,868)
	1,088,734	140

21. OTHER INCOME

	2017	2016
Income from financial assets:		
Interest on bank deposits and short term investments	121,551	139,822
Less: Amount netted off against mark-up on short term borrowings/ long term finance facilities	(50,991)	(139,822)
	70,560	-
Income from non-financial assets:		
Sale of scrap	2,796	10,238
Profit on disposal of fixed assets	148	-
	73,504	10,238

22. TAXATION

	2017	2016
Current tax charge		
- for the year	29,422	36,737
- prior year	12,492	(7,402)
	41,914	29,335

22.1 RECONCILIATION OF TAX CHARGE FOR THE YEAR

	2017	2016
Accounting profit/(loss) for the year	1,781,872	(52,938)
Tax at applicable tax rate of 30%	534,562	(16,411)
Tax effect of exempt income	(505,140)	-
Tax effect of prior year	12,492	(7,402)
Others	-	53,148
	41,914	29,335

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23. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged/capitalised in the financial statements for the year in respect of remuneration, including certain benefits are given below:

	Executives	
	2017	2016
	(Rupees '000)	
Managerial remuneration	106,985	76,439
Allowances		
House rent	94,744	68,795
Contribution to provident fund	10,189	3,462
Bonus	44,404	-
Utilities	9,206	7,644
	265,528	156,340
Number of persons	96	86

23.1 No remuneration was charged in the financial statements in respect of Chief Executive Officer.

23.2 The aggregate amount charged in these financial statements in respect of directors meeting fee was Rs 660 thousand (2016: Rs 465 thousand). No other remuneration was paid to the directors.

23.3 Certain executives are also provided with the use of company maintained car and fuel in accordance with the terms of their employment.

24. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non derivative financial instruments and investment of excess liquidity.

(a) MARKET RISK

(i) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

Financial liabilities include Rs 1,269,283 thousand (2016: Rs 35,798 thousand) which were subject to currency risk.

The following significant exchange rates were applied during the year:

	USD	EURO	CHF
		2017	
Average rate	105.5	119.94	107.5
Reporting date rate	110.5	131.97	112.9
		2016	
Average rate	104.7	112.4	104.3
Reporting date rate	104.8	110.3	102.7

At December 31, 2017, if the currency had weakened or strengthened by 10% against the above mentioned foreign currencies with all other variables at constant, profit before tax would have been Rs 126,928 thousand (2016: Rs 2,470) lower /higher.

(ii) Other Price Risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to equity price risk as it does not have any investments in equity securities.

(iii) Interest rate risk

This represents the risk than the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

Floating rate instruments	**2017**	**2016**
	(Rupees '000)	
Financial assets		
Short term investments	2,900,000	2,635,000
Bank balances	503,250	464,417
Financial liabilities		
Short term borrowings	1,316,000	-
Long term finance facilities	20,748,474	21,569,340

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit loss taxation for the year would have been Rs 199,043 thousand (2016: Rs 127,442 Thousand) lower / higher, mainly as a result of higher / lower interest expense on floating rate financial instruments. This analysis is prepared assuming the amounts of financial instruments outstanding at balance sheet dates were outstanding for the whole year.

(b) CREDIT RISK

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2017	**2016**
	(Rupees '000)	
Trade debts - unsecured, considered good	1,382,058	-
Advances and other receivables	241,198	367,781
Short term investments	2,900,000	2,635,000
Bank balances	586,149	499,397

The credit quality financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate.

	Rating				
	Short Term	**Long Term**	**Agency**	**2017**	**2016**
				(Rupees '000')	
Trade debts:					
Counterparties with external credit rating					
K-Electric Limited	AA	A1+	PACRA	823,758	
Counterparties without external credit rating					
FFBL- parent company				555,018	-
Others				3,282	
				1,382,058	-
Advances and other receivables:					
Counterparties with external credit rating					
Margin for letter of credit					
National Bank of Pakistan	A1+	AAA	PACRA	-	280,000
Habib Bank Limited	A-1+	AAA	JCR-VIS	30,421	30,526
NIB Bank Limited	A1+	AA-	PACRA	-	36,418
Meezan Bank Limited	A-1+	AA	JCR-VIS	-	73
				30,421	347,017

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	Rating Short Term	Long Term	Agency	2017 (Rupees '000)	2016
Interest income receivable					
Counterparties with external credit rating					
Meezan Bank Limited	A-1+	AA	JCR-VIS	-	77
JS Bank Limited	A1+	AA-	PACRA	-	2,630
Silk Bank Limited	A-2	A-	JCR-VIS	891	-
National Bank of Pakistan	A1+	AAA	PACRA	4,287	-
Habib Bank Limited	A-1+	AAA	JCR-VIS	1,164	-
MCB Bank Limited	A-1+	AAA	PACRA	143	-
				6,484	2,707
Counterparties with external credit rating					
Insurance claim receivable	-	AA+	PACRA	198,008	-
Counterparties without external credit rating					
Other receivable - with no default in the past				6,285	18,057
				241,198	367,781
Short term investments:					
Counterparties with external credit rating					
Meezan Bank Limited	A-1+	AA	JCR-VIS	250,000	235,000
JS Bank Limited	A1+	AA-	PACRA	1,050,000	2,400,000
Silk Bank Limited	A-2	A-	JCR-VIS	1,000,000	-
National Bank of Pakistan	A1+	AAA	PACRA	400,000	-
Dubai Islamic Bank	A-1	AA-	JCR-VIS	200,000	-
				2,900,000	2,635,000
Banks balances:					
Counterparties with external credit rating					
National Bank of Pakistan	A1+	AAA	PACRA	248,407	168,485
Habib Bank Limited	A-1+	AAA	JCR-VIS	313,333	58,432
NIB Bank Limited	A1+	AA-	PACRA	-	231,418
Meezan Bank Limited	A-1+	AA	JCR-VIS	56	4,407
JS Bank Limited	A1+	AA-	PACRA	2	1,722
United Bank Limited	A-1+	AAA	JCR-VIS	19,321	34,933
Silk Bank Limited	A-2	A-	JCR-VIS	5,030	-
				586,149	499,397

Due to Company's standing business relationships with these counter parties and after giving due consideration to their strong financial status, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As at December 31, 2017, the Company has available Rs 1,418,000 thousand (2016: 293,160 thousand) short term /long term facility from financial institutions, short term investments of Rs 2,900,000 thousand (2016: Rs 2,635,000 thousand) and Rs 587,079 thousand (2016: 499,417 thousand) cash and bank balances. The management believes the liquidity risk to be low. Following are the contractual maturities of financial liabilities, including interest payments. The amounts disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at December 31, 2017

	Carrying Amount	Less than one year	One to five years	More than five years
	(Rupees '000)			
Non-derivative financial liabilities:				
Trade and other payables	2,571,393	2,571,393	-	-
Accrued mark up on borrowings	9,780	9,780	-	-
Long term finance facilities	20,442,860	1,590,645	8,458,685	10,393,530
	23,024,033	4,171,818	8,458,685	10,393,530

Contractual maturities of financial liabilities as at 31 December 2016

	Carrying Amount	Less than one year	One to five years	More than five years
	(Rupees '000)			
Non-derivative financial liabilities				
Trade and other payables	372,514	372,514	-	-
Accrued mark up on borrowings	243,893	243,893	-	-
Long term finance facilities	21,238,946	1,100,224	9,084,803	11,053,919
	21,855,353	1,716,631	9,084,803	11,053,919

Financial instruments by categories

	2017	**2016**
Financial assets	**(Rupees '000)**	
Loans and receivable:		
Maturity upto one year		
Trade debts - unsecured, considered good	1,382,058	-
Advances and other receivables	241,198	367,781
Short term investments	2,900,000	2,635,000
Cash and bank balances	587,079	499,417
	5,110,335	3,502,198

	2017	2016
Financial liabilities	(Rupees '000)	
Other financial liabilities		
Maturity upto one year		
Trade and other payables	2,571,393	372,514
Current portion of long term finance faculties	1,590,646	1,100,224
Accrued markup on finance facilities and borrowings	9,780	243,893
Short term borrowings	1,316,000	-
	5,487,819	1,716,631
Maturity after one year		
Long term finance facilities	18,852,214	20,138,722
	24,340,033	21,855,353

Mark up/interest rate on interest bearing assets/liabilities has been disclosed in respective notes.

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain as optimal capital structure to reduce the cost of capital. Under the long term finance facility arrangements, the Company is required to maintain a debt to equity rate of less then or equal to 75:25.

25. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Fauji Fertilizer Bin Qasim Limited (FFBL) with 75% holding. The parent company is an associate of Fauji Fertilizer Company Limited (FFCL) with 49.88% holding. FFCL is sponsored by Fauji Foundation (FF) which holds 17.29% shares in the holding company and 25% shares of the Company. Therefore, all subsidiaries and associated undertakings of FF, FFCL and FFBL are related parties of the Company. The Company has related parties which comprise of entities under common directorship, directors and key management personnel. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	2017	2016
	(Rupees '000)	
Parent Company - FFBL		
Shares issued during the year	975,000	298,125
Salaries, wages and other benefit costs charged	57,603	197,312
Raw materials purchased	199,348	-
Utilities and other costs charged	388,088	296,777
Sale of electricity power and steam	5,074,670	-
Purchase of vehicles	28,895	
Sale of lease hold land at Port Qasim for the project	-	1,300,000
Ultimate parent - Fauji Foundation		
Shares issued during the year	325,000	99,375
Associates		
Profit on bank deposit - Askari Bank Limited	-	6
Transfer of coal - Fauji Foods Limited	-	706

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26. PROVIDENT FUND TRUST

FFBL Power Company Limited Employee's Provident Fund (the Fund) is a contribution plan for benefit of permanent employees of the Company. The fund was established on October 27, 2016 and separate bank account was opened on April 4, 2017. Contributions to the Fund are made on equal basis by the Company and employees. The details based on un-audited financial statements of the Fund are as follows:

	2017	2016
	(Rupees '000)	
Size of the fund	78,427	13,419
Cost of investments made	75,895	-
Percentage of investments made (%)	97%	-
Fair value of investments	81,456	-
Breakup of investments at fair value:		
Deposit accounts	81,456	-

27. CAPACITY AND PRODUCTION

	2017	2016
	MEGAWATT	
Electricity		
Installed capacity based on 5,448 hours	414,048	N.A
Actual energy delivered	356,751	N.A
	METRIC TON	
Steam		
Installed capacity based on 5,448 hours	1,089,600	N.A
Actual steam delivered	952,690	N.A

28. CORRESPONDING FIGURES

"Provision for staff gratuity" amounting to Rs 3,178 thousand have been reclassified from "Trade and other payables" to "Staff retirement benefits" to conform to current year's presentation.

29. GENERAL

29.1 Figures have been rounded off to the nearest thousand rupees.

29.2 NUMBER OF EMPLOYEES

	2017	2016
Total number of employees at end of the year	310	228
Average number of employees for the year	297	162

29.3 DATE OF AUTHORIZATION

These financial statements were authorized for issue on ______________________ by the Board of Directors of the Company.

CHAIRMAN CHIEF EXECUTIVE DIRECTOR CHIEF FINANCIAL OFFICER

DIRECTOR's REVIEW REPORT - FFBL POWER COMPANY LIMITED

Directors' Report

The Board of Directors' is pleased to present Operational and Financial overview of FFBL Power Company Limited (FPCL) along with the audited Financial Statements of the Company and the Auditors' report thereon for the year ended 31 December 2017.

Principal Activity

FPCL was incorporated as a Public Limited Company on 27 June 2014 with Fauji Fertilizer Bin Qasim Limited and Fauji Foundation subscribing to 75% and 25% of the total paid-up capital, respectively. The principal activity of the Company is to Build, Own and Operate a Coal Based Power Generation Facility at Port Qasim Karachi with a Gross Capacity of 118 MW. The Company commenced its Commercial Operation on 19 May 2017.

Financial Results

During the year ended 31 Dec 2017 the Company has recorded Revenue amounting to PKR 7,957 Million against Cost of Sales of PKR 4,952 Million. Profit after Taxation stood at PKR 1,740 Million as against Loss of PKR 52.9 Million posted during the last financial year resulting in Earnings per share (EPS) of PKR 2.14 (2016: LPS PKR 0.07).

Increase in the Fixed Assets of PKR 3,439 Million is attributable to the capitalization of Property, Plant & Equipment from Capital Work in Progress.

Current assets mainly comprise of Stock-in-Trade amounting to PKR 780 Million, Trade Debt amounting to PKR 1,382 Million includes receivable from FFBL (PKR 556 Million) and K–Electric (PKR 824 Million). Advances, pre-payments & other receivables amounting to PKR 569 Million include receivable from Adamjee Insurance PKR 198 Million on account of revenue loss. Short Term Investments comprise of Term Deposits Receipts of PKR 2,900 Million.

Current Liabilities mainly comprises of Payable to Coal Supplier PKR 1,219 Million, Payable to FFBL PKR 160 Million, Retention Money payable amounting to PKR 106 Million and PKR 1,591 Million being the current portion of Long Term Finance Facilities. Short Term Borrowing of PKR 1,316 Million was availed during the year.

The first three principal repayments under the Long Term Finance Facilities amounting to PKR 1,114 Million have been paid during the year ended 31 Dec 2017. Outstanding Long Term Finance Facilities as at 31 Dec 2017 amount to PKR 20,748 Million.

Operational Results

The Company successfully achieved Commercial Operations (COD) on May 19, 2017. During the year the Company delivered Electricity of 75,060 MWh (68% of Budget and 57.4% of installed capacity) to Fauji Fertilizer Bin Qasim Ltd and 281,691 MWh (103% of Budget and 99.4% of installed capacity) to K-Electric Ltd. The Company has also delivered 952,690 Metric Tons (95% of Budget and 87.4% of installed capacity) of Steam to Fauji Fertilizer Bin Qasim Ltd.

The demand of electricity has always been on the rise and the trend is expected to remain the same. Though the Government of Pakistan has been actively pursuing various Power Projects to bridge the gap of demand and supply and many projects being in the pipeline, the gap is not expected to close in the near future.

Internal Control System

The company management has adopted good internal control policies and procedures to achieve its objective of efficient conduct of business operations. Internal Audit function has also been setup by the board which reports to the Audit Committee.

Board of Directors

The Board exercises the power conferred to it by the Companies Act, 2017 and the Memorandum and Articles of Association of the Company, through Board meetings, which are held in every quarter for reviewing and approving the adoption of Company's Financial Statements, formulating strategies, providing guidance to the Company's Management and monitoring their performance.

List of Directors

a. **Lt Gen Syed Tariq Nadeem Gilani, HI (M), (Retd)**
b. **Lt Gen Javed Iqbal, HI (M),(Retd)**
c. **Lt Gen Shafqaat Ahmed, HI (M), (Retd)**
d. **Maj Gen Tahir Ashraf Khan, HI (M), (Retd)**
e. **Mr Qaiser Javed**
f. **Dr Nadeem Inayat**
g. **Syed Aamir Ahsan**
h. **Mr. Anwar Mahmood Shahid**
i. **Brig Raashid Wali Janjua (Retd)**

Pattern of Shareholding

Categories	No of Shares	%
Directors, CEO and their spouses	9	
Fauji Fertilizer Bin Qasim Limited (FFBL)	644,062,491	75%
Fauji Foundation (FF)	214,687,500	25%

Acknowledgements

The Board acknowledges and appreciates with thanks the continued efforts and contributions of all stakeholders in smooth operations of the Company and expects the same to continue in the future.

For and on behalf of the Board

Lt Gen Syed Tariq Nadeem Gilani, HI (M), (Retd)
Chairman

Lt Gen Javed Iqbal, HI (M), Retd
Chief Executive & Managing Director

Islamabad
January 25, 2018