

**DIRECTOR'S REVIEW REPORT - FFBL POWER COMPANY LIMITED**  
**Year Ended December 31, 2018**

**Director's Report**

The Board of Directors is pleased to present Operational and Financial overview of FFBL Power Company Limited (FPCL) along with the Audited financial information of the Company for the year ended December 31, 2018.

**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 Period the Company delivered Electricity of 151,537 MWh (98.38% of Budget) to Fauji Fertilizer Bin Qasim Ltd and 408,902 MWh (105.35% of Budget) to K-Electric Ltd. The Company has also delivered 1,453,282 Metric Tons (92.80% of Budget) 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.

Current assets mainly comprise of Stock-in-Trade amounting to PKR 1,405 Million, Trade Debt amounting to PKR 1,196 Million includes receivable from FFBL (PKR 883 Million) and K-Electric (PKR 256 Million). Advances, prepayments & other receivables amounting to PKR 599 Million includes receivable from FFBL (PKR 86 Million) and Short Term Investments comprise of Special Musharika Certificates and Interest Receivable of PKR 312 Million.

Current Liabilities mainly comprises of Payable to Coal Supplier PKR 533 Million, Payable to FFBL PKR 87.3 Million, Retention Money payable amounting to PKR 49 Million and PKR 1,719 Million being the current portion of Long Term Finance Facilities.

The seventh principal repayment under the Long Term Finance Facilities amounting to PKR 409 Million has been paid during the quarter ended 31 Dec 2018. Outstanding Long Term Finance Facilities as at 31 Dec 2018 amount to PKR 17,438 Million.

### **Operational Results**

During the Period the Company delivered Electricity of 151,537 MWh (98.38% of Budget) to Fauji Fertilizer Bin Qasim Ltd and 408,902 MWh (105.35% of Budget) to K-Electric Ltd. The Company has also delivered 1,453,282 Metric Tons (92.80% of Budget) of Steam to Fauji Fertilizer Bin Qasim Ltd.

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### **Internal Control System**

The company's management has adopted 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.

### **Significant Risks**

#### **1. Merit Order Risk**

- The dispatch of electricity by FPCL to KE is subject to Merit Order Criteria as per NEPRA's decision. To determine the position in merit order dispatch, fuel cost and variable operation & maintenance cost of all power plants connected with KE is taken into consideration. Merit of electricity dispatch to KE is subject to the cheapest fuel cost and variable operation & maintenance cost offered by the pool of power producers i.e. Lowest Fuel and O&M cost power producer to be dispatched at first priority.
- The associated risk is FPCL not falling under merit order for KE and unable to dispatch electricity due to merit order constraint in KE system resulting in non-recovery of Capacity payments.
- Merit Order risk has been assessed to be limited due to the following protections available to the Company:

- ✓ Relatively high position in KE's merit order along with dispatch guarantees from KE;
- ✓ The risk is mitigated unless coal power plants with higher efficiency comes online under KE tariff and reach high in the economic merit order.

## **2. Uncertainty over Fuel Supply (Coal)**

- In case of shortage / non-availability of coal, the Company cannot declare its availability to the power purchasers i.e. K-Electric and FFBL which can lead to non-recovery of Capacity payments. Furthermore, increase in coal price can also affect the profitability of the Company.
- The Company is adequately insulated against both risks i.e. shortage / non-availability of coal for production and price in coal price risk. The mitigation available to the Company is as under:
  - Plant has the capacity to operate on imported and locally produced coal through which production loss risk can be managed;
  - Confirm supplies under long-term supply contract with one of the leading international coal suppliers;
  - In case coal supplier is unable to supply coal, FPCL is allowed to purchase coal from any alternate source to meet its requirements and the differential in price i.e. price allowed under the tariff to be passed on to the power purchaser vs price charged by spot sale supplier shall be recovered from the coal supplier under long-term supply contract.
  - Coal price risk exposure is mitigated since the actual cost of coal purchase by FPCL is allowed to be recovered from the power purchaser i.e. KE and FFBL as per the Power / Steam Purchase Agreement(s) tariff subject to achieving the PPA stipulated parameters of heat rate.

### **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 of the Company**

- Lt Gen Syed Tariq Nadeem Gilani, HI (M), (Retd)
- Lt Gen Javed Iqbal, HI (M),(Retd)
- Lt Gen Tariq Khan, HI (M), (Retd)
- Dr. Nadeem Inayat
- Mr. Rehan Laiq
- Maj Gen Tahir Ashraf Khan, HI (M), (Retd)
- Brig Raashid Wali Janjua (Retd)
- Syed Aamir Ahsan
- Mr. Anwar Mahmood Shahid

#### Pattern of Shareholding

Categories	No. of Shares	%
Directors & CEO	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 29, 2019