

PAKGEN POWER LIMITED



DIRECTORS' REPORT OF PAKGEN POWER LIMITED

The Directors are pleased to present the Annual Report and the audited financial statements of the Company for the year ended December 31, 2017 together with the auditors' report thereon.

GENERAL

Pakgen Power Limited ("the Company") was incorporated in Pakistan on 22 June 1995 under the Companies Ordinance, 1984. The shares of the Company are listed on the Pakistan Stock Exchange. The principal activities of the Company are to own, operate and maintain an oil fired power station ("the Complex") with a dependable capacity of 350 MW against a gross capacity of 365 MW in Mehmood Kot, Muzaffargarh, Punjab, Pakistan. The Sole purchaser of the power is Central Power Purchasing Agency (CPPA).

FINANCE

We report that during the year 2017 the total sales revenue of the Company was Rupees 19.755 billion (2016: Rupees 16.044 billion) and operating costs were Rupees 17.772 billion (2016: Rupees 14.728 billion), resulting in gross profit of Rupees 1.983 billion (2016: Rupees 1.316 billion). The Company earned a net profit of Rupees 1.314 billion resulting in earnings per share of Rupees 3.53 per share as compared to a net profit of Rupees 516.890 million and earnings per share of Rupees 1.39 last year.

Other reason for variation in net profit for period ended 31st Dec, 2017 in Comparison with period ended 31st Dec, 2016 is increase in delta loss by Rupees 154.029 Million.

OPERATIONS AND SIGNIFICATE EVENTS:

In response to load demanded by CPPA, the Pakgen plant operated at capacity factor of 50.0% with an average load factor of 64.0% and an average complex availability of 99.4% and dispatched 1,523.441GWh of electricity. The Company continues to allocate funds on various improvement projects towards the ongoing modernization of the plant in order to ensure its long term integrity and maximum availability for our customer CPPA.

Due to induction of new power generation plants based on hydel energy, coal and RLNG at a lower price, it is expected that Lalpir will be dispatched in peak demand seasons and in case of interruption of supply of RLNG, low water months only. This will help Company reduce its fuel losses.

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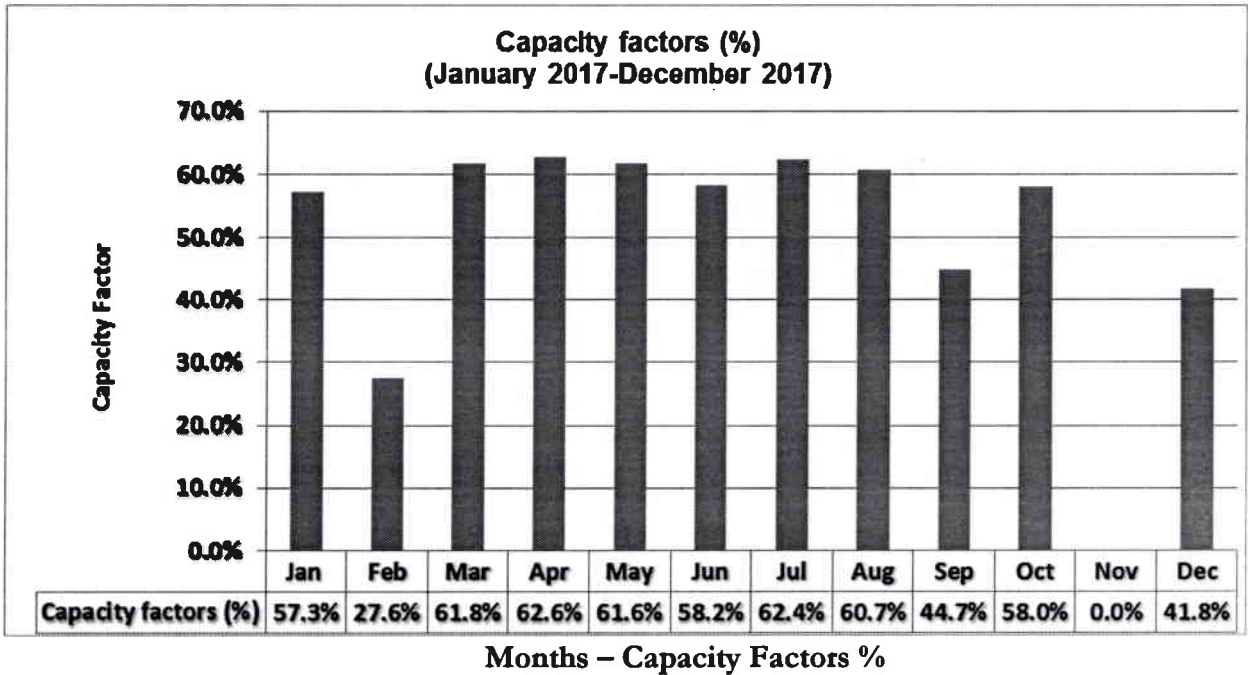
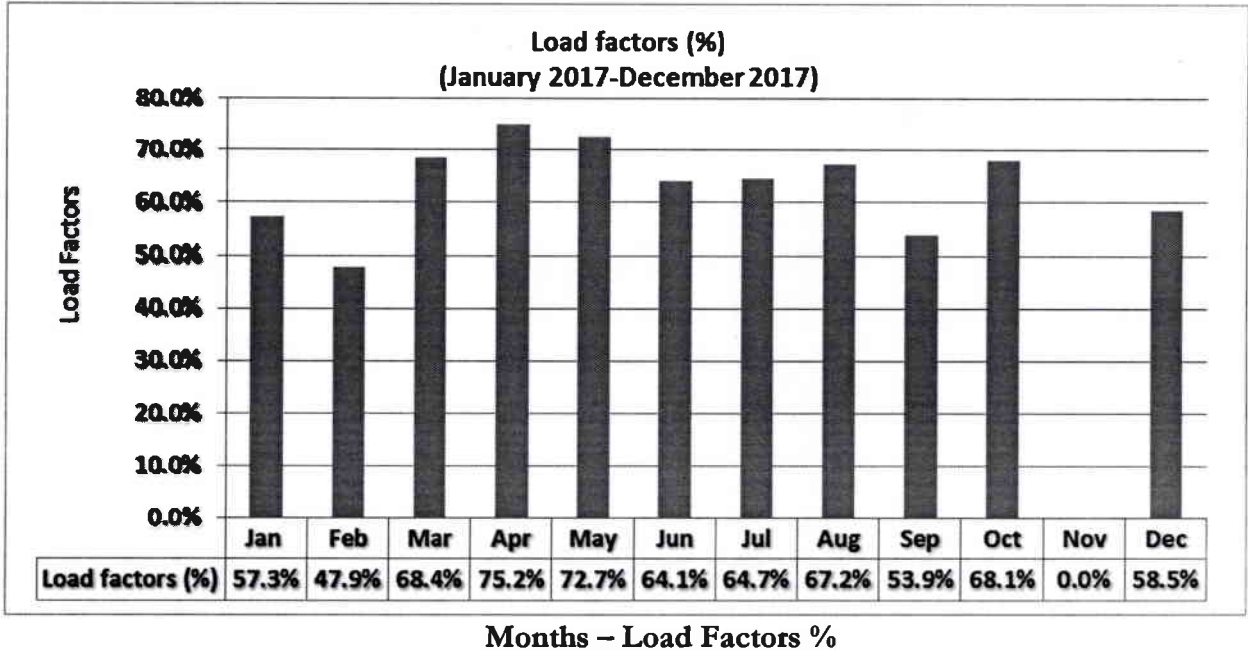
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OPERATIONS AND SIGNIFICANT EVENTS:

Our sole customer CPPA Central Power Purchasing Agency remains unable to meet its obligations in accordance with the Power Purchase Agreement (PPA) which are secured under a sovereign guarantee of Government of Pakistan. As on 31 December 2017 an amount of Rupees 13.992 billion was outstanding against CPPA of this Rupees 325.344 Million was classified overdue. Despite frequent follow-up with the concerned Ministry of Government of Pakistan it is regretted there has been no improvement in the situation and this has resulted in irregular supply of fuel which has affected Plant Operations. In addition, CPPA has failed to provide its obligatory Letter of Credit for Rupees 62.307 Million as required under the PPA. The Company is persistently pursuing CPPA/NTDC and the Government of Pakistan for early retirement of the entire outstanding amounts. The Company is also pursuing CPPA for establishing the letter of credit as required under its Power Purchase Agreement.

OTHER SIGNIFICANT MATTERS

The Company and CPPA-G appointed former Chief Justice of Pakistan, Justice Tassaduq Husain Jilani as The Expert, under the mechanism given in the PPA. After a comprehensive process including written statements and arguments, The Honourable Expert, on 22 June 2017, issued his conclusions and recommendations. The conclusion upheld Company's position that CPPA-G cannot claim liquidated damages for a caused by CPPA-G. Company has requested CPPA-G to withdraw its invoices for liquidated damages and waiting for a formal response.

ANNUAL CAPACITY TEST

As per the requirement of Power Purchase Agreement (PPA), the Company conducted its Annual Capacity Test on July 21, 2017 whereby it successfully maintained the capacity of 350 MW.

PERFORMANCE IMPROVEMENT

On 30 September 2016, Company had entered into an agreement with General Electric (GE) for their assistance in improvement in plant performance. Due to complexity of the project, progress has been slow. However, Company and General Electric continue to work on possible solutions to achieve the project goals.

CONVERSION TO COAL

There has been no further on converting the existing technology from oil fired to coal fired boiler. Main reason has been government policy to restrict use of imported coal on certain projects only e.g. CPEC. There is recent SBP restriction on local financing for import of large project machinery.

LALPIR SOLAR POWER (PVT) LIMITED:

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The planned 20MWIPP is still on hold for change of financial outlook. However, the approval of the Interconnection Study by NTDC and MEPCO is being followed up.

CREDIT RATINGS

The Company has continuously been receiving “AA” (Double A) as long term rating and “A1+” (A One Plus) as short term rating by PACRA. These ratings reflect the Company's financial management strength and denote very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

HUMAN RESOURCES

During the year, the company approved and implemented revisions in its HR Policy and Service Rules. These were aimed to provide a competence and career management framework to attract and retain high quality human capital. Behavioral conduct was included in annual performance evaluation to encourage positive attitudes and behavior.

INTERNAL AUDIT AND CONTROL:

The board has set up an independent audit function headed by a qualified person reporting to the Audit Committee. The scope of internal auditing within the Company is clearly defined which broadly involves review and evaluation of its' internal control system.

ENVIRONMENT HEALTH AND SAFETY

Pakgen Power Limited is proud of its commitment to protecting the environment and enhancing the health and safety of its employees. We continued our pursuit of Health, Safety and Environment (HSE) excellence remaining true to our corporate values. We recognize and applaud the exceptional efforts of our employees for the work they do to protect the environment and to promote health and safety.

Health and safety excellence, integrated with our business goals, positions our Company for continued leadership and future growth. The Company continues to maintain the safer work place for all of the employees. 'Put Safety First' is among the highest priorities of our Company's management. A complete medical checkup of the employees is carried out every year and where required a full concentration is given to any required medical treatment.

During the year, there was no time lost due to any injury

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND COMMUNITY WELFARE

The Corporate Social Responsibility (CSR) program is an integral part of the Company's business since inception. It revolves around the focused objective to improve the lives of our neighboring communities through direct and indirect programs in the field of health, education, entrepreneurship and skills development partnering with nonprofit organizations and government. As a company, we strive to inspire, enable, and invest in opportunities that accelerate the process of empowering people to work towards eradicating poverty and unemployment.

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CSR Initiatives:

- The company is managing a basic health unit that is fully equipped with emergency facilities and diagnostics laboratory for the local community. Additionally company also arranges special eye camp for the local community on annual basis in collaboration with LRBT.
- Supporting operational expenses to 'CARE Foundation' for the five adopted government schools of local community.
- The Company donated a primary school building to 'The Citizens Foundation (TCF)' and continued its support to upgrade it to metric level.
- The Company is also running a program for the free education to the house maids working in employee's community.
- The company has upgraded many local government institutions like Vocational Training Institute and higher secondary school.

The Company has built/upgraded the infrastructure in the surrounding community like building houses damaged by flood, roads, bridges, drinking water filtration plant etc. on as and when required basis.

- The Company is awarding the scholarships to the deserving students of local community to pursue their professional education.
- Extensive plantation of trees in the surrounding areas.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE 2012

During election of directors held on June 30, 2017 in Extra Ordinary General Meeting, compliance with clause of CGS 2012 relating to composition of the board was ensured. Detail is provided in forthcoming headings.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Company Management is fully cognizant of its responsibility as recognized by the formulated Companies Ordinance provisions and Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP). The following comments are acknowledgement of Company's commitment to high standards of Corporate Governance and continuous improvement.

- 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.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

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- International Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts upon Company's ability to continue as going concern.
- All the directors on the Board are fully conversant with their duties and responsibilities as directors of corporate bodies. The directors were apprised of their duties and responsibilities through orientation courses.
- The key operating and financial data of last six years is attached to the report.

During the year under review, Seven Board of Directors Meetings were held, attendance position was as under:-

Sr.#	Name of Directors	# of Meetings Attended
1	Mian Hassan Mansha (Director/Chairman)	5
2	Mr. Aurangzeb Firoz	6
3	Mr. Shahid Malik	5
4.	Mr. Khawaja Mohammad Younus*	2
4	Mr. Hassan Nawaz Tarar	6
5	Dr. Arif Bashir	6
6	Mr. Badar-ul Hassan	6
7	Mr. Farrukh Afzal **	3
8	Mr. Ghazanfar Hussain Mirza (CEO)	6
9	Mr. Mahmood Akhtar ***	0
10	Mr. Kamran Rasool ****	0

* Mr. Khawaja Mohammad Younus retired on June 30, 2017.

** Mr. Farrukh Afzal elected as director on June 30, 2017.

*** Mr. Mahmood Akhtar Resigned on 08-02-2017 and Mr. Badar ul Hassan appointed in his place on same day

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**** Mr. Kamran Rasool Resigned on 08-02-2017 and Mr. Hassan Nawaz Tarar appointed in his place on same day.

During the year under review, Four Audit Committee Meetings were held, attendance position was as under:-

Sr. #	Name of Member	# of Meetings Attended
1	Mr. Farrukh Ifzal* (Member/ Chairman)	2
2	Mr. Shahid Malik (Member)	2
3	Mr. Aurangzeb Firoz (Member)	4
4	Mr. Khawaja Mohammad Younus* * (Member)	2

* Mr. Farrukh Ifzal appointed as member of Audit Committee on July 10, 2017 and Chairman Audit Committee with effect from January 01, 2018 in place of Mr. Aurangzeb Firoz.

**Mr. Khawaja Mohammad Younus retired on June 30, 2017.

During the year under review, Two Human Resource & Remuneration (HR&R) Committee meeting was held, attendance position was as under:-

Sr.#	Name of Member	# of Meetings Attended
1	Mr. Farrukh Ifzal * Member/Chairman	0
2	Mian Hassan Mansha Member	2
3	Mr. Badar-ul-Hassan Member	2
4	Mr. Ghazanfar Hussain Mirza ** (Resigned) Member	2
5	Dr. Arif Bashir (Resigned) Member	0

* Mr. Farrukh Ifzal appointed as a member in place of Dr. Arif Bashir and Chairman of HR&R Committee in place of Mian Hassan Mansha with effect from January 01, 2018.

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****Dr. Arif Bashir appointed on July 10, 2017 in place of Mr. Ghazanfar Hussain Mirza and ceased to be a member with effect from January 01, 2018**

CORPORATE GOVERNANCE:

The Statement of Compliance with the best practices of Code of Corporate Governance is annexed.

PATTERN OF SHAREHOLDING:

The statement of pattern of shareholding as on 31 December 2017 is attached.

TRADING IN THE SHARES OF THE COMPANY

All the trades in the shares of the listed Company, carried out by its directors, executives and their spouses and minor children during the year ended December 31, 2017 is annexed to this report.

RELATED PARTIES

Related party transactions were placed before the Audit Committee and approved by the Board. These transactions were in line with the requirements of IFRS and the Companies Ordinance, 1984. The Company maintains a record of all such transactions.

APPROPRIATION

The Board of Directors take pleasure to recommend, to the shareholders of the Company for approval in the ensuing Annual General Meeting, a final dividend at the rate of Rupees 1 per ordinary share of Rupees 10/ each (i.e. @ 10%) which will be paid to those shareholders whose names would appear on members' register on the date as mentioned in the notice of AGM.

AUDITORS

The present auditors M/s Riaz Ahmad and Company, Chartered Accountants retired and being eligible, offer themselves for re-appointment for the year 2018. The Audit Committee of the Board has recommended the reappointment of the retiring auditors.

ACKNOWLEDGEMENT

We wish to thank our valuable shareholders, CPPA, financial institutions, lenders, Pakistan State Oil and other suppliers for their trust and faith in the Company and their valuable support that enabled the Company to achieve better results.

We also appreciate the management for establishing a modern and motivating working climate and promoting high levels of performance in all areas of the power plant. We also take this opportunity to thank our executives and staff members for their consistent support, hardworking and commitment for delivering remarkable results and we wish for their long life relationship with the Company.

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For and on behalf of the Board of Directors

Ghazanfar Hussain Mirza
(Ghazanfar Hussain Mirza)

Chief Executive Officer

Lahore: 22 March, 2018

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