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|  | The Hub Power Company Limited         | Capital expenditure, planning and control |
|   | Approved by Board on 18 February 2014 |   |

### Background

Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP) requires the Board of Directors of a listed company to define and implement the policy for capital expenditure, planning and control.

### Purpose

To provide guidelines under which the capital expenditures will be approved and prioritized for the current fiscal year and for next 5 year plan.

This document also provides policy guidance to the management and staff on the assessment of the linkage between the capital expenditure planning, control and the corporate strategy. This will also help to recognize and manage risk and to ensure that capital expenditures are properly monitored and tracked.

### Scope

Capital expenditure planning and management are vital functions for growth and is a key requirement of Code of Corporate Governance. This may have strong future impact on operational efficiencies and return on investment (ROI) and will also help to ensure the value for money is achieved. Capital expenditures are essential to corporate growth. Because capital expenditures have a major impact on cash flow and can encumber corporate funds for years, they require close scrutiny at all levels within a Company. Capital projects must be justified according to such ROI and risk evaluation measures as payback period, internal rate of return, and net present value.

Discretionary capital spending, such as the purchase of furniture, computers, office equipment and vehicle is controlled by restricting spending authority to appropriate levels of responsibility. Hubco is therefore developing systems, procedures and disciplines to manage capital projects and expenditures so that decisions are aligned with corporate objectives.

### Policy


Hubco's capital expenditure planning and control policy is based on integrated capital spending planning process that aligns divisional decisions with corporate financial objectives and accelerate time-to-value.

It also allows managers to plan, execute and forecast capital expenditure in a way that increases accountability, heightens internal control and identify opportunities for spend aggregation and savings.

This robust multidimensional modeling and integrated workflow helps managers to justify major capital projects and forecast project expenditures. Management can ensure that ROI measures are consistent across the Company and "what-if" analysis of proposed shifts in the cost and timing of capital projects are carried out.

### Planning and Control Over Capital Expenditures

In-line with the policy guidance and to ensure the effective planning and control over capital expenditures management shall:

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- Identify and assess capital expenditure requirement and will present complete plan to Board / Board Operations Committee (BOC) for detail technical review. Management will also submit technical feasibility along with recommendation. This plan should also include project ranking based on most critical, critical, normal and future expansion / improvement plan along with priorities.
- Present all IRR driven capital projects to Board Investment Committee (BIC) for their review and onward recommendation to Board for approval.
- Management will also submit the completion time line, expected cost, risk & mitigation, financial impact and bifurcation of capital projects between current year and next 5 year.
- Management will ensure timely reporting and tracking of all approved capital expenditure project and will notify the Board any proposed change(s) in previously submitted plan.
- Management shall maintain and circulate all amendments of Capital expenditure budget.
- Management is responsible to ensure that all capital expenditures must be linked with corporate plan and strategy.

### Reappraisal of Capital Projects

All IRR driven capital projects undertaken by the Company will be subject to reappraisal.

Operations & Finance departments of the Company will be jointly responsible to carry out reappraisal activity and internal audit department will independently review and report their findings to the Board Investment Committee (BIC) before presenting to the Board of Directors (BOD) for review and approval.

Re-appraisal should include, at a minimum, the analysis of the following items by comparing the actual results with the one envisaged at the time of project approval:

1. Internal Rate of Return (IRR)
2. Cost
3. Project start-up date

Forecasted future values should be based upon actual demonstrated data observed. In addition the report should also provide a snapshot on safety and environmental statistics.