ADVICE FOR INVESTORS

THE INVESTORS ARE STRONGLY ADVISED IN THEIR OWN INTEREST TO CAREFULLY READ THE CONTENTS OF THE PROSPECTUS **ESPECIALLY THE RISK FACTORS AT PARA 5.8** BEFORE MAKING ANY INVESTMENT DECISION

PROSPECTUS

Public Offer of Rated, Listed and Secured Diminishing Musharaka Sukuk (KE Sukuk-ul-Shirkah) of up to PKR 7,000 Million (Inclusive of Green Shoe Option of PKR 2,000 Million)

Out of Total Issue of up to PKR 22,000 Million

K-ELECTRIC
Energy That Moves Life

K-Electric Limited

Rate of Return
7-year floating rate instrument @ 3-month KIBOR (Ask Side) Plus 1.0% per annum

Instrument Rating "AA+" (Double A plus)
By JCR-VIS Credit Rating Agency Limited ("JCR-VIS") and Islamic International Rating Agency, Bahrain ("IIRA")

Entity Rating "AA / A-1" (Double A / A One)
By JCR-VIS

Financial Advisor

HBL HABIB BANK حبیب بینک

Lead Arrangers

HBL HABIB BANK حبیب بینک

Meezan Bank The Premier Islamic Bank

Joint Shariah Structuring Advisors

HBL HABIB BANK حبیب بینک

Meezan Bank The Premier Islamic Bank

Approved by the following Shariah Advisory Board*	
Prof. Mufti Muneeb ur Rehman	Dr. Muhammad Imran Ashraf Usmani
Mufti Irshad Ahmad Aijaz	Mufti Muhammad Yahya Asim

** For details please refer to para 2.4 of the Prospectus.*

In order to facilitate investors, Habib Bank Limited is offering electronic submission of applications (e-IPO) to its account holders. HBL account holders can use HBL InternetBanking to submit their applications online via link https://www.hblibank.com. Further, please note that online applications can be submitted 24 hours a day during the Subscription Period which will remain open for three (3) months from the date of subscription i.e. from May 14, 2015 and will close at 12:00 midnight on August 13, 2015. The Subscription Period shall be closed earlier provided full subscription is received before the end of Subscription Period.

PUBLIC SUBSCRIPTION BETWEEN
MAY 14, 2015 – AUGUST 13, 2015 (Both Days Inclusive)
During Banking Hours
(The Subscription Period shall be closed earlier provided full subscription is received before the end of Subscription Period)

SPECIAL NOTICE: From May 14, 2015 – May 28, 2015 Only Individuals and NRPs can apply From May 29, 2015 – August 13, 2015 All investors i.e. Individuals, NRPs and Institutions can apply (For details please refer Para 3.1)

Date of Publication of this Prospectus is May 07, 2015

For further queries you may contact:

Habib Bank Limited
Name: Khurram Shaukat
Phone: (021) 32439400
E-mail: khurram.shaukat@hbl.com

K-Electric Limited
Name: Danyaal Jamal
Phone: (021) 32637133 Ext: 7225
E-mail: danyaal.jamal@ke.com.pk

HBL Islamic Banking
Name: Faizan Ahmed
Phone: (021) 32464828
E-mail: faizan.ahmed@hbl.com

Meezan Bank Limited
Name: Urooj ul Hassan Khan
Phone: (021) 38103500
E-mail: urooj.hasan@meezanbank.com

K-ELECTRIC
Energy That Moves Life

GLOSSARY OF TECHNICAL TERMS AND SUMMARY OF THE ISSUE

3M KIBR/KIBOR	Three-month Karachi Interbank Offered Rate (Ask Side)
ABC	Aerial Bundled Cabling
Allotment basis	First come, first served basis
Azm Certificate Holders	means the following: (a) TFC Holders in relation to issue of redeemable capital amounting PKR 1,200,000,000/- (Pak Rupees One Billion Two Hundred Million) by K-Electric in the form of Term Finance Certificates pursuant to Section 120 of the Companies Ordinance under a Declaration of Trust dated February 14, 2012; and (b) TFC Holders in relation to issue of redeemable capital amounting PKR 500,000,000/- (Pak Rupees Five Hundred Million) by K-Electric in the form of Term Finance Certificates pursuant to Section 120 of the Companies Ordinance under a Declaration of Trust dated February 14, 2012.

Bankers to the Issue

1.	Al Baraka Bank (Pakistan) Limited	11.	Habib Metropolitan Bank Limited
2.	Allied Bank Limited	12.	MCB Bank Limited
3.	Askari Bank Limited	13.	Meezan Bank Limited
4.	Bank Alfalah Limited	14.	NIB Bank Limited
5.	Bank AL Habib Limited	15.	Samba Bank Limited
6.	BankIslami (Pakistan) Limited	16.	Sindh Bank Limited
7.	Burj Bank Limited	17.	Standard Chartered Bank (Pakistan) Ltd.
8.	Dubai Islamic Bank Pakistan Limited	18.	Summit Bank Limited
9.	Faysal Bank Limited	19.	United Bank Limited
10.	Habib Bank Limited		

Base Rate	Average three (3) months Karachi Interbank Offered Rate (KIBOR) prevailing on the rate fixing date. KIBOR used for reference will be taken from Reuters Page “KIBR”, as published at 11:30 am Pakistan Standard Time by the Financial Markets Association (FMA). The daily average of three (3) months “Ask Rate” will be used.
BoD	Board of Directors
Bps	Basis Points (Hundred basis points equal 1 percent)
BQPS – II	Bin Qasim Power Station II
Bridge Financier	Means financial institution who has arranged murabaha facility of up to PKR 3,000,000,000/-
CAGR	Compounded Annual Growth Rate
CAMCE	China CAMC Engineering Co. Ltd.
CAPEX / Capex	Capital Expenditure
CDS	Central Depository System
CDC	Central Depository Company of Pakistan Limited

CEO	Chief Executive Officer
Commencement Date	Means the first calendar day after the Issue Date
Company	K-Electric Limited (“KE” and / or “K-Electric”)
CPPs	Captive Power Plants
Date of Investment	The date when investor’s subscription money is credited into any of the Sukuk collection accounts maintained by any of the KE’s Bankers to the Issue
Denomination of Sukuk	PKR 5,000/-
Dependable Capacity	Gross Dependable Capacity of a generating unit / plant is defined as the highest gross power level that the unit can sustain without any operating or regulatory restrictions
Dissolution Event	Means and includes each of the events listed in para 7.5
Distribution Date(s)	Please refer to Rental Payment Date
DSP	Distribution Service Provider
Early Purchase Option (Call Option)	The Issuer may call the Sukuk, in part or in full, on any profit / rental payment date from the 25th month from the last date of public subscription and on all subsequent profit / rental payment dates, with a prior notice in writing of not less than 45 days to the Trustee and investors
ECC	Economic Coordination Committee
EIA	Enviromental Impact Assessment
Entity Rating	“AA / A-1” (Double A / A One) by JCR-VIS Credit Rating Agency Limited (for details refer to para 6.6.1)
EPC	Engineering, Procurement and Construction
First Rental Payment Date	Means end of third (3rd) month from the Issue Date
FO	Furnace Oil
FSA	Fuel Supply Agreement
GoP	Government of Pakistan
Grace Period	Shall be the Period of 24 months (commencing from the Issue Date) during which no Musharaka Investment Redemption of the instrument shall be made by KE
Green Shoe Option	PKR 2,000 Million
HBL	Habib Bank Limited
HHV	Higher Heating Value
Holding of Sukuk	Sukuk may be held either in physical form or in book entry (scripless) form through CDS of CDC

IBC	Integrated Business Centre
Identified Assets	Please refer to Section 7.1
IIRA	Islamic International Rating Agency, Bahrain
Initial Public Offering (IPO)	Up to PKR 7,000 Million (inclusive of Green Shoe Option of PKR 2,000 Million)
Instrument	Sukuk (Diminishing Musharaka)
Interim Period	The period from the Date of Investment till one day before the Issue Date
Interim Profit	Amount of profit paid for the Interim Period
Instrument Rating	"AA+" (AA plus) by JCR-VIS Credit Rating Agency Limited (For details refer to para 6.6)
Investment Agent	Pak Brunei Investment Company Limited
IPPs	Independent Power Plants
ISE	Islamabad Stock Exchange Limited
Issue	Sukuk Issue through this Prospectus
Issuer	K-Electric Limited ("KE" or the "Company")
Issue Date	September 14, 2015 which will be the first day after the Interim Profit payment

Issue Schedule

Date of opening of Subscription Period	May 14, 2015
Date of closing of Subscription Period	August 13, 2015
Date for payment of the Interim Profit	September 13, 2015
Issue Date	September 14, 2015
Profit Payments Date	Please refer to para 3.15
Musharaka Investment Redemption Date	Please refer to para 3.15
Maturity Date	Please refer to para 3.15

JCR-VIS	JCR-VIS Credit Rating Company Limited
Joint Shariah Structuring Advisors	Habib Bank Limited - Islamic Banking and Meezan Bank Limited
KANUPP	Karachi Nuclear Power Plant
KE	K-Electric Limited
KOEL	Karachi Organic Energy (Private) Limited
KSE	Karachi Stock Exchange Limited
KV	Kilo Volt
K Project	Korangi Project

LIBOR	London Interbank Offered Rate
Listing	Karachi Stock Exchange Limited ("KSE")
LOIs	Letter of Intent
LSE	Lahore Stock Exchange Limited
Meezan	Meezan Bank Limited
Minimum Investment Amount	PKR 10,000/-
MoU	Memorandum of Understanding
Musharaka Assets	Please refer to definition of "Sukuk Assets"
Musharaka Investment Redemption	Sukuk is structured to redeem in 20 equal payments, on quarterly basis. The first such redemption will be due at the end of 27th month from the Issue Date
MW	Mega Watt
NRPs	Non – Resident Pakistanis
NTDC	National Transmission and Despatch Company Limited
Outstanding Sukuk Issue Price	Face amount which is outstanding and payable to the Sukuk holders in respect to the Sukuk at any point of time (excluding the Sukuk for which payment of the Redemption Amount has been made)
p.a	Per Annum
PASMIC	Pakistan Steel Mills Corporation (Pvt.) Limited
PKR or Rs	Pakistani Rupee
PMT	Pole Mounted Transformer
Profit Accrual	From the Date of Investment
Profit Rate	Base Rate plus 100 bps
Profit Payment Frequency	3 Monthly (quarterly in arrears) KE will continue to make rental payment on quarterly basis during the Grace Period. **The first rental payment will fall due and become payable at the end of the third (3rd) month from the Issue Date.**
Pre-IPO	Private Placement of PKR 15,000 Million
PSO	Pakistan State Oil Company Limited
Purpose of the Issue	The proceeds of the Issue will be utilized to prepay certain foreign and local long term debt and to meet the permanent working capital expenditure financing requirements of KE (for details refer to para 3.12)

Registrar & Transfer Agent ("RTA")	Central Depository Company of Pakistan Limited
Rental Benchmark	3M KIBR (Ask Side)
Rental Payment Date	Means the dates on which the Sukuk Holders share in the Rental Payment is to be paid by the Issuer to the Sukuk Holders through the Investment Agent in accordance with the Agreement
Rental Payment Notice	Means the notice to be issued by the Investment Agent to the Issuer on the Commencement Date and thereafter on each Rental Review Date
Rental Review Date	Means the date on the business day prior to the commencement of each rental period (other than the period commencing from the first subscription date of Sukuk and ending on the Issue Date)
Rental Term	Mean a period of eighty four (84) months comprising twenty eight (28) rental periods commencing from the Commencement Date
Risk Factors	For details refer to para 5.8
SCADA	Supervisory Control and Data Acquisition
SCRA	Special Convertible Rupee Account
SECP	Securities & Exchange Commission of Pakistan
Security	Sukuk have been secured by way of: i. First pari passu hypothecation charge on hypothecated assets amounting to PKR 29,333,333,334/- inclusive of 25% margin (as per the valuation dated June 15, 2013) ii. First pari passu hypothecation charge on the specific hypothecated receivables, accounts and deposits. (For details refer to para 7.2)
SEPCO	Shandong Electric Power Construction Company
Shariah Advisory Board to the Issue	1. Prof. Mufti Muneeb ur Rehman 2. Dr. Muhammad Imran Ashraf Usmani 3. Mufti Irshad Ahmad Aijaz 4. Mufti Muhammad Yahya Asim
SSGC	Sui Southern Gas Company Limited
Stock Exchange	Karachi Stock Exchange Limited
Subscription Period	Three (3) months
Sukuk Issue or Total Issue Size	Up to PKR 22,000 Million (inclusive of Green Shoe Option of PKR 2,000 Million)
Sukuk Assets	Please refer to Para 7.1
S Project	S.I.T.E Project

Sukuk Redemption	Please refer to the definition of Musharaka Investment Redemption
T&D	Transmission and Distribution
Transaction Documents	These include: 1. Investment Agency Agreement (Investment Agent) 2. Asset Purchase Agreement 3. Agreement to Enter into Musharaka 4. Rental Payment Agreement 5. Service Agency Agreement 6. Declaration of Trust 7. Purchase Undertaking (Periodic Redemption and Termination) 8. Sale Undertaking (Early Purchase) 9. Letter of Lien and Set Off 10. Letter of Hypothecation 11. Private Placement Agreements 12. Letter of Hypothecation of Hypothecated Receivables and Accounts 13. Security Sharing Agreement 14. First Amendment Deed to the Declaration of Trust 15. Collection Agreement
Trust Deed or Declaration of Trust	Declaration of Trust dated February 10, 2015 executed between Issuer and the Trustee and subsequently amended vide the First Amendment Deed to the Declaration of Trust dated March 26, 2015
Trustee / Sukuk Trustee	Pak Brunei Investment Company Limited
Unit Conversion Lenders	Means Habib Bank Limited, United Bank Limited, NIB Bank Limited, Faysal Bank Limited and Dubai Islamic Bank Pakistan Limited who have provided financing facilities of PKR 7,700,000,000/- under various financing facility agreements
WHT	Withholding Tax

TABLE OF CONTENTS

PART I

1. APPROVALS, CONSENTS AND LISTING ON THE STOCK EXCHANGE

1.1 APPROVAL OF THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Approval of the Securities and Exchange Commission of Pakistan ("**SECP**") as required under Section 57(1) of the Companies Ordinance, 1984 ("**the Ordinance**") has been obtained for the issue, circulation and publication of this Prospectus.

DISCLAIMER

It must be distinctly understood that in giving this approval, **SECP** does not take any responsibility for the financial soundness of K-Electric Limited ("**KE**" or the "**Company**" or the "**Issuer**") and any of its schemes stated herein or for the correctness of any of the statements made or opinions expressed by the Company in this Prospectus.

SECP has not evaluated quality of the issue or the shariah structure of the Sukuk and its approval for the issue, circulation and publication of this prospectus should not be construed as any commitment of the same. The public / investors should conduct their own independent due diligence and analysis regarding the quality of the issue before investment in the Sukuk being offered through this prospectus.

1.2 CLEARANCE OF THE PROSPECTUS BY KARACHI STOCK EXCHANGE LIMITED

This Prospectus for the issue of rated, listed and secured Sukuk has been cleared by KSE in accordance with the requirements of their Listing of Companies and Securities Regulations.

DISCLAIMER

- The publication of this prospectus does not represent solicitation by the Stock Exchange.
- The contents of this prospectus do not constitute an invitation to invest in the Sukuk or subscribe for any securities or other financial instrument by the Stock Exchange, nor should it or any part of it form the basis of, or be relied upon in any connection with any contract or commitment whatsoever of the Stock Exchange.
- It is clarified that information in this prospectus should not be construed as advice on any particular matter by the Stock Exchange and must not be treated as a substitute for specific advice.
- The Stock Exchange disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon this document to any one, arising from any reason, including, but not limited to, inaccuracies, incompleteness, and / or mistakes, for decisions and / or actions taken based on this prospectus.
- The Stock Exchange neither takes responsibility for the correctness of the contents of this prospectus nor the ability of the Company to fulfill its obligations thereunder.
- Advice from a suitably qualified professional should always be sought by investors in relation to any investment in securities.

1.3 APPROVAL BY THE SHARIAH ADVISORY BOARD TO THE ISSUE

The Shariah Advisory Board to the Issue has provided an opinion (Fatwa) dated February 06, 2015 on the Sukuk structure and Transaction Documents executed on February 10, 2015 and amended via amendments dated March 26, 2015. Please refer to para 2.6 for details.

1.4 FILING OF PROSPECTUS AND OTHER DOCUMENTS WITH THE REGISTRAR OF COMPANIES

The Company has delivered to the Registrar of Companies, Karachi as required under Sections 57 (3) and (4) of the Companies Ordinance 1984, a copy of this Prospectus signed by all the Directors of the Company together with the following documents attached thereto:

a) A Letter No. KA-ZQ-417 dated January 15, 2015 from KPMG Taseer Hadi & Co. consenting to the issue of the Prospectus, which contains in Part VI certain statements and reports issued by them as experts (for which consent has not been withdrawn).

b) Copies of contracts mentioned in Part IX of the Prospectus.

c) Written confirmations of the Auditors, Legal Advisor and Bankers to the Issue, mentioned in the Prospectus consenting to act in their respective capacities, as required under Section 57(5) of the Ordinance.

d) Consent of Directors and Chief Executive of the Company to their respective appointments being made and their having been named or described as such Directors and Chief Executive in this Prospectus. The Company has filed written confirmations of such consents, as required under Section 184 of the Ordinance.

e) Fatwa from the Shariah Advisory Board to the Issue dated February 06, 2015.

f) Appointment letters of the members of Shariah Advisory Board to the Issue as required under Chapter II Clause 5 (3) of the Issue of Sukuk Regulations, 2015.

1.5 CONSENT FROM THE SHARIAH ADVISORY BOARD TO THE ISSUE

The Shariah Advisory Board to the Issue has given consent to include and publish names of its members in the Prospectus.

1.6 LISTING ON THE STOCK EXCHANGE

Application has been made to KSE for permission to deal in and for quotation of Sukuk of the Company.

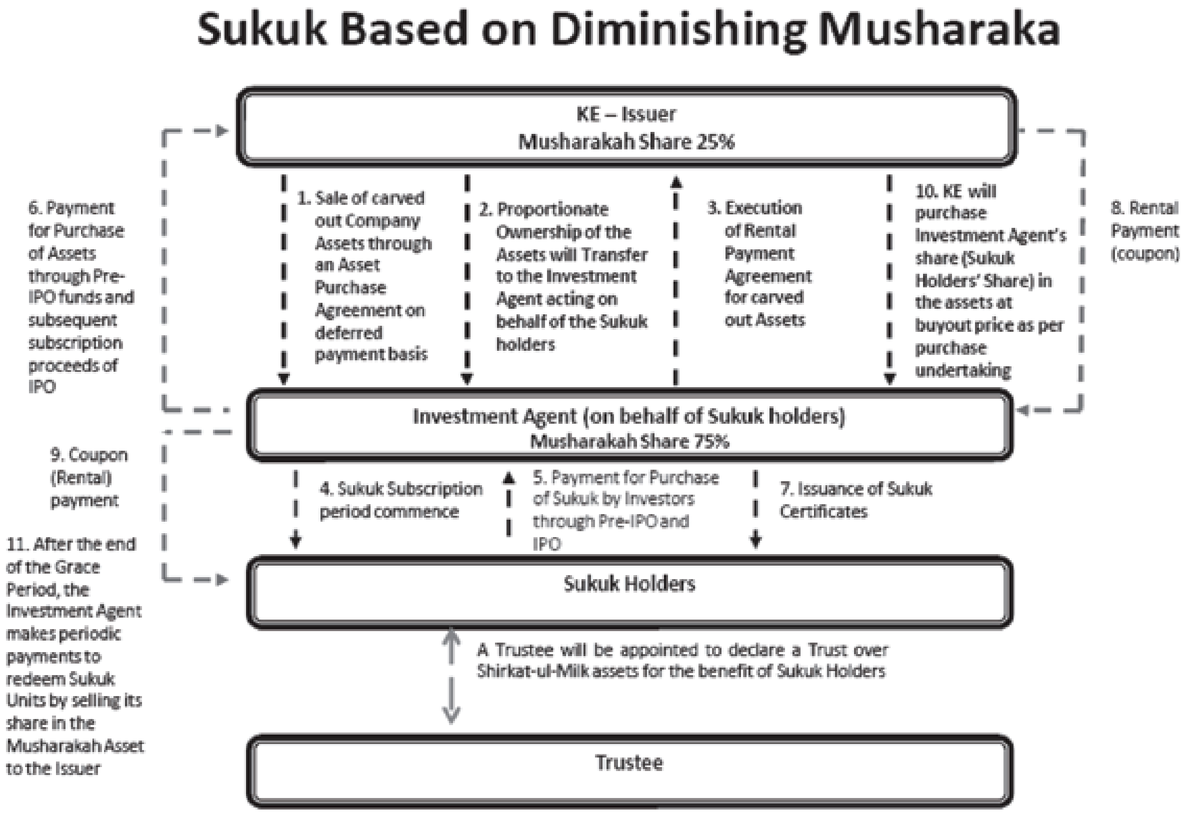
If, for any reason, the application for listing is not accepted by KSE, the Company undertakes to publish immediately in the press a notice to that effect and thereafter to refund the subscription money with proportionate rental profit as per the Payment Agreement and if any such money is not refunded within eight days after the Company becomes liable to refund it, directors of the Company shall be liable to refund the money from the expiration of the said eighth day together with surcharge at the rate of 1.50% per month as required under Section 72 of the Ordinance. However as per Shariah guidelines, any over and above amount received as surcharge is not Shariah compliant income therefore, Investment Agent hereby advises the Sukuk holders to donate the same for charitable purposes.

PART II

2. SUKUK STRUCTURE

2.1 DIMINISHING MUSHARAKA SUKUK STRUCTURE

KE Diminishing Musharaka Sukuk Structure



A Musharaka (derived from the Arabic word Shirkah, meaning partnership) arrangement is a partnership arrangement established by the Co-Owner (i.e KE) and the Investment Agent whereby each party has undivided joint ownership of Musharaka Assets pursuant to a Musharaka Agreement.

2.2 MUSHARAKA SUKUK PROCESS FLOW

1. KE has identified a specific pool of plant & machinery having a value of at least PKR 29.34 billion out of which PKR 22 billion has been sold to the Investment Agent acting on behalf of the Investors on deferred payment basis by executing Asset Purchase Agreement, after obtaining permission of sale from the existing charge holders, who have not been paid off from this Musharaka facility. The proportionate ownership of the Assets worth PKR 22 billion has transferred to the Investment Agent whereas legal title of the assets remains with KE and the assets continue to be on the books of KE on behalf of the Investment Agent, on Trust basis as mentioned in the Agreement to enter into Musharaka dated February 10, 2015.

2. The funds generated from IPO and pre-IPO placement are utilized by the Investment Agent, on behalf of the Investors, to make payment to KE for the purchase of identified assets under Asset Purchase Agreement.

3. After the purchase of the proportionate ownership in the identified assets, the Investment Agent has entered into Musharaka arrangement with KE by executing Diminishing Musharaka Agreement under which the Sukuk Holders / Investors (through Investment Agent) and KE jointly own the Musharaka Assets in a pre agreed investment ratio of 75% and 25% respectively.

4. KE has been appointed as Managing Co-Owner of the Musharaka Assets in the Musharaka Agreement. The Managing Co-Owner is responsible for structural maintenance, insurance, security and payment of ownership expenses and taxes in respect of Musharaka Assets. Any expense incurred by Managing Co-owner will be reimbursable upon presentation of documentary evidences. The Investment agent will net off the expenses incurred by Managing Co-owner on behalf of the Sukuk holders against the supplementary rental payment (as per clause 8(ii)) of the preceding rental payment period.

5. Managing Co-Owner has arranged insurance of the Musharaka Assets under Islamic Concept of Takaful or in case Takaful is not available, a written justification for procuring conventional insurance will be submitted to Shariah Board. In case of total loss / destruction of the Musharaka Assets, the Takaful claims received will be shared among Participants and KE in the ratio of their Musharaka share.

6. Subsequently, Investment Agent on behalf of the Investors has entered into a “Rental Payment (Ijarah) Agreement” with KE, whereby Investment Agent has agreed to lease out the Investors’ share in the Musharaka Assets to KE and KE has agreed to take on lease the same in consideration for quarterly Rental Payments.

7. Rental Payment for first quarterly period will comprise:
   i. Rent to be calculated at the start of each quarterly Rental Period on the basis of Rental Benchmark; and
   ii. Estimate of Insurance / Takaful and major maintenance expenses.

8. Rental payment for the subsequent quarterly rental payment period comprises:
   i. Rent to be calculated at the start of each quarterly Rental Period on the basis of Rental Benchmark; and
   ii. Supplemental Rent that will be equal to the amount reimbursable to KE under the Management Agreement for the preceding Rental Period.

9. The first Rental Period will commence from the Commencement Date and end on the First Rental Payment Date. Investment Agent will issue first Rental Payment Notice to KE which will be accepted by KE for commencement of Rental term. The First Rental Payment Notice will be in the form of offer and acceptance as per the Rental Payment Agreement dated February 10, 2015 to commence the lease as per the requirements of Shariah.

10. KE has undertaken through Purchase Undertaking (dated February 10, 2015) to purchase Investors Share in the Musharaka assets in equal Buy-Out Price quarterly starting from the end of 27th month from the Issue date to redeem the Sukuk. The purchase of Investors Share by KE will be recorded through issuance of Purchase receipt.

11. The Purchase Undertaking will also be applicable in case of the occurrence of Events of Default & Termination (Musharaka Agreement) whereby KE will be obliged to purchase Investors’ total Musharaka Share in the Musharaka Assets immediately upon issuance of the Termination Notice.

12. KE has declared a Trust over the amounts contributed by the Investors and the asset acquired from contribution, for the benefit of Investors and has appointed trustee:
    i. To act as issuing agent in respect of the Assets;
    ii. To issue Sukuk to the Investors representing the ownership interest in the Assets;
    iii. To hold the Assets and security absolutely for the benefit of Sukuk Holders in accordance with the provision of Trust Deed; and
    iv. To distribute the Rental Payments on respective distribution dates among the Sukuk Holders in accordance with the provision of Trust Deed.

2.3 SHARIAH ADVISORY BOARD TO THE ISSUE

An independent "**Shariah Advisory Board to the Issue**" has been formed by the Company solely for the purpose of the Issue which shall remain appointed throughout the tenure of the Issue. The Shariah Advisory Board to the Issue comprises following Shariah scholars:

1. Prof. Mufti Muneeb ur Rehman
2. Dr. Muhammad Imran Ashraf Usmani
3. Mufti Irshad Ahmad Aijaz
4. Mufti Muhammad Yahya Asim

2.4 PROFILES OF MEMBERS OF THE SHARIAH ADVISORY BOARD TO THE ISSUE

Prof. Mufti Muneeb ur Rehman is a well known and renowned scholar in the field of Islamic Fiqh and Shariah all over the world.

Prof. Mufti Muneeb ur Rehman has Master degree in Islamic Studies. Besides having a Bachelors in Law and Education, he has also received education in Arabic Language. He has a vast experience of more than 45 years of teaching various subjects related to Islamic studies and giving Fatwas for more than thirty years. He has also written numerous books on Islamic Ideology and concepts. He is the Chairman of Central Moon Sighting Committee, General Secretary of Ittehad-e-Tanzimat-e-Madaris, President of Tanzeem-ul-Madaris (Ahl-e-Sunnat) Pakistan, Principal and Managing Trustee of Dar ul Uloom Naeemia, Karachi and ex-member of Islamic Ideology Council, Pakistan, Ex-Director of Islamic Studies, Hong Kong, Ex-member of Board of Studies in various universities of Pakistan. He has also conducted several International Seminars and conferences.

Dr. Muhammad Imran Ashraf Usmani, son of Justice (Retd.) Mufti Muhammad Taqi Usmani, holds an LLB and Ph.D. in Islamic Finance and graduated as a scholar with specialization (Takhassus) in Islamic Fiqh and Fatwa from Jamia Dar ul Uloom, Karachi.

Dr. Muhammad Imran Usmani is currently Shariah Advisor and Group Head of the Product Development & Shariah Compliance Department (PDSC) at Meezan Bank and is responsible for R&D and Product Development of Islamic banking products, advisory for Shariah-compliant banking and supervision of Shariah Audit & Compliance. He is also member of the Government's Steering Committee for promotion of Islamic Banking in Pakistan.

Dr. Imran Usmani has also served as an advisor / member of Shariah Boards of several renowned institutions including State Bank of Pakistan. He is also member of one of the Executive Committees of AAOIFI, Dubai, UAE and Shariah Supervisory Board of International Islamic Financial Market (IIFM), Bahrain and International Center for Education in Islamic Finance (INCEIF), Malaysia, Institute of Business Administration (IBA), Karachi and Center for Islamic Economics (CIE), Karachi.

Dr. Imran Usmani is the author of numerous publications related to Islamic finance and other Shariah-related subjects. He has presented papers in numerous national and international seminars and has delivered lectures at academic institutions including Harvard Business School, London School of Economics, Lahore University of Management Sciences and Institute of Business Administration.

Mufti Muhammad Yahya Asim is Shariah Advisor of HBL-Islamic Banking. Mufti Yahya has been associated with the field of Islamic studies for over 20 years.

He holds a Masters Degree in International Relations and also Master degrees in Arabic and Islamic Studies respectively. In addition to specialisation in Islamic Fiqh and Fatwa (Islamic Jurisprudence) from the well renowned Jamia Dar ul Uloom, Karachi (1988-91), he also completed Alimiyyah course (Darse Nizami).

Mufti Yahya has been associated with several local and international institutions delivering lectures and leading conferences on matters related to Islamic Banking and Finance and Islamic Corporate Finance. He is the administrator for the Centre of Islamic Economics Karachi; along with the administrative responsibilities. Mufti Yahya is also an active member of the Faculty for Islamic Economics at Jamia Dar ul Uloom, Karachi.

Mufti Irshad Ahmad Aijaz is the full time Shariah Advisor to the BankIslami and Member of its Shariah Supervisory Board.

He is the Chairman Shariah Supervisory Board of BankIslami. He holds Shadat-ul-Aalamia (Masters in Arabic and Islamic Studies) and Takhassus fial-Iftaa (Specialization in Islamic Jurisprudence and Fatwa). He has also done MBA (finance) from Iqra University, Karachi and is currently pursuing his M Phil / Ph.D. in Islamic Banking and Finance.

He is also Shariah Advisor to Fortune Islamic Financial Services, Allied Rental Modaraba, Member Shariah Committee of Barakah Properties, Australia and Honorary Chairman Shariah Supervisory Board of Wasil Foundation (Micro Finance).

He regularly participates in training programmes, seminars and conferences on Islamic Economics and Finance at different forums and delivers lectures in many educational institutions including National Institute of Banking and Finance (State Bank of Pakistan), Sheikh Zayed Islamic Center (University of Karachi) and Centre of Islamic Economics (a division of Jamia Dar ul Uloom, Karachi).

2.5 SHARIAH COMPLIANCE AUDIT

The compliance of features and Shariah requirements of Sukuk shall be audited on annual basis by the Shariah Auditor which shall be made part of the annual financial report of the Company.

2.6 SHARIAH ADVISORY BOARD TO THE ISSUE FATWA

The Shariah Advisory Board to the Issue has reviewed and approved the aforementioned Musharaka Sukuk structure and Transaction Documents, and as amended via amendments dated March 26, 2015, in line with the regulatory guidelines including Sukuk Regulations 2015, via fatwa dated February 06, 2015 as mentioned on the following page:

K-ELECTRIC
Energy That Moves Life

بسم الله الرحمن الرحيم

Shariah Opinion (Fatwa) on KE Retail Sukuk

الحمد لله ربّ العالمين، و الصّلاة و السّلام على سيد الأنبياء و المرسلين، و
على آله و أصحابه أجمعين، و بعد

K-Electric Limited ("**KE**" or the "**Company**"), has intended to raise Rated & Listed Sukuk for upto PKR 22,000 Million (inclusive of green shoe option of PKR 2,000 Million) ("**Transaction**" or "**Sukuk Issue**").

After discussion and review of the structure we understand the transaction is as follows:

1. The total Sukuk amount of PKR 22,000 Million comprises of private placement (Pre-IPO) of PKR 15,000 Million and public offering of PKR 7,000 Million (inclusive of green shoe option of PKR 2,000 Million) offered through an Initial Public Offering (IPO) to the general public via listing at Karachi Stock Exchange (KSE) for the tenor of seven (7) years with 2 years grace period.

2. Sukuk Subscription Agreement (in the form of subscription application/ or Pre-IPO agreement) will be executed by contributing investors of Sukuk (the "Investors") which will record their commitments to subscribe for the Sukuk to be issued by KE. Under the Sukuk Subscription Agreement, the Investor will also appoint Investment Agent to act on behalf of the Investors/ Sukuk Holders whereas the IPO investors will acknowledge the signing of Asset Purchase Agreement by the investment agent on behalf of IPO investors.

3. KE will identify a specific pool of plant & machinery having a value of at least PKR 29.34 billion out of which PKR 22 billion will be sold to the Investment Agent acting on behalf of the Investors on deferred payment basis by executing Asset Purchase Agreement, after obtaining permission of sale from the existing charge holders, if required, who will not be paid off from this facility. The proportionate ownership of the Assets worth PKR 22 billion will be transferred to the Investment Agent whereas legal title of the assets will remain with KE and the assets will continue to be on the books of KE on behalf of the Investment Agent, on Trust basis.

4. The funds generated from IPO and pre-IPO placement will be utilized by the Investment Agent, on behalf of the Investors, to make payment to KE for the purchase of identified assets under Asset Purchase Agreement.

5. After the purchase of the proportionate ownership in the identified assets, the Investment Agent will enter into Musharaka arrangement with KE by executing Diminishing Musharaka Agreement under which the Sukuk Holders/ Investors

(through Investment Agent) and KE will jointly own the Musharaka Assets in a pre agreed investment ratio.

6. KE will be appointed as Managing Co-Owner of the Musharaka Assets in the Musharaka Agreement. The Managing Co-Owner will be responsible for structural maintenance, insurance, security and payment of ownership expenses and taxes in respect of Musharaka Assets. The cost actually incurred on account of aforementioned services by Managing Co-Owner in respect of Investment Agent's share in Musharaka Assets (to be called as Asset Service Charge Amount) during any rental period will be reimbursable to Managing Co-Owner by Investment Agent upon demand along with documentary evidences of all such expenses.

7. Managing Co-Owner will arrange insurance of the Musharaka Assets under Islamic Concept of Takaful or otherwise provide written justification for procuring conventional insurance. In case of total loss/ destruction of the Musharaka Assets, the Takaful claims received will be shared among Participants and KE in the ratio of their Musharaka share. In case of conventional insurance the claims received will be treated in the manner advised by the Shariah Advisor at the time of receipt of such claims.

   Subsequently, Investment Agent on behalf of the Investors will enter into a "Payment (Ijarah) Agreement" with KE, whereby Investment Agent will agree to lease the Investors share in the Musharaka Assets to KE and KE will agree to take on lease the same in consideration for quarterly Rental Payments.

   Rental Payment for first quarterly period will comprise:

   i. Rent to be calculated at the start of each quarterly Rental Period on the basis of Rental Benchmark; and
   ii. Estimate of Insurance/Takaful and major maintenance expenses.

   Rental payment for the subsequent quarterly rental payment period comprises:

   i. Rent to be calculated at the start of each quarterly Rental Period on the basis of Rental Benchmark; and
   ii. Supplemental Rent that will be equal to Asset Service Charge Amount (reimbursable to KE under the Management Agreement) for the preceding Rental Period.

   The first Rental Period will commence from the Commencement Date and end on the First Rental Payment Date. Investment Agent will issue first Rental Payment Notice to KE which will be accepted by KE for commencement of Rental term. The First Rental Payment Notice will be in the form of offer and acceptance to commence the lease as per the requirements of Shariah.

8. KE will undertake through Purchase Undertaking to purchase Investors Share in the Musharaka assets in equal Buy-Out price quarterly starting from the end of 27th month from the Issue date to redeem the Sukuk. The purchase of Investors Share will be recorded through issuance of Purchase receipt.

9. The Issuer will be able to redeem the Sukuk at any point in time after completion of Grace Period, i.e. 2 years.

10. The undertaking will also be applicable in case of Events of Default & Termination whereby KE will be obliged to purchase Investors' total Musharaka Share in the Musharaka Assets immediately upon issuance of the Termination Notice. In case KE intimate for any changing directly or Indirectly in majority Shareholding of the Sponsors (i.e 51% of the shares of K Electric) at any point in time during Sukuk tenor, the Sukuk holders may opt to redeem their Sukuk holdings through concurrence in extra ordinary general meeting (if the change in the Shareholding is not acceptable to Sukuk holders).

11. KE will declare a Trust over the amounts contributed by the Investors and the asset acquired from contribution for the benefit of Investors and appoint trustee:

    i. To act as issuing agent in respect of the Assets;
    ii. To issue Sukuk to the Investor representing the ownership interest in the Assets;
    iii. To hold the Assets and security absolutely for the benefit of Sukuk Holders in accordance with the provision of Trust Deed; and
    iv. To distribute the Rental Payments on respective distribution dates among the Sukuk Holders in accordance with the provision of Trust Deed.

We have also reviewed the following Sukuk transaction documents presented to us:

1. Sukuk Trust Deed;
2. Investment Agency Agreement;
3. Asset Purchase Agreement;
4. Musharaka Agreement;
5. Rental Payment Agreement;
6. Purchase Undertaking by Issuer;
7. Service Agency Agreement;
8. Sale Undertaking; and
9. Security Documents.

Based on review of the details of structure provided to us and review of the Sukuk transaction documents, it is resolved by us that;

1. In our opinion, the Structure, Prospectus and relevant transaction documents of Sukuk do not contain any element repugnant to Shari'ah;

2. The whole transaction is in line with the Shariah guidelines issued by regulatory authorities in Pakistan;

3. This Fatwa/Shari'ah opinion is limited to the Shari'ah aspects of the transaction only. Other legal and regulatory compliance should be ensured before its formal launch.

و صلّى الله على نبيّنا محمّد و بارك و سلّم

والله أعلمُ بالصواب

Munib ur Rehman

Prof. Mufti Munib Ur Rehman

Dr. Muhammad Imran Usmani

K-ELECTRIC LIMITED
APPROVED BY
Shariah Advisory Board
Retail Sukuk

Mufti Muhammad Yahya Asim

Mufti Irshad Ahmad Aijaz

February 6th 2015, 16 Rabi-us-Sani 1436

3. SUKUK AND RELATED MATTERS

3.1 ISSUE OF LISTED SUKUK TO THE GENERAL PUBLIC

The total Sukuk Issue Amount consists of PKR 22,000 Million (inclusive of Green Shoe Option of PKR 2,000 Million) to be issued in the form of rated, listed and secured Sukuk being the instrument of Redeemable Capital under section 120 of the Ordinance for the tenor of seven (7) years. The amount of PKR 22,000 Million comprises Pre-IPO placement of PKR 15,000 Million and IPO of PKR 5,000 Million. In case Green Shoe Option is exercised, the amount of IPO shall be raised to the level of PKR 7,000 Million.

The instrument is structured to redeem quarterly such that the Musharaka share of Investors will be redeemed in twenty (20) equal payments, on quarterly basis after the lapse of 2 year grace period from the Issue Date. The redemption value of the Sukuk shall be specified on the Sukuk itself. For more detail on the redemption of the Sukuk, please refer to para 3.15.1.

The list of investors in the Pre-IPO Placement is given below:

S.No.	Private Placement Institutions	Amount (PKR in Million)
1.	Habib Bank Limited	4,500
2.	Meezan Bank Limited	2,600
3.	United Bank Limited	2,500
4.	National Bank of Pakistan	2,000
5.	MCB Bank Limited	1,150
6.	Dubai Islamic Bank Pakistan Limited	1,150
7.	Meezan Islamic Income Fund	800
8.	Meezan Balance Fund	300
	Total	**15,000**

This is KE's second retail listed Sukuk Issue after KE AZM Sukuk. The Sukuk will be offered to the general public in sets of 20 scrips (Sukuk) under the brand name of "KE Sukuk-ul-Shirkah (shirkat-ul-milk)", each set having an aggregate face value of PKR 5,000/- or in multiples thereof. **The minimum amount of application for the subscription of Sukuk is PKR 10,000/- which is structured to be redeemed as per para 3.15.1. The expected redemption value of the Sukuk shall be specified on the Sukuk itself. For more details, please refer to para 3.15.**

All the above mentioned Pre-IPO investors have subscribed to the Sukuk (i.e. disbursed their respective investment amounts in the Pre-IPO placement of the Sukuk Issue) on February 13, 2015. Details of the private placement along with agreements are given in para 9.7.

The entire IPO amount is available for subscription by the public including both individual (resident Pakistanis, NRPs and foreign investors) and institutional investors (both local and foreign) for three (3) months from the date of commencement of public subscription. However, there will be a preferential period of fifteen (15) days from the date of the commencement of the subscription period. During the preferential period, only individuals including NRPs will be allowed to subscribe for the Sukuk Issue while institutional investors will not be allowed to subscribe during this period. After the said fifteen (15) day period, both individuals including NRPs and institutional investors will be allowed to subscribe. Further, if the target amount i.e. PKR 7,000 Million (inclusive of Green Shoe Option of PKR 2,000 Million) is subscribed before the last date for subscription, subscription period will be closed immediately.

Since there is no minimum subscription requirement, any amount subscribed up to the target amount of PKR 7,000 Million (inclusive of Green Shoe Option of PKR 2,000 Million) will be listed on the Stock Exchange.

Profit Rate

Rentals of the Sukuk will be calculated and paid on 3 monthly (quarterly) basis at floating rate of 3M KIBOR plus 100 bps p.a in arrears.

3.2 SECURITY OF SUKUK

The Sukuk Issue has been secured by way of hypothecation charge on some of the Company's Assets. For further details please refer to Para 7.2.

3.3 OPENING AND CLOSING OF SUBSCRIPTION LIST

THE SUBSCRIPTION LIST WILL OPEN FOR THREE (3) MONTHS FOR SUKUK AT THE COMMENCEMENT OF BANKING HOURS ON MAY 14, 2015 AND CLOSE AT THE END OF BANKING HOURS ON AUGUST 13, 2015 (BOTH DAYS INCLUSIVE). HOWEVER, THE SUBSCRIPTION PERIOD SHALL BE CLOSED EARLIER PROVIDED FULL SUBSCRIPTION IS RECEIVED BEFORE THE END OF SUBSCRIPTION PERIOD.

3.4 INVESTOR ELIGIBILITY

Investors include:

- Pakistani citizens resident in or outside Pakistan or Persons holding two nationalities including Pakistani nationality;
- Foreign Nationals whether living in or outside Pakistan;
- Companies, bodies corporate or other legal entities incorporated or established in or outside Pakistan (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
- Mutual Funds, Provident / Pension / Gratuity Funds / Trusts, (subject to the terms of the Trust Deeds and existing regulations); and
- Branches in Pakistan of companies and bodies corporate incorporated outside Pakistan.

3.5 FACILITIES AVAILABLE TO FOREIGN / NON-RESIDENT PAKISTANI INVESTORS

Foreign investors and non-resident Pakistani investors may subscribe for the Sukuk being issued through this Prospectus by using their Special Convertible Rupee Account ("**SCRA**"). For details, please see Chapter 20 of the Foreign Exchange Manual of the State Bank of Pakistan.

Foreign investors do not require any regulatory approvals to invest in the Sukuk being offered by the Company. Payment in respect of investment in Sukuk has to be made in foreign currency through an inward remittance or through surplus balances in SCRA. Local currency cash account(s) opened for the purpose of Foreign Portfolio Investment (FPI) is classified as SCRA under which there are no restrictions on repatriation on sale (redemption) and profit payments of the Sukuk. Authorized dealers are required to disclose the client names / beneficial owners at depository level.

Key documents required for opening of SCRA account by individuals are:

1. Account opening request
2. Passport / ID

General documents required for opening of SCRA account by institutional investors are:

1. Account opening request
2. Board Resolution and Signatories list
3. Passport / ID of Board of Directors
4. Passport / ID of all authorized signatories
5. Certificate of Incorporation (COI) or any equivalent document
6. Memorandum & Articles of Association

7. Withholding tax registration certificate / certificate of country of domicile of client
8. Latest Annual Report
9. List of Board of Directors
10. List of Shareholders (>10% holding) and key officers

It is however pertinent to note that the procedure and requirements of each institution differs, hence investors are advised to request the procedure from their relevant institutions.

3.6 MINIMUM AMOUNT OF APPLICATIONS AND BASIS OF ALLOTMENT OF SUKUK

a. The minimum amount of application for subscription of Sukuk is PKR 10,000/-.
b. Applications for Sukuk below the aggregate face value of PKR 10,000/- will not be entertained.
c. Applications for Sukuk by the general public, including institutions and individuals (resident Pakistanis, NRPs and foreigners) must be made for a minimum of the aggregate face value of PKR 10,000/- or in multiples of PKR 5,000/- for amounts above PKR 10,000/-.
d. Allotment of Sukuk will be made on **first come, first served basis** and applications for subscription of Sukuk will not be accepted once the target amount of PKR 7,000 Million (inclusive of Green Shoe Option) is subscribed. **In case Bankers to the Issue on any given day accept subscriptions which result in the target amount under the Sukuk being exceeded, then all applications in excess of the target amount will be returned to the applicants without any profit within three (03) business days, therefore, there will be no over subscription. In order to ensure that allotment of Sukuk is made to the applicants on first come, first served basis, the Bankers to the Issue shall mark each subscription application with the date and time of their receipt of clear funds. Further, only those applications received with clear funds by close of business on each day will be reported by Bankers to the Issue to the Registrar to determine allotment. Applications not marked with date and time of receipt of clear funds shall be accommodated after all the applications properly marked with date and time have been accommodated.**
e. No applications for subscription will be accepted by Bankers to the Issue before the start of subscription period.
f. Allotment of Sukuk shall be subject to scrutiny of applications for subscription.
g. Applications, which do not meet the above requirements, or applications which are incomplete will be rejected. The applicants are, therefore, required to fill in all data fields in the application form.
h. The Registrar will dispatch Sukuk to successful applicants or credit the respective CDS accounts of the successful applicants (as the case maybe). Therefore, applicants are advised to fill in accurate mailing address and CDS account details, if any.

3.7 REFUND OF MONEY TO UNSUCCESSFUL APPLICANTS

Since there will be no over subscription, there will be no case of refund of money to unsuccessful applicants except in the case mentioned in para 3.6 (d) above.

3.8 MINIMUM SUBSCRIPTION

There is no requirement of minimum subscription as the Issue is not project specific. The proceeds will be utilized by KE for the purpose as mentioned in para 3.12.

3.9 ISSUE, CREDIT AND DISPATCH OF SUKUK

The Company shall credit or dispatch, as the case may be, Sukuk within thirty (30) days from the close of Subscription Period. Sukuk will be issued either in scripless form in the Central Depository System ("**CDS**") or in the shape of physical scrips on the basis of option excercised by the successful applicants. Sukuk in physical form shall be delivered to the applicants through registered mail or courier service, whereas scripless Sukuk shall be directly credited through book entries into the respective CDS accounts of allottees maintained with the Central Depository Company of Pakistan Limited ("**CDC**"). The Sukuk issued directly for induction in the CDS, without the issuance of physical certificates (with the terms and conditions), shall be subject to the terms and conditions for the issuance of the Sukuk specified in Condition 2 Schedule 3 of the Declaration of Trust for the Sukuk dated February 10, 2015 and subsequently amended vide the First Amendment Deed to the Declaration of Trust dated March 26, 2015 ("**Trust Deed**" / "**Declaration of Trust**") executed between the Company and the Trustee for the Sukuk Issue.

Note: The investors are hereby informed that pursuant to the requirements of the Issue of Sukuk Regulations, 2015, Sukuk shall be issued only in the Book-Entry-Form. However, a relaxation of such requirement is granted by SECP vide letter number SMD/CIW/SR/01/2015 dated April 14, 2015 for the purpose of facilitating retail investors.

The applicants who opt for issuance of Sukuk in scripless form in the CDS should fill in the relevant columns in the application form. In order to exercise the scripless option, the applicant must have a CDS account at the time of subscription. In case where the CDS account is not mentioned or is not correct, physical Sukuk will be issued.

The investors who do not have a CDC account may contact Central Depository Company through below details. CDC is also running a country-wide account opening campaign in collaboration with EFU Life Assurance Limited. To Know when CDC will be in your city, please contact CDC through the following:

Customer Support Services: 0800-23275 **Website:** www.cdcpakistan.com **Email:** info@cdcpak.com			
Head Office: CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi - 74400. Tel: (92-21) 111-111-500 Fax: (92-21) 34326031	**KSE Office:** Mezzanine Floor, Karachi Stock Exchange Building, I.I. Chundrigar Road, Karachi. Tel: (92-21) 32416774 Fax: (92-21) 32444491	**Lahore Office:** 2nd Floor, 307 Upper Mall, Lahore - 54000. Tel: (92-42) 35789378 Fax: (92-42) 35789340	**Islamabad Office:** Room # 410, 4th Floor, Islamabad Stock Exchange Towers, 55-B, Jinnah Avenue, Blue Area, Islamabad. Tel: (92-51) 2895456-9 Fax: (92-51) 2895454

If the Company defaults on complying with the requirements of the Listing of Companies and Securities Regulations, it will pay to KSE PKR 5,000/- per day for the period during which the default continues. The Stock Exchange may also notify the fact of such default and the name of the Company by notice and also by publication in the Daily Quotation.

3.10 TRANSFER OF SUKUK

3.10.1 Physical Scrips

Sukuk shall be transferred in the manner as provided under the Companies Ordinance, 1984. Transfer of Sukuk will be subject to payment of the applicable stamp duty levied by the Provincial Government. Stamp duty on initial issuance will be borne by the Company, while stamp duty on subsequent transfer will be on account of the Sukuk holders. (Please refer to section 3.9 above with regards to waiver taken for physical issuance of scrips).

3.10.2 Transfer under Book Entry System

Sukuk will be declared as eligible security through the CDS of CDC and will be eligible for transfer after the Issue Date. Stamp duty on initial issuance will be borne by the Company. Sukuk, which are in the CDS, shall subsequently be transferred in accordance with the Central Depositories Act, 1997 and the Central Depository Company of Pakistan Limited Regulations. The transfer fee for all subsequent transfers shall be borne by the Sukuk holders.

3.11 REDEEMABLE CAPITAL ISSUED IN PRECEDING YEARS

The Company has issued retail Term Finance Certificates ("**TFCs**") in 2012 and retail Sukuk in 2014 details of which are mentioned on the following page:

Date of Issue	August 13, 2012		
Issue Size	PKR 2,000 Million		
Term	13 months (TFC 1), 3 years (TFC 2), 5 years (TFC 3)		
Participants	Institutions and general public		
Rates of Return	**Term**	**Fixed Rate**	
	13 months	13.00% per annum	
	36 months (3 Years)	14.75% per annum	
	60 months (5 Years)	15.50% per annum	
Redemption Status	**TFC**	**Status**	**Outstanding**
	TFC 1	Fully redeemed on September 12, 2013	Nil
	TFC 2	PKR 3,098,600/- redeemed as at February 23, 2015	PKR 1,196,901,400/-
	TFC 3	PKR 1,000,000/- redeemed as at February 23, 2015	PKR 499,000,000/-

Date of Issue	February 24, 2014		
Issue Size	PKR 6,000 Million (inclusive of Green Shoe Option of PKR 500 Million)		
Term	13 months (Sukuk 1), 3 years (Sukuk 2), 5 years (Sukuk 3)		
Participants	Institutions and general public		
Rates of Return	**Term**	**Floating Rate**	
	13 months	1-month KIBOR+1.00% p.a.	
	36 months (3 Years)	3-month KIBOR+2.25% p.a.	
	60 months (5 Years)	3-month KIBOR+2.75% p.a.	
Redemption Status	**SUKUK**	**Status**	**Outstanding**
	Sukuk 1	Fully redeemed as at April 19, 2015	Nil
	Sukuk 2	PKR NIL redeemed as at February 23, 2015	PKR 3,750,000,000/-
	Sukuk 3	PKR NIL redeemed as at February 23, 2015	PKR 1,500,000,000/-

3.12 PRINCIPAL PURPOSE FOR THE USE OF SUBSCRIPTION MONEY

The proposed facility will be utilized to prepay certain long term financing facilities availed by the Company and to meet the permanent working capital expenditure financing requirements of the Company. However, through the proceeds received from Pre-IPO, the Company has prepaid their existing foreign and local long term debt of PKR 17,842 Million as per the following break up:

All Amount in PKR

Description	Principal	Markup	Breakage Cost	Total	Pricing	Payment Terms	Expiry Date
International Finance Corporation	5,037,340,128.17	33,681,887.53	1,116,877.67	5,072,138,893.37	3MLIBOR+ 2.85%~4.25%	Quarterly	15-Sep-17
Asian Development Bank	6,431,599,874.00	43,674,660.30	1,089,311.23	6,476,363,845.53	3MLIBOR+ 2.85%~4.25%	Quarterly	15-Sep-17
1st PKR Syndicate Facility					6MKIBOR+3%	Quarterly	15-Jun-16
Habib Bank Limited	480,000,000.00	9,656,284.93		489,656,284.93			
United Bank Limited	480,000,000.00	9,656,284.93		489,656,284.93			
National Bank of Pakistan	480,000,000.00	9,656,284.93		489,656,284.93			
MCB Bank Limited	480,000,000.00	9,656,284.93		489,656,284.93			
	1,920,000,000.00	**38,625,139.72**		**1,958,625,139.72**			

2nd PKR Syndicate Facility					3MKIBOR+3%	Quarterly	15-Jun-17
Habib Bank Limited	1,416,666,666.66	28,476,940.64		1,445,143,607.30			
National Bank of Pakistan	1,416,666,666.67	28,476,940.64		1,445,143,607.31			
Standard Chartered Bank (Pakistan) Ltd.	1,416,666,666.67	28,476,940.64		1,445,143,607.31			
	4,250,000,000.00	**85,430,821.92**		**4,335,430,821.92**			
Grand Total Utilization of Proceeds in Prepayment	**17,638,940,002.17**	**201,412,509.47**	**2,206,188.90**	**17,842,558,700.54**			
Permanent Working Capital Requirement				4,157,441,299.46			
Total Sukuk				**22,000,000,000.00**			

**As per terms of IFC and ADB loan agreements, KE had to pay breakage cost to IFC and ADB incase prepayment is being made on a non-interest payment date, which was the case, as KE made prepayment on February 13, 2015 against the next interest payment date which was March 15, 2015.*

The prepayment will have far reaching benefits for KE including significant reduction in financing cost due to improved debt pricing along with positive impact in company's profitability and much needed room in its cash flow resulting from an extended debt maturity profile. This prepayment paves the way for executing long term business strategy and future investment plans of the company essentially based on generation capacity addition and efficiency improvement, transmission and distribution network augmentation, system reliability and execution of loss reduction projects.

3.13 REGISTERED INSTRUMENT

Sukuk will be in registered form and the Company and / or Registrar shall maintain or cause to be maintained a register of Sukuk holders.

3.14 INTEREST OF SUKUK HOLDERS

The Sukuk holders shall have no interest in the property and profits of the Company other than as holders of the Sukuk. Since the Sukuk are offered to the public, therefore, the existing ordinary shareholders of the Company, being a listed entity, may subscribe for the Sukuk. In such a case, Sukuk holders (including but not limited to HBL and Meezan who have acted as the Lead Arrangers and Joint Shariah Structuring Advisors and HBL as Financial Advisor) may also have interest in the property and profit of the Company as holders of the ordinary shares in the capital of the Company.

3.15 REDEMPTION OF SUKUK

A register of Sukuk holders will be maintained or cause to be maintained by the Company and / or Registrar. The register of Sukuk holders will be closed for a period of 7 days prior to the profit payment or redemption of Sukuk. Sukuk will be redeemed on its due date through dispatch of crossed cheque or pay order to the registered holder of the Sukuk **or through direct bank deposit on the basis of option exercised** by the applicant in the Sukuk subscription application. Thus, the Sukuk holders will not need to go physically to the counters of any specific bank in order to have the Sukuk redeemed.

Note: Investors are encouraged to authorize KE for credit of their profit on the Sukuk directly in their respective bank account by filling the relevant column in the Sukuk subscription form.

3.15.1 TERMS OF REDEMPTION

The terms of redemption of the Sukuk are mentioned on the following page:

	SUKUK
Tenor	84 months (7 Years)
Musharaka Investment Redemption	Sukuk is structured to redeem in 20 equal payments, on quarterly basis. The first such redemption will be due at the end of 27th month from the Issue Date
Profit Rate	3-month KIBOR plus 100 bps
Rental Payment	Profit shall be payable quarterly in arrears and will be calculated on a 365 day year basis on the outstanding principal amount. The first such profit payment will fall due and become payable at the end of third (3rd) month from the Issue Date of public subscription and subsequently every three months thereafter.

The redemption schedule for Sukuk of an aggregate face value of PKR 10,000/- based on 3M KIBOR (8% as at April 14, 2015) plus 100 bps per annum for Sukuk, is set out in the table below: (only for calculation purpose).

Amount in PKR

Months	Musharaka Investment Redemption	Indicative Profit	Zakat	Withholding Tax	Total Payment	Musharaka Investment Outstanding
0	-	300.00	-	30.00	270.00	10,000.00
3	-	225.00	-	22.50	202.50	10,000.00
6	-	225.00	-	22.50	202.50	10,000.00
9		225.00	-	22.50	202.50	10,000.00
12		225.00	-	22.50	202.50	10,000.00
15		225.00	-	22.50	202.50	10,000.00
18		225.00	-	22.50	202.50	10,000.00
21		225.00	-	22.50	202.50	10,000.00
24		225.00	-	22.50	202.50	10,000.00
27	500.00	225.00	12.50	22.50	690.00	9,500.00
30	500.00	213.75	12.50	21.38	679.88	9,000.00
33	500.00	202.50	12.50	20.25	669.75	8,500.00
36	500.00	191.25	12.50	19.13	659.63	8,000.00
39	500.00	180.00	12.50	18.00	649.50	7,500.00
42	500.00	168.75	12.50	16.88	639.38	7,000.00
45	500.00	157.50	12.50	15.75	629.25	6,500.00
48	500.00	146.25	12.50	14.63	619.13	6,000.00
51	500.00	135.00	12.50	13.50	609.00	5,500.00
54	500.00	123.75	12.50	12.38	598.88	5,000.00
57	500.00	112.50	12.50	11.25	588.75	4,500.00
60	500.00	101.25	12.50	10.13	578.63	4,000.00
63	500.00	90.00	12.50	9.00	568.50	3,500.00
66	500.00	78.75	12.50	7.88	558.38	3,000.00
69	500.00	67.50	12.50	6.75	548.25	2,500.00
72	500.00	56.25	12.50	5.63	538.13	2,000.00
75	500.00	45.00	12.50	4.50	528.00	1,500.00
78	500.00	33.75	12.50	3.38	517.88	1,000.00
81	500.00	22.50	12.50	2.25	507.75	500.00
84	500.00	11.25	12.50	1.13	497.63	-
	10,000.00	**4,462.50**	**250.00**	**446.25**	**13, 766.25**	

Notes:

- The above redemption schedule includes Interim profit payments of PKR 300 for the period from the opening date of subscription until the Issue Date i.e. for 120 days.
- The above redemption schedule includes deduction of Zakat and Withholding Tax. For applicability of these, please refer to para 3.19 and 3.20 below respectively.
- The above redemption may be subject to Income Tax. For its applicability, please refer to para 3.20

3.16 EARLY PURCHASE OPTION / CALL OPTION

The Issuer may purchase Investor's share in the Sukuk, in part or in full and such purchase shall be of Sukuk having minimum aggregate face value of PKR 1,000,000,000/- (Pak Rupees One Billion) in multiples of PKR 100,000,000/- (Pak Rupees One Hundred Million) or more, on any profit / rental payment date from the 25th month from the Issue date and on all subsequent profit / rental payment dates, and with not less than 45 days prior notice being given to the Trustee and investors as per the terms of the Sale Undertaking.

3.17 RENTAL PAYMENTS

Profit will be paid at a floating rate of 3M KIBOR plus 100 bps from the Date of Investment.

To bring all Sukuk at par before dispatch or credit, as the case may be, an Interim Profit payment for the period from the Date of Investment until the Issue Date will be made before the dispatch or credit, as the case may be, of the Sukuk after the close of Subscription Period.

From the Issue Date, all subsequent profits will be payable quarterly in arrears on the outstanding Sukuk amount. The following table illustrates profit payment for the Interim Period and for the Sukuk commencing from the Issue Date in the manner below:

Sukuk			
Profit Payment	**Profit Period**		**Profit Payment Date**
	From	**To**	
Interim Period	Date of Investment until the Issue Date		September 13, 2015
First	September 14, 2015	December 13, 2015	December 13, 2015
Second	December 14, 2015	March 13, 2016	March 13, 2016
Third	March 14, 2016	June 13, 2016	June 13, 2016
Fourth	June 14, 2016	September 13, 2016	September 13, 2016
Fifth	September 14, 2016	December 13, 2016	December 13, 2016
Sixth	December 14, 2016	March 13, 2017	March 13, 2017
Seventh	March 14, 2017	June 13, 2017	June 13, 2017
Eighth	June 14, 2017	September 13, 2017	September 13, 2017
Ninth	September 14, 2017	December 13, 2017	December 13, 2017
Tenth	December 14, 2017	March 13, 2018	March 13, 2018
Eleventh	March 14, 2018	June 13, 2018	June 13, 2018
Twelfth	June 14, 2018	September 13, 2018	September 13, 2018
Thirteenth	September 14, 2018	December 13, 2018	December 13, 2018
Fourteenth	December 14, 2018	March 13, 2019	March 13, 2019
Fifteenth	March 14, 2019	June 13, 2019	June 13, 2019
Sixteenth	June 14, 2019	September 13, 2019	September 13, 2019
Seventeenth	September 14, 2019	December 13, 2019	December 13, 2019
Eighteenth	December 14, 2019	March 13, 2020	March 13, 2020
Nineteenth	March 14, 2020	June 13, 2020	June 13, 2020
Twentieth	June 14, 2020	September 13, 2020	September 13, 2020

Twenty First	September 14, 2020	December 13, 2020	December 13, 2020
Twenty Second	December 14, 2020	March 13, 2021	March 13, 2021
Twenty Third	March 14, 2021	June 13, 2021	June 13, 2021
Twenty Fourth	June 14, 2021	September 13, 2021	September 13, 2021
Twenty Fifth	September 14, 2021	December 13, 2021	December 13, 2021
Twenty Sixth	December 14, 2021	March 13, 2022	March 13, 2022
Twenty Seventh	March 14, 2022	June 13, 2022	June 13, 2022
Twenty Eighth and Final	June 14, 2022	September 13, 2022	September 13, 2022

3.18 REDEMPTION RESERVE

No redemption reserve is being created for the redemption of Sukuk. In view of the projected cash flows of the Company, secured nature of the Sukuk and good credit rating (which is supported by the retention of amount, equivalent to one-third of the quarterly installment by the collection agent to meet the upcoming installment), hence KE is expected to have adequate funds to meet its financial obligations arising from the issue of Sukuk. Further, there is also an additional cushion whereby a cash collection machanism will be triggered if overall entity level debt service coverage falls below a pre-defined threshold (i.e. lower then 30% of EBITDA to total Debt) as per rating reports (please refer to section 6.6 for details).

3.19 DEDUCTION OF ZAKAT

Zakat is deductible in case of Sukuk held by Muslim citizens of Pakistan, except where a statutory declaration of exemption is filed, and in case of certain non-corporate entities such as Trusts, Funds (subject to being qualified for non-deduction of Zakat in terms of the Zakat and Ushr Ordinance, 1980) etc. Zakat shall be deducted at the time of redemption of the principal amount of the Sukuk or on the market value based on the closing rate on the Stock Exchange on the first day of Ramadan, whichever is lower, at the rate of 2.50% on such dates as the concerned Sukuk becomes due for redemption in a Zakat year.

3.20 WITHHOLDING INCOME TAX

Payment of profit on Sukuk as reduced by the amount of Zakat, if any, under the Zakat and Ushr Ordinance, 1980 shall be subject to withholding income tax under section 151 of Income Tax Ordinance, 2001 at the rate as prescribed in Division IA of Part III of First Schedule to the Ordinance. Rate of tax to be deducted under Section 151 shall be 10% of the profit for filers and 15% of the profit for non filers, provided that for a non filer, if the profit paid is rupees five hundred thousand or less, the rate of tax deductible shall be 10%.

Tax deductible as stated above shall be a final tax on the profit arising to a tax payer other than a company.

3.21 CAPITAL GAINS TAX

Any capital gains derived from the sale of Sukuk shall be subject to capital gains tax as per the Income Tax Ordinance, 2001.

3.22 WITHHOLDING TAX ON SALE OF SUKUK

Pursuant to the provisions of Section 233A of the Income Tax Ordinance, 2001 the following charges are applicable on sale of securities:

- 0.01% Withholding Tax ("**WHT**") will be charged on sale of all shares, Modaraba certificates, and instruments of redeemable capital as defined in the Companies Ordinance, 1984.

3.23 DISCLOSURE OF DEFERRED TAXATION

Deferred tax is provided using the Balance Sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

The balance of deferred tax liability as at June 30, 2014 is PKR 14,767.933 million as per the following breakup:

	Amount in ‘000
Revaluation at the beginning of the year	**13,588,899**
Surplus arising on revaluation of leasehold land during the year	**2,145,410**
Incremental depreciation charged during the year	**(966,376)**
Deferred Tax Liability (as per audited accounts for the year ended June 30, 2014)	**14,767,933**

4. COMMISSION, BROKERAGE AND OTHER EXPENSES TO THE ISSUE

4.1 COMMISSION TO THE BANKERS TO THE ISSUE

An overall commission at an average rate of 0.50% of the amount collected, in respect of accepted applications will be paid to the Bankers to the issue for services to be rendered by them in connection with the public offer.

4.2 BROKERAGE

For the public offer, the Company will pay brokerage to the TRE Certificate Holders of KSE, LSE and ISE at the rate of 0.25% of the value of Sukuk actually sold through them.

4.3 EXPENSES OF THE ISSUE

The initial expenses of the issue paid or payable by the Company inclusive of all commissions are estimated to be PKR 460,150,000/-. The details of the expenses of the Issue are as follows:

EXPENSES CATEGORY	RATE	AMOUNT IN PKR
Bankers to the Issue / Distributors Commission and Fee Expenses **		225,000,000
Brokerage to the members of the Stock Exchange *	0.25%	4,375,000
Stamp Duty – Sindh	0.05%	77,000,000
Rating Fee – Initial		18,500,000
Initial Listing Fee of the Karachi Stock Exchange Limited		500,000
Processing Fee of the Securities & Exchange Commission of Pakistan		200,000
Annual Listing Fee of the Karachi Stock Exchange Limited		350,000
CDC Fee		75,000
Trustee Fee		8,750,000
Registrar Fee		4,400,000
Printing & Publication Expenses of Prospectus		3,000,000
Marketing Expenses		100,000,000
Legal Expenses		8,000,000
Out of Pocket Expenses		10,000,000
Total		**460,150,000**

*Represents maximum expenses related to the issue

**Includes a combined fee and commission package offered to Bankers to the Issue / Distributors whereby the amount shown above of PKR 225,000,000 is the expected maximum that will be expensed by KE in this category.

5. HISTORY AND PROSPECTS

5.1 BACKGROUND AND HISTORY[1]

KE, incorporated in 1913, is a publicly listed vertically integrated power utility with exclusive franchise rights for Karachi and its adjoining areas covering a licensed network area spanning 6,500 square kilometers.

KE is principally engaged in generation, transmission and distribution of electric energy to industrial, commercial, agricultural and residential consumers under the Electricity Act, 1910 and NEPRA Act, 1997, both as amended to date, to its licensed areas. The Company was privatized in November, 2005 with the transfer of 73% shares of Government of Pakistan to a consortium of Al Jomaih Group of Saudi Arabia and National Industries Group of Kuwait. However, in April, 2009, Abraaj Capital acquired majority equity stake along with full management control of the Company through investment in KES Power (Holding Company of KE), bringing in significant number of professional managers from other large companies. Abraaj Capital, the largest private equity player in the world outside of the U.S and Europe has invested USD 361 million in the Company's capital to date. During the fiscal year 2012-13 International Finance Corporation (IFC) and Asian Development Bank (ADB) converted USD 25 million each of their debt into equity resulting in approximately 5% shareholding in the Company.

Shareholding Structure

As of December 31, 2014, the shareholding structure of the Company is as follows:

Shareholder	No. of Shares Held	Shareholding
KES Power Limited (Holding Company)	19,110,182,090	69.20%
President of the Islamic Republic of Pakistan (GOP)	6,726,912,278	24.36%
Mutual Funds	50,396,026	0.18%
Directors, CEO and their Spouse and Minor Children	500	0.00%
Public Sector Companies and Corporations	6,348,260	0.02%
Banks, Development Financial Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	188,951,991	0.69%
General Public - Local	271,107,208	0.98%
International Finance Corporation	348,385,714	1.26%
Asian Development Bank	698,071,428	2.53%
Others	214,838,751	0.78%
	27,615,194,246	**100.00%**

However from 2nd to 4th February, 2015, KES Power Limited ("KESP"), has divested 774,639,412 shares i.e. approx 2.8% ordinary shares of KE to sundry investors through KSE.

The Company has a customer base of roughly 2.5 million customers with the consumer break up as follows:

Consumer Type	No. of Consumers (in '000) as at December 31, 2014	% Age	Total MWh (Jul-Dec 2014)
Residential	1,821	74%	3,056,221
Commercial	552	23%	503,514
Industrial	65	3%	1,953,453
Public Sector	14	1%	755,553

[1] Source: KE

Residential consumers remain main customers of the Company (74% of the total consumer mix), contributing almost 48.8% of total energy sales of the Company. Industrial consumers (which account for only 3% of the total consumer mix) have 39.2% share in revenue.

The peak demand and supply situation of electricity for KE is as follows:

Annual Maximum Peak Demand / Supply in MW		
Year	**Supply**	**Demand**
2010-2011	2,457	2,565
2011-2012	2,472	2,596
2012-2013	2,566	2,778
2013-2014	2,601	2,929
Jul-Dec 2014	2,576	2,784

Units generated / purchased during last four years are provided below:

Units Generated / Purchased in MWh (KE / IPPs)		
Year	**KE**	**IPPs**
2010-2011	**7,826,278**	**7,602,760**
2011-2012	**8,029,402**	**7,230,325**
2012-2013	**8,567,221**	**7,256,977**
2013-2014	**8,709,430**	**7,280,009**
Jul-Dec 2014	**4,880,820**	**3,704,683**

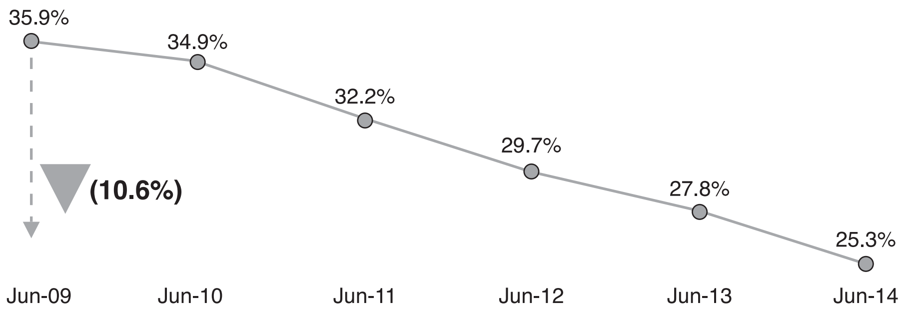
Units Billed and Recovered during last four years are provided below:

Units Billed / Recovered (kWh)			
Year	**Billed**	**Recovered**	**Difference**
2010-2011	**107,015,202**	**91,560,010**	**15,455,192**
2011-2012	**114,349,950**	**101,431,380**	**12,918,570**
2012-2013	**142,063,414**	**120,560,709**	**21,502,705**
2013-2014	**173,855,687**	**151,365,235**	**22,490,452**
Jul-Dec 2014	**100,401,500**	**87,699,868**	**12,701632**

KE has an installed generation capacity of 2,247 MW which includes 1,037 MW capacity enhancements undertaken by the Company over the past 5 years thereby registering a 46% increase in generation capacity. In addition to its own generation capacity, the Company has long term Power Purchase Agreements with IPPs for 365 MW. The company had a Power Purchase Agreement with National Transmission and Despatch Company (NTDC) for 650 MW for purchase of electricity which expired in January, 2015 however, the power from NTDC is still available and the Company is under discussion with the Ministry of Water and Power for renewal of the Power Purchase Agreement.

On the transmission and distribution front, the Company has increased its power transmission network to 64 grid stations and 128 power transformers along with an aggregate 11kV distribution capacity of 6,316 MVA. Capacity of nine (9) Power Transformers of 30 MVA enhanced by 5 MVA each (total 45 MVA) in addition to the existing capacity. KE's total T&D losses reached an 18-year record low of 25.3% as of June, 2014, out of which transmission losses for 2013-2014 were 1.3%.

The reduction in T&D losses of KE between FY 2009 and FY 2014 has been graphed below:



KE is listed on all three stock exchanges of Pakistan: KSE, LSE and ISE and has a total market capitalization of PKR 254,612 million[2] as on December 31, 2014.

5.2 PRINCIPAL BUSINESS

The Company is principally engaged in generation, transmission and distribution of electric energy to industrial, commercial, agricultural and residential consumers under the Electricity Act, 1910 and NEPRA Act, 1997, both as amended to date, to its licensed areas.

5.3 GENERATION EXPANSION AND REHABILITATION

The new management has shown its resolve to turnaround the Company and reduced the demand supply gap by investing over a billion dollars in shape of debt and equity for new infrastructure projects which have led to enhancement of generation capacity by 1,037 MW of efficient energy and augmentation of transmission and distribution infrastructure.

The enhancement in generation capacity has occurred in the following manner:

GE-Jenbacher Gas Engines 180 MW

This initiative consisted of phasing-out old Frame-V gas turbines with high-efficiency engines at KE’s historic Korangi Gas Turbine Power Station and SITE Gas Turbine Station. The entire project was completed in record time and earned prestigious Awards in the Asian Power Awards 2009 for “Power Plant of the Year” and “Best Fast Track Power Project” in Asia.

The units are operating at an impressive efficiency (FY-14) of 35.8% Higher Heating Value (“HHV”) as compared to older units of 20% efficiency which were replaced by GE-Jenbacher Gas Engines and have proved to be a step in the right direction considering the current situation of restricted natural gas supply.

Combined Cycle Power Plant at Korangi Thermal Power Station, 220 MW

220 MW Combined Cycle Power Plant (CCPP) at Korangi was formally inaugurated by the then Honourable Prime Minister of Pakistan, Syed Yousuf Raza Gilani on 26th February, 2010. This marked the culmination of an exhaustive effort by the new management of KE to turn around a project which had been delayed significantly.

The plant consists of four (04), state-of-the-art LM6000 Aero-derivative Gas Turbines from GE and a steam turbine. The complex has an efficiency (FY-14) of 40% HHV as compared to the old Korangi Thermal Plant which was operating at 27% efficiency.

[2] Based on closing rate on December 31, 2014 of PKR 9.22/- per share and total shares outstanding as of December 31, 2014 at 27,615,194,246. Source: www.kse.com.pk and KE Accounts.

560 MW Combined Cycle Power Plant Project at Bin Qasim

The 560 MW Combined Cycle Power Plant is KE's flagship project having efficiency (FY-14) of 42.8%. This combined cycle plant is constructed at Bin Qasim and is currently the largest project of its nature in Pakistan. The project has been constructed by Harbin Power, a reputed company from China and under the strict environmental guidelines of World Bank.

The three gas turbines started commercial operation in May, 2012 whereas the steam turbine started commercial operation in June, 2012. The plant has significant impact on overall fuel efficiency and profit margins of the Company.

Rehabilitation of 1,260 MW Bin-Qasim Thermal Power Station-I

KE achieved 50 MW capacity enhancement through major overhauling of the three units and maintenance of remaining three units at BQPS-I. Another Rehab Plan for Unit - 1, 2, 5 & 6 in place to increase capacity by about 86 MW and efficiency by 2.2%.

Strategic Initiatives – Business Development

Coal Conversion

The coal conversion project is one of the important initiatives by KE. Status of this project is as follows:

- A company under the name of K-Energy (Pvt.) Ltd. has been established on October 30, 2012 by BEEGIL (the investors), to whom KE shall lease its existing unit no. 3 and 4 of Bin Qasim Power Station 1 under a long term lease agreement. These units currently run primarily on furnace oil and after conversion will use coal as fuel. The shareholders approval has already been obtained in EOGM held on 23rd of August, 2013. K-Energy (Pvt.) Ltd. shall function as an Independent Power Producer which shall sell power to KE and a Power Purchase Agreement is currently under negotiation.
- EPC Contract between K-Energy (Pvt.) Ltd. and Harbin Electric International was signed in November, 2013.
- Power Sale Proposal negotiated and received from K-Energy (Pvt.) Ltd. and KE has filed the Power Acquisition Request with NEPRA.
- NOC in relation to EIA report has been received from the Sindh Environmental Protection Agency.
- NEPRA has approved the generation license application of K-Energy (Pvt.) Ltd.

New Coal Fired 700MW Power Plant

KE has initiated development of a Greenfield 2 x 350 MW coal fired power plant in the strategic location of Port Qasim. Land has been identified and EPC contractors and financial investors / sponsors are being finalized. Project studies including the feasibility and ancillary studies are underway and expected to be completed soon.

Thar Coal Project

Coal deposits in Thar region are one of the largest lignite reserves in the country. Thar Coal is set to play a strategic role in meeting Pakistan's future energy needs. KE has been engaged with Oracle Coalfields for the development of 600 MW power plant at Thar Block VI. Oracle has already signed up two Chinese partners. Oracle is now finalising detailed project agreements with its two Chinese partners (CAMCE and Shandong Electric Power Construction Co.) and is now finalizing detailed project agreements with them.

Hydro Power

KE has also entered into an MoU with the Laraib Group, with a view to procure power from 640 MW Azad Pattan Project, and 250-300 MW Ashkot Hydropower Project.

Renewable Energy

As part of its Climate Change Policy, KE is also engaged with Wind and Solar power developers for the addition of renewable energy into its portfolio and has provided LOIs and signed term sheets with some developers who are in the process of finalising land options.

Capacity and Efficiency Enhancement Generation Projects

Korangi Combined Cycle Power Plant Phase 2

KE has signed an EPC contract for conversion of open cycle of Gas Turbines GT 1 and 2 to combined cycle by instaling a new steam turbine at Korangi combined cycle power plant. This will increase the complex efficiency from 42% to 45% and the output of the plant shall increase by 27.5 MW. The contract was signed on November 7, 2012 with Istroenergo Group (IEG) of Slovakia. The New Steam Turbine successfully synchronized on February 24, 2015. Preparation for Performance Test and Reliability Test Run (RTR) has also been started.

S and K Phase 2

KE has signed an EPC contract for conversion of 2 open cycle GE Jenbacher gas engine plants at SITE and Korangi to combined cycle. This will increase the complex efficiency from 37% to 42% and the output of plants will increase by 10 MW each. The offshore contracts were signed with DESCON Engineering FZE and the onshore contracts were signed with Descon Engineering Limited on June, 14, 2013. Both Projects are presently in the construction phases. Steam Turbine of Korangi Project is placed on its foundation, whereas for Site Project it will be arriving in April, 2015. The pre-commissioning is expected in June / August 2015 time frame for K & S Projects respectively.

5.4 TRANSMISSION NETWORK - EXPANSION & REHABILITATION

The transmission system is integral to the power supply network. With significant growth in Karachi over the last decade, new bottlenecks appeared in the transmission system. The new management expedited the commissioning of new grid stations and transmission lines to allow reliable supply of energy to the people of Karachi.

The following significant actions have allowed KE to improve service to its customers:

Commissioning of New Grid Stations and Transmission lines

Since September, 2008, the new management has pushed through with commissioning of eleven new grid stations and 364 new 11 KVA feeders with net addition in transformation capacity to 706 MWA inclusive of 44 new 11 KV feeders instaled in 2013-2014. These grid stations were located in densely populated and critical areas and their expedited commissioning relieved the overloading on the system. These grid stations are located in Korangi South, Gulshan-e-Maymar, PRL, Airport II, Memon Goth, Azizabad, Jail Road, DHA-I and KE Hospital. Mobile grids were also added at KDA and Gharo having transformation capacity of 15 / 20 MVA in FY 13-14.

In the same duration, 19 new High Tension transmission circuits have also been added to the system while 62 km of new transmission lines have been installed. Additionally 189 km circuit length rehabilitated since 2008. This is a significant achievement considering the congestion within the densely populated areas of the city and difficulties in managing right-of-way.

Improvements in Network delivery

With addition of grid stations / transmission lines, load distribution and effective maintenance, the transmission losses at Extremely High Voltage level (220 kV, 132 kV and 66 kV) have been reduced from 4.2% in September, 2008 to a current level of 2.7% in June, 2014.

Similarly, the benefits of effective maintenance practices can be seen in terms of improvement of the system reliability. There has been a 55% reduction in faults of Grid transformers and 41% reduction in tripping due to transmission line faults since 2008.

Implementation of a SCADA (Supervisory Control & Data Acquisition) system for operation of the network is yet another achievement. The state-of-art system allows efficient monitoring and control of transmission network from the central location and also helps in analyzing the faults.

The Company is also in the process of executing new project to upgrade and enhance its transmission network. Details of the project are as under:

Transmission Project

KE is undertaking significant investment into the expansion of its transmission network which will include the installation of 08 new substations and transmission line equipment and expansion of 20 existing grid stations. The expansion project is expected to incur capital expenditure over a 36 month period. The total project cost is expected to be US$ 365 million, comprising US$ 330 million of capital expenditure and an estimated US$ 35 million of financing costs. A comprehensive and integrated scope of Transmission Project (TP1000) is conceived to meet the growing load demand of the metropolitan city by up gradation of existing transmission network and addition of new grid stations and extra high transmission lines.

This Project mainly features following critical areas which will be addressed along with rehabilitation and revamping of existing grids / transmission line:

- Three new 220 kV grid stations at Gulshan, Surjani and Port Qasim areas along with new 220 kV transmission lines of more than 80 KM and three 250MVA auto transformers at Gulshan and Surjani.
- Five new 132 kV grid stations at Old Golimar, Labor Square, Bath Island, Shadman & Gadap. Addition of 15 power transformers at existing grid stations.
- Addition of five new 220 kV and six new 132 kV transmission lines.
- Addition of three 250 MVA auto transformers with bays at Baldia, KCR and Mauripur (750 MVA).

5.5 DISTRIBUTION

KE is one of the few power utility to mark 100 years of its existence – the only remaining vertically integrated power utility in Pakistan. KE serves as the most fundamental catalyst in fostering the country's economic growth. Over the last few years, KE has practically demonstrated a strong will and the ability to bring about a sustainable change and it is visibly pursuing a growth and transformation path that places it among the most dynamic institutions not only in Pakistan but also in the region.

KE Distribution comprises of four regions further sub-divided into distribution centers serving 2.5 million consumers in Karachi – Pakistan's financial capital, commercial hub and industrial center. KE's Integrated Business Centre (IBC) project has emerged as a successful model for overall restructuring of the distribution network, with a total of twenty eight IBCs located across Karachi.

Customer Facilitation

KE became the first-ever distribution company in Pakistan to earn an ISO 9001-2008 Certification for its Integrated Business Center (IBC) at Site industrial area during the last fiscal year. KE continues its customer-centric approach towards quality services to its consumers and during the period earned the same certification for four (4) more IBCs namely Korangi (KIMZ), Gulshan, Clifton and Defence. The remaining IBCs are working towards the same goal to align business processes with business objectives in order to further improve customer services.

Strategic Initiatives:

Smart Grid Initiatives

Smart grid project is a strategic initiative with an aim of bringing in technology to reduce Aggregate Technical & Commercial (AT&C) losses through improved energy monitoring and with a Distribution Network Management System which will improve operations hence reducing network outage response time.

Smart grid is now heading towards its implementation phase as both the local meter vendors and network monitoring solution vendors have been taken on board. Both meters and network monitoring devices will send and receive real time data to the back-end platform enabling proficient monitoring, planning and load management capability.

To develop optimised, efficient and comprehensive 'TO BE' processes, 'AS IS' workshops have been conducted with cross functional stakeholders first to develop an understanding of the existing processes. The understanding developed will be used as a basis for 'TO BE' workshops about to be initiated.

Hardware and Software for the backend platform has already been delivered and installed. Configuration is being carried out which will enable this smart grid project for further development in terms of solution.

GIS based mapping of all the distribution nodes of the selected clusters is also being carried out which will be integrated with KE's backend system enabling remote management, analytics and future enhancements.

In order to ensure successful output from this project and safeguard the investment, network health improvement activities are being carried out in parallel at both the clusters which will safeguard the instalation of all the meters and monitoring devices.

Aerial Bundled Cabling (ABC)

- ABC was launched in February 2011 and has been successfully rolled out on 91 Pole Mounted Transformers (PMTs) namely in areas of Gulshan, Garden, North Nazimabad, Bahadurabad and Gizri. Losses have been significantly reduced on these PMTs.
- Aerial Bundled Cabling (ABC) continues as a means towards sustained loss reduction in areas infested with illegal consumption of electricity despite various external challenges and at times violent resistance from illegal electricity consumers.

Rebate / Special Installment Facility

- A Company-wide programme of providing rebate / token payment to its consumers so as to provide them with an opportunity to board onto the good consumers' category and clear out their long outstanding dues
- Along with several other consumer specific tailored schemes to facilitate payments, KE Managment has been working hard to penetrate in low affluent areas where consumer's propensity to pay has considerably decreased over the years following tariff increases.

Distribution Service Provider (DSP) agreements

Distribution Service Provider (DSP) agreements were signed effective from August, 2012 for:

- IBC Orangi 1 with Paras Power (Pvt.) Limited, and
- IBC Gadap with Sherwani Enterprise (Pvt.) Limited

With DSP arrangement in place, KE gained access to several NO-GO areas, Goths and Katchi Abadis, which have resulted in the provision of adequate security coverage to disconnection / reconnection gangs, disconnection of several high loss PMTs and prevention of mob attacks against disconnection and successful negotiation with consumers on payment of outstanding dues.

Mobile Meter Reading

- The objective of Mobile Meter Reading (MMR) project is to eliminate manual meter reading with the intent of reducing errors due to human intervention. An android application has been developed that enables meter readers to go on the field and note down meter readings from the meters on their route. The project has been rolled out in 18 out of the 28 business centers, two-third of KE with more to follow in future.

Call Centre - Expansion & Value Added Services

- Call Center expansion has been done to 170 seats from 165 seats to increase service levels. Value added Services include Complaint registration through email on Customer Care and complaint registration through website to provide alternate channel of communication, bill related queries through billing portal to raise queries and complaints through Email.
- Moreover, other initiatives include 24 / 7 SMS chat service with dedicated short code 8119 to register complaints through SMS, addition of redundancy to call center by adding another helpline 99000 to ensure service availability, Star Consumers Payment reminder service through interactive response to avoid disconnection of their supply and lastly, the introduction of IVR's auto-validation for customer feedback against their registered complaints.

New Connection Customer Desk

A corporate customer desk has been established to cater to all customers above 1 MW to facilitate our valued Bulk Power customers and provide a fast track one window solution.

Other Loss Reduction Initiatives

- Other loss reduction projects include replacement of old black Chinese meters, efficient faulty meters replacement, Busbar arrangements in multi-stories specially in densely populated areas.
- The company has started focusing on reduction of technical losses on its distribution network. An energy flow analysis is being conducted to identify areas where investment is required to reduce technical losses.

Low Cost Meter Drive

- The concept of "One Stop Shop" was executed where residents and shop owners could fill in the application and get on spot approval and low cost meter installation.
- The Company representatives had to do an aggressive campaign in these areas to encourage people to get the low cost meters installed instead of illegal hook connections. It was witnessed that the interest of local communities gradually built up after commencement of mobile new connection van activities were seen.

Infrastructure Fortification Drives

- Earthing conducted at various PMTs & Sub-Stations to provide proper grounding to the distribution network, to protect from thermal or mechanical damage while ensuring safety of personnel.
- High Tension Capacitors installed to compensate for reactive power, enhance system capacity and improve power factor thereby improving the voltage profile of the distribution system.
- Earth Fault Indicators installed at several locations in order to minimise response time in fault rectification
- Busbar arrangement completed in a number of multi-storied and high rise buildings to control theft and monitor actual units billed against the units sent out.
- 11 kV underground feeders laid out with a capability to relieve overloaded feeders & cater to new connections.

KE Unbundling

As part of the strategic evaluation exercise, KE has been evaluating strategic options with regards to potential unbundling i.e., demerge into two / three separate entities – Generation, Transmission and Distribution. The decision to evaluate the unbundling option was approved by Board of Directors of KE in their meeting held on May 8, 2014.

It should be noted that all business units (Generation, Transmission and Distribution) have separate licenses and are independently structured in terms of organization, management and financial reporting. Effectively, the current structure allows for a smooth unbundling process in case it is pursued. If it is more beneficial to operate as an unbundled organization then in that case the law allows the Company to do so and the Company is organizationally structured to be able to implement it quickly and effectively.

5.6 FINANCIAL OVERVIEW

Balance Sheet Overview

The following is a summary of key items of KE's balance sheet:

Balance Sheet Overview							
(PKR in '000)	Half Year Ending Dec 31, 2014	FY Ending June 30, 2014	FY Ending June 30, 2013	FY Ending June 30, 2012	FY Ending June 30, 2011	FY Ending June 30, 2010	FY Ending June 30, 2009
Current Assets	128,902,247	133,171,401	113,547,127	101,667,773	68,758,873	65,903,117	48,918,076
Current Liabilities	171,743,935	175,233,959	160,660,079	146,328,523	120,670,011	93,497,024	60,261,038
Fixed Assets	170,220,122	170, 286,970	164,681,401	170,423, 386	167,514,030	141,432,310	82,193,852
Total Assets	306,552,341	306,315,566	278,879,165	272,278,211	236,352,699	207,629,498	131,935,799
Total Equity[3]	84,166,668	70,967,273	53,714,342	41,641,869	26,503,617	31,300,905	(82,279)
Total Liability	222,385,673	235,348,293	225,164,823	230,636,342	209,849,082	176,328,592	132,018,078
Long Term Debt	8,283,469	18,231,391	24,901,685	43,183,473	47,157,037	39,289,102	45,030,126
Shareholder's Equity	57,619,313	43,541,306	28,477,815	14,546,786	(2,449,288)	(525,112)	(566,832)
Total Paid Up Capital	96,261,551	96,261,551	96,261,551	92,957,949	80,335,490	74,966,045	52,068,169
KEY RATIOS							
Current Ratio (x)	0.75	0.76	0.71	0.69	0.57	0.70	0.81
LTD / Assets (x)	0.03	0.06	0.09	0.16	0.20	0.19	0.34
LTD / Equity (x)	0.10	0.26	0.46	1.04	1.78	1.26	(547.29)
Total Debt to Equity	0.46	0.49	0.56	0.61	0.70	0.56	0.99
Total Debt to Assets	0.24	0.24	0.28	0.30	0.25	0.28	0.44
Break-up Value per Share	3.05	2.57	1.95	1.67	1.24	1.58	(0.01)
Date of Market Price Per Share	31-Dec-14	30-Jun-14	28-Jun-13	29-Jun-12	30-Jun-11	30-Jun-10	30-Jun-09
Market Price Per Share (PKR)	9.22	8.49	6.22	3.24	2.15	2.23	2.65

Source: KE Annual Accounts

Total Assets of the Company have increased with CAGR of 18.35% in last 6 years and currently are at PKR 306.32 billion (as of June 30, 2014).

During the last 6 years the fixed assets of the Company have increased with CAGR of 15.68% and are at PKR 170.29 billion (as of June 30, 2014).

As at June 30, 2014, total Equity of the Company is PKR 70.967 billion, inclusive of surplus on revaluation of assets of PKR 27.42 billion.

Income Statement Overview

The following is a summary of key items of KE's Income Statement:

Income Statement Overview							
(PKR in '000)	Half Year Ending Dec 31, 2014	FY Ending June 30, 2014	FY Ending June 30, 2013	FY Ending June 30, 2012	FY Ending June 30, 2011	FY Ending June 30, 2010	FY Ending June 30, 2009
Revenue	100,804,752	194,708,315	188,998,648	162,815,629	130,721,180	103,936,515	85,224,084
Expenditures	87,357,444	173,858,017	171,036,965	152,544,653	135,648,103	111,850,367	95,055,293
Operating Profit / (Loss)	13,447,308	20,850,298	17,961,683	10,270,976	(4,926,923)	(7,913,852)	(9,861,013)
Profit / (Loss) After Tax	13,275,330	12,887,235	6,825,550	2,620,339	(9,393,534)	(14,641,216)	(15,484,942)
Financial Cost	5,439,462	11,275,212	13,960,441	7,702,419	5,127,376	6,823,638	5,589,991
EPS	0.48	0.47	0.26	0.11	(0.44)	(0.74)	(1.18)
Gross Profit Margin (%)	21.70	16.65	15.25	10.00	0.19	(3.90)	(7.78)
Operating Margin (%)	13.34	10.71	9.5	6.31	(3.77)	(7.61)	(11.57)
Net Profit Margin (%)	13.17	6.62	3.61	1.61	(7.19)	(14.09)	(18.17)

Source: KE Annual Accounts

[3] Total Equity includes surplus on revaluation of property, plant and equipment.

KE recorded total revenue of PKR 194.708 billion during FY 14 compared to PKR 188.98 billion during FY 13, registering a 3.02% increase. The total revenue can primarily be bifurcated into two components - total units billed and tariff owing to cost of generation and power purchase. During FY 14, sale of energy units (net) stood at around PKR 139.112 billion, contributing 71% approx towards total revenue, while power tariff adjustment on account of increase in fuel prices and power purchase cost stood at PKR 55.37 billion. Overall, increase in revenue was a combination of increase in units billed and reduction in T&D losses during FY 14.

KE's total expenditure stood at PKR 82.97 billion during FY 14, compared to PKR 78.371 billion in FY13. Total expenditure of the Company comprises purchase of electricity and cost of fuel for generation of power. However despite the increase of sale units, the cost of fuel decreased by 5%, during FY 14 mainly due to increased reliance on natural gas which has increased by ~8% during FY 14. The fuel mix (Gas:FO) of the Company changed from 78:22 in FY 09 to 49:51 in FY 14.

Consumer services and administrative expenses increased by 6.2% only which is mainly because of increased depreciation and amortisation expenses.

Overall, the marked increase in revenue and continuous reduction in Transmission & Distribution losses in FY 14 to 25.3% (FY 13: 27.82%) resulted in an improvement in profitability of the Company.

KE posted an after tax profit of PKR 12.887 billion during FY 14 compared to PKR 6.826 billion in FY 13, backed by management's efforts to turnaround a company that had been incurring losses since 1995-1996 to fiscal year 2011.

The Company exhibited improved performance during the half year ended December 31, 2014 as reduction in Transmission and Distribution losses by 2.2% and improvement in plant efficiencies resulted in a 5.44% rise in revenue over the corresponding period last year. Reduced electricity purchase costs and an increased portion of other income provided a significant boost to the Company's profitability as Net Profit After tax stood increased by 181% over the corresponding period last year parked at PKR 13,275 million. The significantly improved bottom line indicated that the Company is now enhancing its synergies and indicates sustainable growth as the EPS stood at PKR 0.48 in December, 2014 over PKR 0.17 in Decmber, 2013.

A slight improvement was witnessed all across the company's balance sheet as its net assets position improved to PKR 306.5 billion, the same was further augmented by a reduction in the company's long term liabilities mainly attributable to a decrease in long term financing. As a direct result of the increased profitability the company's shareholder's equity stands increased to PKR 84.17 billion up by 18.6% over the past six months. The enhanced equity allowed the Company's book value per share to stand increased at PKR 3.05 per share.

5.7 MARKETING AND COMMUNICATION

The Marketing & Communications Department was established back in 2008. The sole purpose of KE establishing this department was, to bring the stakeholders, the public and the media closer to KE's operational structure and its work flow. Through this department, two things were built very strongly, Trust & Perception. Through open, transparent and continual communication, the company's positive image was built. This department has helped built a more socially responsible aura, both within and outside the company. The department proactively engages with all tiers and forms of media, be it Print, Electronic or Digital, and through this aggressive and balanced engagement, the company's positive image has been created.

KE's media monitoring cell along with its response team operate round the clock and liaise with the media personnel. The Media department focuses on relationship management which is crucial for KE and its operations. The department not only takes the general beat reporters on-board and builds a relationship with them, but the higher-ups of Print and Electronic Media are also taken on-board, and the department continues to build a strong relationship with them. Apart from tools that help in relationship-building, the department has other online and customised tools which help ensure effective and timely communication to the media.

KE's Marketing & Communication Department conducts various campaigns not only for the betterment of the company, but also for the society. Successful campaigns such as "The Name and Shame Campaign, Anti-Theft Campaign, Speak-Up, Energy Conservation, Sukuk Campaign” were a few to name. A major campaign that took place after thorough research was the ‘Corporate Rebranding’ that took place at the start of 2014, when **Karachi Electric Supply Company Limited‘s** name was changed to K-Electric (KE). These are proactive and research-based strategic campaigns, and the use of print-ads, digital-media, PRs, tickers, sound-on-tape, interviews or beepers help KE’s team to get its message across on all forums. Over 400 press ads enabling KE to enhance its “Brand Equity” and defining KE as a ‘moderate brand’ is mirrored in our independent brand tracker study that also shows a comparison of consumer perception between different utility companies in Pakistan.

The Company also has very active Corporate Social Responsibility (CSR) and sports programmes that focus on community development, primarily in health and education, provision of uninterrupted, free & subsidised power supply to vital health & educational facilities, awareness of energy conservation and electricity theft, cultural heritage conservation and creation of powerful sports platform for under privileged communities. KE’s Social Investment Programme positively impacts 2.4 million individuals annually, which KE is proud of.

Independent research claims that KE has made progress in regaining the customer’s trust, but KE vows to further strengthen all ties with multiple stakeholder groups. The department’s focus is to portray KE as a strong and respectful brand that customers respect, trust and support.

5.8 RISK FACTORS

BUSINESS RISKS

1. Gas / Fuel Supply Risk

The Company has potential risk that supply of gas may either not be available or the quantity being supplied is limited this may have a negative impact on KE’s power generation capacity.

Incase of gas supply, it is vital to note that Company has an allocation of 276 MMCFD of gas from the Government of Pakistan. Moreover, the Company signed a payment plan with Sui Southern Gas Company Limited (“**SSGC**”) effective March, 2014 which provides assurance regarding supply of gas to KE. The plan has been renewed currently in April, 2015. Further, KE is in active negotiations with SSGC for signing of Gas Supply Agreement as per the allocation of ECC. In addition to this most of the generation capacity can be run on alternative fuels like FO which is more expensive than Gas.

Moreover, KE also has long-term Fuel Supply Agreements (FSA) with Pakistan State Oil Company Limited (PSO) and Byco Petroleum to meet the future FO requirements. These agreements are valid until 21st April, 2020 and 24th September, 2015 respectively.

The Company is also pursuing alternative fuel based projects to diversify its fuel mix.

2. Financial Risks

KE has a history of losses along with negative financial indicators. These are largely weighed down by the Company’s Transmission and Distribution losses (T&D) that are currently at 25.3% as of June 30, 2014. **Continued losses and reduced financial strength could potentially impact the Company’s turnaround pattern and potentially increase debt payment risk.**

The Company also faces financial risk due to the circular debt issue as KE holds outstanding payables to and receivables from public sector entities.

However, Abraaj Capital being the majority stake holder, through KES Power Ltd. has taken over KE in the year 2009 with a well qualified management and since then KE has witnessed a significant turnaround in its financial and operational performance. Abraaj Capital, the largest private equity player in the world outside of the U.S and Europe has invested USD 361 million in KE while the GOP has invested USD 125 million in the Company to date.

Furthermore, IFC / ADB converted USD 50 million of their long term loans into equity in December, 2012, becoming shareholders of KE which validates the turnaround strategy of the Company.

KE achieved a major milestone in FY 12 by recording an after-tax profit of PKR 2.60 billion, treading out of a history of losses since 1995-96. The after-tax profit registered a 156.78% increase with PKR 6.729 billion in FY 13. Once again the trend continues as after-tax profit registered an 88.8% increase with PKR 12.887 Billion in FY 14. KE reduced its T&D losses to an 18-year low of 25.3% in FY 14 while collections from more than two-third of Karachi stand at 95%. The reduction in T&D losses and improved collections stem from Company's strategic initiatives towards reducing line losses and electricity theft. The Company has undertaken the Smart Grid initiative which aims at reducing AT&C losses through improved energy monitoring, improved operations and reduced network outage. ABC is another means to sustain loss reductions in areas infested with illegal consumption of electricity which has already been rolled out on 91 PMTs. In addition to this, KE has reaped benefits from its supply management (segmented load shedding) under reward and reprimand policy whereby 58.2% of feeders are under load shed free regime.

The Company has also executed well planned generation expansion projects whereby 1,037 MW has already been added to the system during the last six years.

Nevertheless, the management also has to cope with various external factors which have impacted the Company's performance, such as any rise in oil prices, short supply of gas, i.e. external factors which are not under the control of the management.

Lastly, the Company is effectively managing its working capital cycle so as to neutralize the effect of circular debt and with the increase in industrial tariff from Fiscal Year 2013-14, the Company's reliance on GoP for subsidy is reduced which will help to mitigate the circular debt issue.

3. Coal Conversion Risk

KE has planned to convert its existing furnace oil based unit No. 3 and 4 of Bin Qasim Power Station into coal based units. Increase in coal prices, and underlying inflation, may adversely affect the relative profitability.

However, establishment of long term coal supply agreements are currently under discussion for uninterrupted supply of coal. It is also pertinent to note that incase the coal conversion of above mentioned units does not materialize, they can still be operational and run on furnace oil.

4. Regulatory Risk

Changes in the regulatory framework may have an effect on the profitability of KE.

5. Power Supply Risk

KE had a Power Purchase Agreement (PPA) with NTDC for 650 MW which expired in January, 2015. This 650 MW is an important component of the overall energy mix of KE and its unavailability can have significant effect on the operations of the Company.

However, the power supply from NTDC is still available and the Company is under discussion with the Ministry of Water and Power for renewal of the same. Further given the strategic importance of the city of Karachi, the management is fairly confident that the PPA will be renewed.

In addition to the above the initiatives of new management have already led to addition of 1,037 MW in KE's self generation capacity, taking the total to 2,247 MW. KE's management is aggressively working on multiple generation enhancement projects including Coal conversion, Thar Coal and Hydro Power Project along with generation capacity and efficiency enhancement projects at SITE and Korangi Complex.

6. Insolvency Risk

Where KE, following its insolvency but not otherwise, is required to render services to generate consumer receivables, an argument may be made that it would not be fair to the general body of creditors to deplete the assets of the insolvent entity for the benefit of a particular set of creditors. This issue is, however, far from settled and under the foregoing circumstances it is possible that the secured creditor's interest over consumer receivables may be at par with other creditors of KE following its insolvency. It needs to be emphasised that the above risk arises only in the context of KE becoming insolvent.

It should be noted here that KE is the only remaining integrated power utility provider with exclusive licensing rights for Karachi and its adjoining areas spanning 6,500 square kilometers and accounting for over 60% of the country's industrial production. As such, due to the significance of KE to Pakistan's population and economy, insolvency of KE would be a remote possibility.

7. Litigation Risk

The litigations mentioned in Section 9.10 may have an adverse impact on the Company.

The Company is confident, based on the opinion of its legal counsel, that the outcome of the cases will be in favour of the Company, hence no provisions have been taken into the financial statements of the Company, ended June 30, 2014.

INSTRUMENT RISKS

1. Payment / Default Risk

This risk is associated with the repayment capacity of KE to service the Sukuk (Musharaka Investment) Redemptions and profit payments. Also, there is a risk that there may be a timing mismatch between receipt of consumer collections and payment due date of principal / profit payments. Further, since the Sukuk will be redeemed through 20 equal quarterly installments, payment risk is largely weighted on those particular repayment dates.

It is to be highlighted that the Instrument has received AA+ rating which depicts low probability of default. Sukuk (Musharaka Investment) will be redeemed in 20 equal quarterly installments starting after the end of Grace Period, which lowers the burden and risk of repayment of Sukuk (Musharaka Investment) by the Company.

Further, KE has been making regular and timely payments for the TFC issue launched in May, 2012 and the Sukuk issue launched in February, 2014. Furthermore, KE has no history of default since inception.

2. Liquidity Risk

By investing in the Sukuk the investor assumes the risk of not being able to sell the Sukuk without adversely affecting the price of the instrument.

It is pertinent to note that Sukuk are to be listed on KSE, which will act as provider of liquidity for Sukuk during the life of the instrument by facilitating secondary market trades. Furthermore, Sukuk offers floating rate of return which may enable investors to sell Sukuk in various interest rate scenarios.

3. Interest Rate Risk / Reinvestment Risk

Increase in market interest rates, and underlying inflation, may adversely affect the comparative return and / or the real (inflation adjusted) return for the investors.

As a counter measure the Sukuk is a floating rate instrument that offer attractive margins over KIBOR. Since the returns for investors are linked to a benchmark, any increase in market interest rates or inflation may be reflected accordingly in returns for investors.

4. Price Risk

The Sukuk will be listed on KSE and Sukuk holders will be able to sell or buy Sukuk through brokers of the Stock Exchange. Price of Sukuk will depend on the bond market behaviour and the performance of the Company. Hence price may rise or fall and result in increase or decrease in the value of Sukuk to any extent.

KE Sukuk is a floating rate instrument that offers attractive margins over KIBOR, Price changes of Sukuk will therefore be linked to benchmark profit rate.

5. Changes in Tax Regime

Any adverse change in the existing Tax regime for investment in Sukuk, may affect the redemption and profit for Sukuk investors.

6. Exchange Rate Risk

Fluctuations in exchange rates may adversely affect the Company as fuel costs for the Company would escalate. However, the fuel cost charges are a pass through item in the tariff to the consumers.

7. Shariah Structure Risk

The structure is based on Rental payments from identified assets. In case of total loss of assets or partial loss that may impair the usability of the Sukuk Assets, the rentals and / or Sukuk (Musharaka Investment) Redemption cannot be done by the Issuer.

Considering the above, Takaful / Insurance cover has been obtained for total and partial loss events and the return of the Takaful / Insurance (net-off Issuer's share) proceeds shall be distributed among Investors.

DISCLAIMER

It is stated that all material risk factors with respect to this issue have been disclosed to the best of knowledge and belief and that nothing has been concealed in this respect.

6. FINANCIAL INFORMATION AND CREDIT RATING REPORTS

6.1 AUDITORS' CERTIFICATE

KPMG

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KESC House 39/B
Phase II, D.H.A.
Karachi

Our ref KA-ZQ-418

Contact Mohammad Mahmood Hussain

15 January 2015

Dear Sirs,

Auditors report under Section 53(1) read with Clause 28, Section 2 of Part I of the Second Schedule to the Companies Ordinance, 1984 for the purpose of inclusion in the prospectus for proposed issue of rated, listed and secured Sukuk by Karachi Electric Supply Company Limited

We have summarised from the audited financial statements of K-Electric Limited [formerly Karachi Electric Supply Company Limited] ("the Company") for the five years ended 30 June 2010 to 30 June 2014 and in-accordance with Section 53(1) read with Clause 28 of Section 2 of Part 1 of the Second Schedule to the Companies Ordinance, 1984 a summary of the assets, liabilities and shareholders' equity and the profit and loss accounts of the Company together with other relevant information are given in the following paragraphs for inclusion in the prospectus for proposed issue of rated, listed and secured Sukuk by the Company.

The financial statements for the years ended 30 June 2010 to 30 June 2014 were audited by us (KPMG Taseer Hadi & Co., Chartered Accountants). Unqualified opinions were issued in these years however, the following emphasis of matter paragraphs were added in our audit reports to draw attention of the readers. The emphasis of matter paragraphs inserted in our audit report are reproduced below:

For the financial year ended 30 June 2010:-

(i) transmission and distribution losses of the Company are approximately 34.89 percent (30 June 2009: 35.85 percent) of the total electricity generated and purchased during the year. The management of the Company maintains that one of the factors attributable to these losses is the alleged theft of electricity, which has directly affected the profitability of the Company. These factors, in view of the management, if controlled effectively, may enable the Company to minimize its overall losses. The amount of theft however remains indeterminate. The measures that the Company is taking with respect to operational and infrastructure rehabilitation program and financial measures designed to improve the financial position of the Company which are duly supported by the sponsors of the Company; and

(ii) Redeemable Preference shares have been treated by the Company as part of equity, in view of the requirements of the Companies Ordinance, 1984. The matter of its classification will be dealt in accordance with the clarification from the Securities and Exchange Commission of Pakistan.

For the financial year ended 30 June 2011:-

(i) transmission and distribution losses of the Company are approximately 32.20 percent (30 June 2010: 34.89 percent) of the total electricity generated and purchased during the year. The management of the Company maintains that one of the factors attributable to these losses is the alleged theft of electricity, which has directly affected the profitability of the Company. These factors, in view of the management, if controlled effectively, may enable the Company to minimize its overall losses, and the measures that the Company is taking with respect to operational and infrastructure rehabilitation program and financial measures designed to improve the financial position of the Company which are duly supported by the sponsors of the Company;

(ii) Redeemable Preference shares have been treated by the Company as part of equity, in view of the requirements of the Companies Ordinance, 1984. The matter of its classification will be dealt in accordance with the clarification from the Securities and Exchange Commission of Pakistan; and

(iii) during the year in view of the continuing circular debt situation and non recovery from various consumers in the public sector, the management considers that late payment surcharge / interest on delayed payment will ultimately be settled on net receivable / payable basis without accounting for any delayed payment surcharge / interest. The Company has also obtained legal opinions in this respect. Accordingly, the Company has decided to discontinue accrual of interest from 1 July 2010.

For the financial year ended 30 June 2012:-

(i) transmission and distribution losses of the Company are approximately 29.70 percent (30 June 2011: 32.20 percent) of the total electricity generated and purchased during the year. The management of the Company maintains that one of the factors attributable to these losses is the alleged theft of electricity, which has directly affected the profitability of the Company. These factors, in view of the management, if controlled effectively, may enable the Company to increase its profitability. Further, the measures that the Company is taking with respect to operational and infrastructure rehabilitation program and financial measures designed to improve the financial position of the Company which are duly supported by the sponsors of the Company;

(ii) Redeemable Preference shares have been treated by the Company as part of equity, in view of the requirements of the Companies Ordinance, 1984. The matter of its classification will be dealt in accordance with the clarification from the Securities and Exchange Commission of Pakistan; and

(iii) in view of the continuing circular debt situation and non recovery from various consumers in the public sector, the management considers that late payment surcharge / interest on delayed payment will ultimately be settled on net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge / interest. The Company has also obtained legal opinions in this respect. Accordingly, the Company has not accounted for / discontinued accrual of interest.

For the year ended 30 June 2013:-

(i) the measures that the company has taken which have resulted in improved financial performance and declining trend of transmission and distribution losses, and;

(ii) in view of the continuing circular debt situation and non recovery from various consumers in the public sector, the management considers that late payment surcharge / interest on delayed payment will ultimately be settled on net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge / interest. The Company has also obtained legal opinions in this respect. Accordingly, the Company has accrued interest on a net basis.

For the year ended 30 June 2014:-

(i) in view of the continuing circular debt situation and non recovery from various consumers in the public sector, the management considers that late payment surcharge / interest on delayed payment will ultimately be settled on net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge / interest. The Company has also obtained legal opinions in this respect. Accordingly, the Company has accrued interest on a net basis.

KPMG

KPMG Taseer Hadi & Co. ***K-Electric Limited (formerly Karachi Electric Supply Company Limited)***
Auditors report under Section 53(1) read with Clause 28, Section 2 of Part I of the Second Schedule to the Companies Ordinance, 1984 for the purpose of inclusion in the prospectus for proposed issue of rated, listed and secured Sukuk by Karachi Electric Supply Company Limited
15 January 2015

In accordance with Section 53(1) read with Clause 28 of Section 2 of Part I of the Second Schedule to the Companies Ordinance, 1984, we report that:

1. K-Electric Limited *(Formerly Karachi Electric Supply Company Limited)*
Summary of Assets, Liabilities and Shareholders' Equity
As at 30 June 2014

1.1 The summary of assets, liabilities and shareholders' equity of the Company as at 30 June 2014 were as follows:

	(Rupees in '000)
ASSETS	
Property, plant and equipment	170,286,970
Intangible asset	376,230
	170,663,200
Long term investments	-
Long-term loans	29,376
Long-term deposits and prepayments	105,816
Deferred tax asset	2,345,773
	173,144,165
CURRENT ASSETS	
Due from the Government	-
Stores, spare parts and loose tools	5,968,300
Trade debts	75,704,095
Loans and advances	1,485,855
Trade deposits and short term prepayments	2,218,028
Other receivables	44,240,998
Derivative financial assets	1862,728
Taxation-net	1,037,924
Cash and bank balances	653,473
	133,171,401
TOTAL ASSETS	306,315,566

KPMG

KPMG Taseer Hadi & Co.

K-Electric Limited (formerly Karachi Electric Supply Company Limited)
Auditors report under Section 53(1) read with Clause 28, Section 2 of Part I of the Second Schedule to the Companies Ordinance, 1984 for the purpose of inclusion in the prospectus for proposed issue of rated, listed and secured Sukuk by Karachi Electric Supply Company Limited
15 January 2015

	(Rupees in '000)
EQUITY AND LIABILITIES	
SHARE CAPITAL AND RESERVES	
Share capital	96,261,551
Reserves	
Capital reserves	509,172
Share Premium	1,500,000
Revenue reserves	5,372,356
Accumulated losses	(59,742,221)
Other reserve	(359,552)
	(52,720,245)
Total equity	43,541,306
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	27,425,967
	70,967,273
LIABILITIES	
NON-CURRENT LIABILITIES	
Long term financing	18,231,391
Long-term deposits	5,865,741
Deferred liabilities	4,946,221
Deferred revenue	16,303,048
Deferred tax liability	14,767,933
	60,114,334
CURRENT LIABILITIES	
Current maturity of long term financing	9,928,007
Trade and other Payables	110,406,240
Accrued mark-up	5,719,543
Short-term borrowings	43,286,450
Short-term deposits	5,883,741
Current Tax Liability	-
Provisions	9,978
	175,233,959
TOTAL EQUITY AND LIABILITIES	306,315,566

1.2 Contingent liabilities and commitments

Contingencies and commitments reported in the financial statements as at 30 June 2014 have been reproduced below:

1.2.1 Contingencies

i) In respect of mark-up on the arrears payable to National Transmission and Dispatch Company (NTDC), a major government owned power supplier, the Company has reversed the mark-up accrued for the period from 1 July 2009 to 31 March 2010 amounting to Rs. 1,432 million during the year ended 30 June 2010 and also has not accrued mark- up amounting to Rs. 6,924 million for the period from 1 April 2010 to 30 June 2014 with the exception as mentioned below. Further, the Company has not accrued any mark-up on the overdue power purchase agreement (PPA) with the exception as mentioned below. Clause 9.3 of the PPA clearly defines the mechanism for settlement of NTDC dues whereby Ministry of Finance (MOF) has to pay Company's tariff differential receivable directly to NTDC. Accordingly, MOF has been releasing Company's tariff differential receivable directly to NTDC and till 30 June 2014 MOF has released Rs. 250,100 million directly to NTDC from time to time since the date of signing PPA on account of Company's tariff differential receivables. Management believes that overdue amount have only arisen due to circular debt situation caused by delayed settlement of the Company's tariff differential claims by the MOF Government of Pakistan ("GOP") as well as delayed settlement of energy dues (including Late Payment Surcharge due from KW&SB, CDGK, refer Note 11.2) by certain Public Sector Consumers. NTDC has claimed an amount of Rs 15,457 million on account of mark-up on arrears and delayed payments under Power Purchase Agreement (PPA) up to 30 June 2012 which the Management has not acknowledged as debts and further considers the amount calculated to be much higher than the Management's own calculations.

Management further believes that in view of continuing circular debt situation and non recovery from various consumers in the public sector, mark-up / financial charges would be payable only when the Company will receive similar claims from GOP and Public Sector consumers and will ultimately be settled on net basis. However, being prudent, the Company has made due provision on net basis in these financial statements.

In respect of interest payable to Sui Southern Gas Company Limited (SSGC), the Company has not accounted for / discontinued accrual of interest effective from 1 July 2010 till circular debt issue is settled and the Company is supplied with the gas as committed. The interest not accrued for the period as claimed by SSGC in their invoice from July 2010 to June 2014 amounts to Rs.22,970 million (July 2010 to June 2013:Rs. 15,636 million) which is disputed by the management and the management is of the view that the Company is not liable and will not pay any interest on the amount payable based on the same principle that the reduction in gas supply, together with the delayed settlement of energy dues (including Late Payment Surcharge due from KW&SB, CDGK, refer Note 11.2) by Government Entities, have a direct impact on the liquidity of the Company.

During the year ended 30 June 2013, SSGC filed a Suit bearing number 1641/2012 in the Honourable High Court of Sindh at Karachi for recovery and damages amounting to Rs 55,700 million including the alleged outstanding of approximately Rs 45,700 million on account of alleged unpaid gas consumption charges and interest. The said suit is being contested on merits and the Company has disputed liability to pay any amounts of interest / late payment surcharge to SSGC on the ground that the Company's inability to charge interest / mark-up against KW&SB and other Government owned entities receivables on similar basis is unreasonable in light of interest / mark-up obligation on payables to SSGC and others.

The Company also filed a Suit bearing number 91/2013 against SSGC in the Honourable High Court of Sindh at Karachi for recovery of damages / losses of Rs. 59,600 million resulting from SSGC's failure to comply with their legal obligation to allocate and supply the committed quantity of 276 MMCFD of natural gas to the Company.

The above suits no 1641/2012, 91/2013 and 1389/2012 are all pending adjudication and are being rigorously pursued and contested on merits by legal council.

The Company has also obtained legal opinions in this respect which support the Company's position. The main arguments in the legal opinions supporting the Company's contentions are summarized below:

- the lawyer contends that they are confident that the Company will not be held liable by a competent court to the extent of amount due from KW&SB and other Government entities not received by the Company. The legal opinion effectively recognizes a right of set off based on various meetings with Government of Pakistan (GoP) and decisions taken in meetings with GoP on circular debt issue. In other words in view of involvement of the GoP, who is indirectly liable to pay the amounts due from KW&SB, etc., to the Company and entitled to receive the amount payable by the Company to SSGC (as the majority owner in SSGC), the Company would be legally entitled to the same treatment in respect of its receivables and payables.

Another legal advisor contends that:

a. the Company's inability to charge interest/mark-up against KW&SB and other Government owned entities receivables on similar basis is unreasonable in light of interest / mark-up obligation on payables to SSGC. The lawyer also contends that in a court of law the Company's non-accrual of interest on payments to SSGC due to frustration of contract dated 30 June 2009 and recoverability of any interest/damages from the Federal Government is justifiable and the Company has good prospects of success on these grounds. Further the lawyer contends that SSGC values its claims against the Company on a much higher basis based on inclusion of disputed interest upon interest as it is evident from the total amount claimed by SSGC in its recovery suit number 1641 of 2012 SSGC Vs KESC.

b. In case of NTDC under the power purchase agreement, interest can only become applicable if the party claiming interest can demonstrate that the defaulting party has breached the payment mechanism. Under the current mechanism the Company is only responsible directly to pay to NTDC if the NTDC invoice (for any billing period) is higher than the amount of the Company's tariff differential subsidy. NTDC being a Company wholly owned and controlled by GOP is only an extension of GOP and accordingly GOP will also be bound by the payment mechanism provided under the Power purchase agreement and will therefore be liable for any interest on delayed current monthly payment. Further, for mark-up on the outstanding principal reconciled arrears, the Company's liability will be subject to adjustment of KWSB receivables and the Company's claim against the GOP for losses sustained by the Company as a result of non-payment or delayed payment of tariff differential.

Based on the above facts, the Management believes that the circular debt issue will ultimately be settled on net basis without accounting for any delayed payment surcharge/ interest. However, being prudent, the Company has made due provision on net basis in these financial statements.

ii) During the year ended 30 June 2013, National Electric Power Regulatory Authority (NEPRA) issued a corrigendum vide its letter no. NEPRA/TRF-133/KESC-2009/10401-10404 dated 23 November 2012 whereby Schedule of Tariff (SoT) for the period July 2009 to March 2010 had to be adjusted by Rs. 2.79/kWh, an increase for all the categories of consumer uniformly (except for life line consumers). However, NEPRA believes, due to error, the SoT was inadvertently adjusted for four consumer categories and the effect of the error was carried forward in the subsequent determined SoTs up to quarter January 2012 – March 2012. Accordingly, NEPRA has issued a revised SoT which resulted in decrease of approximately Paisa 14/kWh in the determined tariff. The said corrigendum resulted in retrospective and unilateral decrease in previously determined rates of tariff for certain consumer categories resulting in a decrease in tariff differential claim amounting to Rs. 6,295.273 million from MoW&P for the relevant period ended 30 June 2014.

The Company disagreed with the alleged corrigendum and filed a law suit against NEPRA and Ministry of Water and Power Pakistan (MoW&P) in the Honourable High court of Sindh. According to the management, NEPRA had not followed its own prescribed review procedure in relation to the alleged corrigendum through not providing the Company an opportunity of being heard. Further, NEPRA while calculating the determination as given in the aforementioned alleged corrigendum has taken 25% Transmission and Distribution losses instead of 27% for July 2009 to December 2009 and made its calculation based on natural gas rate of Rs. 349.56/MMBTU instead of 333.89/MMBTU. It was respectfully submitted that the two ignored factors would results in an increase of Rs. 0.1461/kWh and the net effect of alleged decrease in tariff by NEPRA and increase established by the Company would be negligible.

In response to suit filed by the Company to grant mandatory and permanent injunction to restrain NEPRA from adjusting the amount of tariff, the Honourable High Court of Sindh vide its order dated 4 June 2013 disposed off the above suit since the legal advisor of NEPRA submitted that determination was passed without hearing of the Company and that the fresh determination by NEPRA would be passed after notice and providing ample opportunity of hearing to the Company.

During the current year on 31 March 2014 NEPRA issued a decision in the matter of review of SoT attached with the quarterly adjustment decision for the period July 2009 to March 2012 in the matter of Karachi Electric Supply Company Limited. In the Decision NEPRA upheld its original corrigendum after hearing the Company's contention and adjusted the SoT for the period July 2009 to March 2010 by Rs. 2.79/KWH for all the consumer categories uniformly (except for life line consumers), thereby reducing the tariff by Paisa 14/KWH.

The Company being aggrieved of the NEPRA's order as the contentions of the Company were rejected without any proper justification and basis filed a suit No 556/2014 in Honourable High Court of Sindh at Karachi to set-aside the impugned decision dated March 31, 2014 as the same was not made in accordance with the law. The Honourable High Court of Sindh dated 7 April 2014 passed an interim order whereby" the impugned decision / determination was suspended to the extent of reduction made by NEPRA through the impugned decision in all tariff determinations / schedule of tariff from July

2009 till September 2013". On 15 April 2014, Honourable High Court of Sindh further ordered that NEPRA should act in accordance with law and shall not effect the issuance of Schedule of Tariff in compliance with the earlier order dated 7 April 2014. After the issuance of ad interim order dated 7 April 2014, the Company wrote a letter to NEPRA for the re-issuance / notifications of all the determinations / SOTs for the period from April 2012 to September 2013 in suppression of the NEPRA's letter dated 31 March, 2014 as a consequence of the said court order dated 7 April, 2014. The notifications are still impending.

iii) As per the Gas infrastructure and Development Cess Act, 2011 (the Act), certain companies as specified in the Act (including Sui Southern Gas Company) shall collect and pay Gas infrastructure and Development Cess (GIDC) in such manner as the Federal Government may prescribe. As per the second schedule of the Act, GIDC of Rs. 27 per MMBTU was applicable on the Company. Through Finance Bill 2012 – 2013, an amendment was made to the Act whereby the rate of GIDC applicable on the Company was increased to Rs. 100 per MMBTU. On 10 October 2012, the Company filed a suit bearing number 1389/2012 wherein it has impugned the Act on the ground that the rate of GIDC has been enhanced without any lawful justification and authority. The Honourable High Court of Sindh at Karachi vide its ad-interim order dated 10 October 2012 has restrained SSGC from charging GIDC above Rs. 27 per MMBTU. Consequently, on account of High Court order SSGC invoices the Company at Rs. 27 per MMBTU and accordingly the Company continues to record GIDC at Rs. 27 per MMBTU.

In a similar suit filed in the Honorable Peshawar High Court, Peshawar High Court declared the levy, imposition and recovery of the cess unconstitutional with the direction to refund the "Cess" so far collected. The suit was then challenged in the Supreme Court of Pakistan, thereafter Honorable Supreme Court of Pakistan issued an interim injunction setting aside the order granted by Peshawar High Court and reserved it for future judgement. The Company being an interested party having a direct bearing on suit number 1389/2012 filed an intervener application 1540/2013 before Honorable Supreme Court of Pakistan.

Honorable Supreme Court of Pakistan examined the case and in its decision dated 22 August 2014 concluded that GIDC is a fee and not a tax and on either count the "Cess" could not have been introduced through a money bill under Article 73 of the Constitution and the same was therefore not validly levied in accordance with the Constitution and the impugned judgements are not liable to be reversed.

Considering the above, GIDC recorded in Company's books of accounts until June 2014 amounted to Rs. 5,354 million from the date of GIDC notification dated 4 January 2012, becomes recoverable. The Company is in the process of taking up the matter with SSGC. The amount will have to be passed on in the tariff adjustment as soon as sorted out with SSGC.

1.2.2 Claims not acknowledged as debts

A claim, amounting to Rs. 73.161 million, was lodged by Pakistan Steel Mills Corporation (Private) Limited (PASMIC), in respect of right of way charges for Transmission Line passing within the premises of PASMIC. The said claim has been calculated on the basis of the minutes of the meeting held on 19 July 1994 wherein the key terms were subject to approval of the Company and PASMIC which was not duly approved.

The Company vide its letter DDRASP/PASMIC/C/075/ 274 dated 27 June 2007 refuted the Pakistan Steel Mill aforestated claim and stated in its letter that as per Section 12 and Section 51 of the Electricity Act, 1910, any licensee is permitted to lay down or place electric supply lines with permission of local authority or the occupier of that land, subject to conferment of powers under Part III, of the Telegraph Act, 1885. Moreover public utility is also barred from payment of annual rentals to any authority under the sections mentioned above and the claim is time barred. Furthermore, the Company was issued license from Provincial Government and all concessions and the permissions for such exemptions are provided in the license. Based on the above mentioned facts, the Company is not liable to pay any amount whatsoever in this regard and does not acknowledge the said claim as debt.

1.2.3 Other claims not acknowledged as debts

		(Rupees in '000)
i)	Fatal accident cases	761,883
ii)	Architect's fee in respect of the Head office project	50,868
iii)	Outstanding dues of property tax, water charges, ground rent and occupancy value	6,380,145

The Company is party to number of cases in respect of fatal injuries and billing disputes in relation to to property tax, water charges and occupancy charges, ground rent and rent of electric poles and cable, etc. Based on the opinion of Company's lawyers, the management is confident that the outcome of the cases will be in favour of the Company. Accordingly, no provision has been made in respect of those cases in the financial statements.

1.2.4 Commitments

		(Rupees in 000)
i)	Guarantees from banks	223,674
ii)	Contracts with respect to Transmission and Distribution Projects	1,635,640
iii)	Outstanding Letters of Credit	2,686,000
iv)	Payment in respect of maintenance of Combined Cycle PP 220MW	348,434
v)	Payment in respect of extension of Combined Cycle Power Plant (220 MW)	15,000
vi)	Contracts with respect to extension of Generation Projects Combined Cycle Power Plant I (28 MW)	782,508
vii)	Contracts with respect to Generation Projects KGTP II (10 MW) Steam Turbine	2,667,702
viii)	Contracts with respect to Generation Projects SGTPS II (10 MW) Steam Turbine	1,749,032
ix)	Dividend on Preference Shares	1,119,453

The Company has not recorded any dividend on redeemable preference shares in view of accumulated losses and restriction on dividend placed by Senior lenders which are part of loan covenants.

1.3 Investment in Joint Venture - at cost

The Company and The Aman Foundation have started a project of Karachi Organic Energy (Pvt.) Ltd. (KOEL) incorporated for set up and operation of a biogas project. During the current year by way of allotment of shares by KOEL, the Company owns 50% of the total share capital of KOEL by virtue of investment in 1,010,790 ordinary shares (2013: 2) having a face value of Rs 10 each which amounts to total investment of Rs 10.108 million. KOEL is yet to commence operations and due to initial preliminary expenses currently has a negative equity. Accordingly, it has been recorded at Nil carrying value.

The Company holds 50% of the total share capital of Karachi Organic Energy (Private) Limited (KOEL) by virtue of investment in 2 ordinary shares having face value of Rs. 10 each which amounts to total investment of Rs. 20. KOEL has been incorporated for set up and operation of a biogas project.

KPMG

KPMG Taseer Hadi & Co. ***K-Electric Limited (formerly Karachi Electric Supply Company Limited)***
Auditors report under Section 53(1) read with Clause 28, Section 2 of Part I of the Second Schedule to the Companies Ordinance, 1984 for the purpose of inclusion in the prospectus for proposed issue of rated, listed and secured Sukuk by Karachi Electric Supply Company Limited
15 January 2015

2. K-Electric Limited *(Formerly Karachi Electric Supply Company Limited)*
Profit and Loss Account

	Year ended 30 June 2014	Year ended 30 June 2013 (Restated)	Year ended 30 June 2012	Year ended 30 June 2011	Year ended 30 June 2010
	(Rupees in '000)				
Revenue					
Sale of energy – net	139,112,606	112,165,872	92,569,725	85,926,679	74,274,710
Tariff adjustment	55,377,622	76,615,185	70,029,156	44,581,068	29,453,496
Rental of meters and equipment	218,087	217,591	216,748	213,433	208,309
	194,708,315	188,998,648	162,815,629	130,721,180	103,936,515
Expenditure					
Purchase of electricity	(82,970,897)	(78,371,645)	(74,657,982)	(65,296,292)	(59,881,477)
Consumption of fuel and oil	(64,335,938)	(67,807,844)	(58,596,694)	(50,694,196)	(37,180,851)
	(147,306,835)	(146,179,489)	(133,254,676)	(115,990,488)	(97,062,328)
Expenses incurred in generation, transmission and distribution	(14,983,057)	(13,999,481)	(13,301,239)	(14,481,300)	(10,925,814)
Gross Profit/(Loss)	**32,418,423**	**28,819,678**	**16,259,714**	**249,392**	**(4,051,627)**
Consumers services and administrative Expenses	(16,247,074)	(15,301,832)	(12,218,247)	(9,814,339)	(8,378,749)
Other operating income	6,162,939	5 ,090,344	7,140,066	4,880,547	4,751,526
Other operating expenses	(1,483,990)	(646,507)	(910,557)	(242,523)	(235,002)
	(11,568,125)	(10,857,995)	(5,988,738)	(5,176,315)	(3,862,225)
Operating Profit/(Loss)	**20,850,298**	**17,961,683**	**10,270,976**	**(4,926,923)**	**(7,913,852)**
Finance cost	(11,275,212)	(13,960,441)	(7,702,419)	(5,127,376)	(6,823,638)
PROFIT/(LOSS) BEFORE TAXATION	**9,575,086**	**4,001,242**	**2,568,557**	**(10,054,299)**	**(14,737,490)**
Taxation					
– Current	-	-	(948,584)	(874,964)	-
– Prior	-	1,823,548	-	(11,331)	-
– Deferred	3,312,149	1,000,760	1,000,366	1,547,060	96,274
	3,312,149	**2,824,308**	**51,782**	**660,765**	**96,274**
PROFIT / (LOSS) AFTER TAXATION	**12,887,235**	**6,825,550**	**2,620,339**	**(9,393,534)**	**(14,641,216)**
Earnings /(Loss) per share (Rupees per share)	0.47	0.26	0.11	(0.44)	(0.74)
Diluted Earnings / (loss) per share (Rupees per share)	0.47	0.26	0.11	(0.39)	(0.66)

3. We further report that:

3.1 Dividend was proposed upto maximum of 15% i-e; PKR 0.525 per share only for the year ended 30 June 2014 for minority shareholders of KE subject to obtaining of relevant waiver letters from majority shareholders (i) KES Power and (ii) GOP, and senior lenders (i) ADB and (ii) IFC to waive their dividend entitlement in favour of the minority shareholders. It was resolved in the Annual General Meeting (AGM) held on 23 October 2014, that the Board of Directors (BOD) to convene an Extra Ordinary General Meeting of the shareholders of KE within the next 90 days of the AGM, provided that the relevant waivers from GOP, IFC and ADB are available with KE. If such waivers / consents from GOP, IFC and ADB are collectively not available within 90 days of the AGM, then the Directors proposal made in the BOD meeting held on 28 August 2014 shall be deemed to lapse automatically.

3.2 No financial statements have been audited subsequent to the audit of the financial statements for the year ended 30 June 2014.

4. We give below the significant disclosures made in the notes to the published financial statements of the Company for the financial years ended 30 June 2010 to 30 June 2014:

4.1 Financial Statements for the year ended 30 June 2014

4.1.1 The Operations of the Company

During the year, the Company has registered a profit of Rs. 12,887 million (2013: Rs. 6,826 million), resulting in accumulated losses of Rs. 59,742 million (2013: Rs.74,675 million) as of the balance sheet date. The Management of the Company is continuing with the operational and infrastructure rehabilitation program commenced after the privatization of the Company, with the objective of converting the Company into a profitable entity and has taken operational and financial measures to support such rehabilitation program. The program includes:

Generation – Expansion and Rehabilitation

a) Operational and financial measures taken in prior years for expansion, rehabilitation of generation capacity included:

- Commission of first fast track plant of 90 MW capacity at site in June 2009.
- Commission of second fast track power plant of 90 MW capacity at Korangi in 2010.
- Commission of first combine cycle power plant (CCPP-1) with ISO capacity of 220 MW including the steam turbine in financial year 2010.
- Overhaul of existing Bin Qasim Power Station to increase its reliability, capacity and efficiency.
- Commission of second combine cycle power plant (BQPS II) having ISO capacity of 560MW in 2012.

b) In addition to above, the company has also taken further measures to:

- Enhance the capacity and efficiency through installation of steam turbines at SGTP, KGTP and two units of CCPP-I. This will add 47 MW to the capacity and have significant impact on the overall fuel efficiency and profit margins of the Company.
- Converting two units of BQPS 1 into coal (cheaper fuel), commercial operation from this project is expected within a period of 2 and half years.

Transmission and Distribution Network – Expansion and Rehabilitation

The management has been following a comprehensive plan focused towards the transmission and distribution network to improve reliability and reduce technical and distribution losses. This has also enhanced monitoring and control of the grid and expanded the existing network. Proper network planning, maintenance and capital expenditure has also led to reduced outages and prevented network damage. Some of the transmission and distribution projects which are in progress include constructions of new grid stations and launching of Integrated Business Centers (IBCs).

Financial measures

The financial measures which the Company has embarked upon included loan agreements with foreign lenders including International Financial Corporation (IFC), Asian Development Bank (ADB) and Oesterreichische Kontrol Bank (Oekb) Austria - ECA as well as local lenders. The loans have been obtained for the purpose of capital expenditure on power generation, transmission and network improvement projects.

International Finance Corporation (IFC) and Asian Development Bank (ADB) had exercised their options to convert certain portion of their debt into ordinary shares pursuant to subscription agreement entered between the Senior Lenders and the Company. Investment in the Company by these two international financial institutions reflects their confidence in the commitment shown by the Management in bringing a turnaround in the Company.

Sponsors support

The Sponsors of the Company are committed to invest in the Company for its ongoing as well as future projects and also to meet its operating shortfalls. As part of the commitment, KES Power Limited (holding company) has invested Rs. 30,598 million (USD 361 million) in the Company's capital (including subscription of unsubscribed minority shares) and the Government of Pakistan (GoP) has subscribed Rs. 10,567 million. Based on the support of the holding company, actions as outlined above and future projections, the Management is of the view that the Company has started moving in the right direction and would achieve better results in future.

4.1.2 Changes in accounting policies

Property, plant & equipment

As result of amendments in International Accounting Standards IAS-16 Property, plant & equipment the Company during the current year has adopted the amendments and recognized spare parts, stand by equipments and servicing equipments as property, plant and equipment as they meet the definition of property, plant and equipment as per IAS - 16 and depreciate these spares over the remaining useful lives of the plant and machinery to which they belong. Previously these were classified as consumable spares

/ inventory under the then relevant provisions of International Accounting Standard 2 Inventories.

With the changes in accounting policy depreciation on transmission and distribution network related to major spare parts, stand-by equipment and servicing equipment is charged after one year from the date of purchase of such spares considering that one year is the time needed to identify stores to the relevant projects. In past these spares were depreciated once they were available for use.

Effect of change in accounting policy

The change in accounting policy has been accounted for retrospectively in accordance with International Accounting Standard - 8 "Accounting policies, Changes in Accounting Estimates and Errors", these have resulted in adjustment of prior year financial statements.

The company has applied the revised standard retrospectively and, consequently the earliest periods presented in the balance sheet, profit and loss account, statement of comprehensive income and statement of changes in equity have been restated.

There is no cash flow impact as a result of the retrospective application of change in accounting policy. The following table summarizes the impact of retrospective application of IAS 16 (revised):

	Impact of changes in accounting policy		
01 July ,2013	**As previously reported**	**Effect of change**	**As restated**
	(Rupees in '000)		
Impact in Balance sheet			
Increase in Property plant and equipment	153,984,435	1,275,780	155,260,215
Increase in Capital Work in Progress	9,027,303	393,883	9,421,186
(Decrease) in stores, spare parts and loose tools	6,630,630	(2,023,587)	4,607,043
Impact on statement of changes in equity			
Increase in accumulated losses			
Incurred during the year ended 30 June 2013		55,956	
Incurred in period prior to 1 July 2012		297,968	
Impact on Profit and loss account			
For the year ended 30 June 2013			
Increase in expenses incurred in generation, transmission and distribution		55,956	

01 July ,2012	Impact of changes in accounting policy		
	As previously reported	**Effect of change**	**As restated**
	(Rupees in '000)		
Impact in Balance sheet			
Increase in Property plant and equipment	158,501,340	1,151,267	159,652,607
Increase in Capital Work in Progress	10,529,890	240,889	10,770,779
(Decrease) in stores, spare parts and loose tools	6,104,686	(1,690,124)	4,414,562

Employee Benefits

During the year the Company has adopted IAS-19 (Revised) effective from January 1, 2013. The revised standard has removed the option to defer recognition of actuarial gains and losses (i.e., the corridor approach) for defined benefit plans. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in the profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income/expense. All other changes in net defined benefit obligations are recognized directly in other comprehensive income with no subsequent recycling through the profit and loss account.

Effect of change in accounting policy

The revised standard eliminates the corridor approach and requires to recognize all remeasurement gain or loss / actuarial gain or loss in the other comprehensive income (OCI) immediately as they occur. In accordance with the transitional provision as mentioned in IAS-19 (Revised), the company has applied the revised standard retrospectively, and consequently the earliest periods presented in the balance sheet, statement of comprehensive income and the statement of changes in equity have been restated. There is no cash flow impact as a result of the retrospective application of change in accounting policy. Due to application of IAS -19 (Revised) impact on earning per share' is immaterial in the overall context of these financial statements.

The following table summarizes the impact of retrospective application of IAS 19 (revised):

	Impact of changes in accounting policy		
	As previously reported	**Effect of change**	**As restated**
		(Rupees in '000)	
Impact on balance sheet			
Increase in deferred Liabilities	5,245,788	53,274	5,299,062
Impact on Statement of changes in equity			
Increase / (Decrease) in accumulated losses			
Upto 30 July 2012		(518,551)	
For the year ended 30 June 2013		152,869	
Impact on Profit and loss account			
For the year ended 30 June 2013			
Decrease in expenses incurred in generation, transmission and distribution		(54,347)	
Decrease in consumers services and administrative expenses		(98,522)	
Impact on Other Comprehensive income			
Items that will never be reclassified to profit and loss account	-	312,408	312,408
July 1, 2012			
Impact on balance sheet			
Increase in Deferred liabilities	5,158,406	518,551	5,676,957

4.1.3 Revaluation of property, plant and equipment

During the year ended 30 June 2014, revaluation exercise of leasehold lands was carried out by an independent valuer, Collier's International Pakistan (Pvt) Ltd. The fair values were determined with reference to market based evidence, based on active market prices and relevant enquiries and information as considered necessary, adjusted for any difference in nature, location or condition of the specific property. Surplus on revaluation arised were as follows:

	Surplus on revaluation	**Written down values**
	(Rupees in '000)	
Leasehold land	6,129,743	1,957,639

During the year land amounting to Rs. 13.188 million (2013: Nil) were transferred from other land to leasehold land upon completion of documentation as to title.

Had there been no revaluation, the values of specific classes of leasehold land, plant and machinery and transmission grid equipments would have been amounted to:

	Surplus on revaluation	Written down values
	(Rupees in '000)	
Leasehold land	335,599	316,347
Plant and machinery	99,003,791	66,586,716
Transmission grid equipments	21,256,486	10,945,731
	120,595,878	**77,848,794**

Due to nature of Company's operations, certain assets included in transmission and distribution network are not in possession of the Company. In view of large number of consumers, the management considers it impracticable to disclose particulars of assets not in the possession of the Company as required under Para 5 of Part I of the Fourth Schedule to the Companies Ordinance, 1984.

4.1.4 *Sales Tax*

Other receivables as at 30 June 2014 includes a sum of Rs. 610.459 million relating to the refund claims for the period from July 2000 to June 2007, withheld by the Sales Tax Department on account of sales tax on service connection charges, sales tax on meter burnt charges, input inadmissible and some other matters. The audit observations issued by the Department in this regard had already been responded by the Company's lawyer.

The management is of the view that the ultimate outcome of this matter will be decided in favour of the Company. The Company has made an aggregate provision of Rs. 236.922 million in prior years, against above refundable balance of Rs. 610.459 million.

Upto the current year tax department has disallowed input tax claims amounting to Rs.733.47 million whilst processing sales tax refund claims of the Company relating to tax periods July 2007 through May 2013 for want of verification / validation by FBR refund processing system. The Company lawyer has filed appeal before the Commissioner Inland Revenue Appeals which is pending for decision. However, based on facts of the case and identical legal precedence, Management and its lawyers are confident that ultimate decision will be in favour of the Company.

4.1.3 *Tariff Adjustment*

In previous years, the tariff adjustment mechanism was to pass on the effect of variation in cost of fuel and power purchase on quarterly basis. This formula capped adjustment on account of quarterly fuel price and cost of power purchase to 4% and the remaining burden or relief was to be carried forward to the next quarterly adjustment. The purpose of the said tariff adjustment structure was to pass on the effect of variation in the cost of fuel and power purchase in full within the framework of the 4% price cap. However, the adverse fuel price movements since 2005 resulted in additional costs which were not being recovered due to 4% cap and increasing burden was being placed upon the company with respect to such unrecovered amount.

The Company, on February 20th, 2006, submitted petition for revision of the above adjustment mechanism formula, which was accepted by NEPRA, and passed order to remove the above cap which was eventually notified by GOP in September 2008. However, the issue to deal with the backlog of unrecovered costs amounting to Rs. 6,037 million (verified by the Ministry of Water and Power) arising from the application of the 4% cap was not taken up by NEPRA.

The Economic Co-ordination Committee (ECC), on a summary moved by the Ministry of Water and Power, in Case No. ECC-164/16/2008 dated 14-10-2008 reviewed the matter of recovery of amounts as a result of the application of the 4% capping formula and decided that the said unrecovered cost has been incurred by the company and NEPRA may take the amount into account in the subsequent quarterly adjustment, but the NEPRA is of the view that the tariff mechanism does not have such mechanism.

On 1 June 2012 the Additional Secretary of Ministry of Water and Power wrote a letter to Joint Secretary (CF-II) Finance Division Government of Pakistan whereby this stance was communicated that the unrecovered costs of the Company were pending due to non availability of mechanism with NEPRA although it has already been acknowledged by ECC that GoP owes this amount to the Company, and therefore this unrecovered cost of Rs. 6,037 million to be settled as per the options available with GoP to resolve this issue.

In view of the above situation the Management considered it certain that the unrecovered of Rs. 6,037 million would be recovered. Accordingly the entire amount of Rs. 6,037 million was recognized as tariff adjustment subsidy receivable from Government of Pakistan.

In the current year, further correspondence was made by the Company with the Ministry of Finance and Ministry of Water and Power for early settlement of such outstanding amounts. The Company despite continuous delays by concerned Government departments continues to pursue an early settlement of long outstanding receivable from Government of Pakistan on account of 4% capping and is confident that the same will be recovered in due course of time.

4.1.4 Share Capital

Increase in Authorized Share Capital

The Board of Directors and the shareholders of the Company in their meeting held on 26 August 2010 and 21 October 2010, respectively, have approved the increase in authorized share capital to Rs 125,000 million from existing authorized share capital of Rs. 100,000 million. All the formalities relating to increase in authorized share capital have been completed.

Issue of further share capital – Right shares

This represents Ordinary shares amounting to 13,053,262,120 (2013: 13,053,262,120) were issued at Rs. 3.5 each. KES Power Limited (the Holding Company) subscribed for its share of right issue and also subscribed unsubscribed minority shares. The Government of Pakistan also subscribed for its share in the right issue. The transaction costs incurred on issue of these shares are amounted to Rs. 341.560 million (2013: Rs. 341.560 million).

Issuance of further share capital to International Finance Corporation (IFC) and Asian Development Bank (ADB)

During the year ended 30 June 2013, the shareholders of the Company, by way of a special resolution passed in the extraordinary general meeting of the Company, held on 08 October 2012, resolved the issuance of additional share capital to International Finance Corporation and Asian Development Bank. As a result of the said resolution, the Company issued 698,071,428 ordinary shares and 696,785,714 ordinary shares having a face value of Rs. 3.5 each to International Finance Corporation and Asian Development Bank respectively. The issuance of shares was made pursuant to terms of the amended subscription agreement dated 05 May 2010 whereby the Senior Lenders exercised their right to convert their debt of USD 25 million each into ordinary shares of the Company.

Conversion of redeemable preference shares into ordinary shares

During the year ended 30 June 2013, the Company has converted its redeemable preference shares into ordinary shares of the Company. The conversion of redeemable preference shares to ordinary shares was executed as per the resolution passed by the Board of Directors in their meeting dated 31 October 2012 and in accordance with Article 4 of the Subscription Agreement dated 14 November 2005 which required the Company to convert all its remaining redeemable preference shares to ordinary shares in case the Company is not able to redeem the full amount of redeemable preference shares by the redemption date. As per the terms of conversion, each redeemable preference shareholder shall become the holder of three ordinary shares for every four redeemable preference share held. Consequently, the Company converted 1,714,285,713 redeemable preference shares having face value of Rs. 3.5 each which amount to Rs. 6,000 million into 1,285,714,284 ordinary shares having face value of Rs. 3.5 each which amounts to Rs. 4,500 million resulting in a share premium of Rs. 1,500 million.

4.1.5 *Taxation*

Current/Prior Years

The Taxation Officer passed assessment orders under section 122(A) of the Income Tax Ordinance, 2001 (the Ordinance) in respect of tax years 2010 and 2011 and made certain disallowances and additions ensuing in minimum tax liability of Rs. 543 million and Rs. 1,408 million for the tax year 2010 and 2011 respectively. Taxation Officer held that the tariff adjustment claim (subsidy) is part of Turnover and also added back total depreciation allowance instead of depreciation related to cost of sales of the Company for the purpose of computing minimum tax liability under section 113 of the Ordinance.

The Company filed appeal with CIR(A) against the said assessment orders. The appeal was rejected by CIR(A), thereby maintaining the decision of ACIR. Subsequently, the Company filed appeal before Appellate Tribunal Inland Revenue (ATIR) against order of the Taxation Officer for tax year 2011 and 2010. ATIR has decided the case in favour of the Company vide its orders no. ITA No 274/KB/2012 dated 31 July 2012 for tax year 2011 and order no. ITA 877/KB/2011 dated 2 November 2012 for tax year 2010 respectively whereby orders of the learned CIR(A) were vacated and the order passed under section 122 (5A) by Addition Commissioner Inland Revenue were cancelled. The ATIR orders were passed in favour of the Company mainly considering subsidy is not part of turnover. The Department, however, has approached Honorable High Court against the decision of ATIR in tax year 2011 and has also filed Miscellaneous Application in ATIR in tax year 2010.

The Company has reversed the minimum tax liability during the year ended 30 June 2013 based on the decision of ATIR.

The returns of income have been filed up to and including tax year 2013 (corresponding to financial year ended 30 June 2013), while the income tax assessments have been finalized up to and including tax year 2011. During the year ended 30 June 2009, the Taxation Officer passed order under section 161 and 205 read with 152(5) of the Income Tax Ordinance, 2001 raised tax demand of Rs. 22.368 million for withholding income tax on payments of rentals of power plant to a non-resident company at the rate of 12.5% instead of 30% under section 152 of the Ordinance. Management considers that under Article 12 of the double taxation treaty between Pakistan and UK, such rentals are subject to 12.5% and therefore, no provision in these financial statements have been made in this regard. An appeal has been filed before Appellate Tribunal Inland Revenue subsequent to the Commissioner Inland Revenue (Appeals) decision confirming the order of the taxation officer.

The Tax Department has revised the assessment orders for the tax year 2004, 2005, 2006, 2007 & 2008 raising tax demand of Rs. 51.437 million, Rs. 65.338 million, Rs. 95.150 million, Rs. 76.860 million, and Rs. 109.837 million respectively, on account of levy of minimum tax at the rate of 0.5% of turnover on "other income" and "tariff adjustment" subsidy from Government of Pakistan.

The Commissioner Inland Revenue has given decision in respect of tax Year 2004, tax year 2005, & tax year 2008 whereas the decision is pending in respect of Tax Year 2006 & 2007. However, the Minimum tax related issues were not adjudicated in Commissioner Inland Revenue order. Accordingly, rectification letters have been filed against this omission in orders and appeals with Income Tax Appellate Tribunal (ITAT) with regard to tax year 2004, 2005 and 2008 have also been filed.

The management based on advice of its tax consultants is of the view that the tax demand is unjustified and not in accordance with true interpretation of law. As such, the ultimate outcome will be in favour of the Company. The Company's contention is further strengthened by the decision of Appellate Tribunal in tax years 2010 & 2011 whereby it held that the Government Subsidy is not the part of Turnover.

Deferred tax

Deferred tax asset, amounting to Rs. 112,732 million (2012: Rs. 116,874 million) has not been recognized in these financial statements as the Company is of the prudent view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized. At the year end, the Company's tax losses amounted to Rs. 419,874 million (2013: Rs. 380,589 million).

4.1.6 Late payment surcharge from public sector consumers

In accordance with the Company's policy, up to 30 June 2014, Late Payment Surcharge receivable on delayed payment of electricity bills from various Government / Government controlled entities (Public Sector Consumers, "PSCs") amounting to Rs. 4,442 million (2013: Rs. 3,442 million) has not been recorded in these financial statements and will be accounted for on receipt basis. It is Management's contention that the calculation of Late Payment Surcharge on PSCs should be made on the same basis as the accrued interest on delayed payments on account of circular debt situation. If the similar basis is adopted, then the above receivable amount would substantially increase.

4.2 Financial Statements for the year ended 30 June 2013

4.2.1 The Operations of the Company

During the year, the Company has registered a profit of Rs. 6,729 million (2012: Rs. 2,620 million) resulting in accumulated losses of Rs. 74,268 million (2012: Rs. 82,855 million) as of the balance sheet date. The management of the Company is continuing with the operational and infrastructure rehabilitation program commenced after the privatization of the Company, with the objective of converting the Company into a profitable entity and has taken financial measures to support such rehabilitation program. The program includes:

Generation – Expansion and Rehabilitation

- The second combine cycle power plant (CCPP – II) having ISO capacity of 560 MW, has been set-up at Bin Qasim. The contract for setting up the plant was awarded in June 2008. The three gas turbines started commercial operation in May 2012 whereas the steam turbine started commercial operation in June 2012. The plant has significant impact on the overall fuel efficiency and profit margins of the Company.

- Other operational and financial measures taken in prior years will be taken in next two to three years for expansion, rehabilitation of generation capacity and addressing fuel mix issue included:

  - Commission of first fast track plant of 90 MW capacity at site in June 2009.

  - Commission of second fast track power plant of 90 MW capacity at Korangi in 2010.

  - Commission of first combine cycle power plant (CCPP-1) with ISO capacity of 220 MW including the steam turbine in financial year 2010.

  - Overhaul of existing Bin Qasim Power Station to increase its reliability, capacity and efficiency.

  - Converting two units of BQPS 1 into coal (cheaper fuel), commercial operation from this project is expected within a period of 2 and half years.

Transmission and Distribution Network – Expansion and Rehabilitation

The management has been following a comprehensive plan focused towards the transmission and distribution network to improve reliability and reduce technical and distribution losses. This has also enhanced monitoring and control of the grid and expanded the existing network. Proper network planning, maintenance and capital expenditure has also led to reduced outages and prevented network damage. Some of the transmission and distribution projects which are in progress include constructions of new grid stations and launching of Integrated Business Centers (IBCs).

Financial measures

The financial measures which the Company has embarked upon included loan agreements with foreign lenders including International Financial Corporation (IFC), Asian Development Bank (ADB) and Oesterreichische Kontrol Bank (Oekb) Austria -

ECA as well as local lenders. The loans have been obtained for the purpose of capital expenditure on power generation, transmission and network improvement projects.

Furthermore, during the year International Finance Corporation (IFC) and Asian Development Bank (ADB) have exercised their options to convert certain portion of their debt into ordinary shares pursuant to subscription agreement entered between the Senior Lenders and the Company. Investment in the Company by these two international financial institutions reflects their confidence in the commitment shown by the Management in bringing a turnaround in the Company.

Sponsors support

The Sponsors of the Company are committed to invest in the Company for its ongoing as well as future projects and also to meet its operating shortfalls. As part of the commitment, KES Power Limited (holding company) has invested Rs. 30,598 million (USD 361 million) in the Company's capital (including subscription of unsubscribed minority shares) and the Government of Pakistan (GoP) has subscribed Rs. 10,567 million. Based on the support of the holding company, actions as outlined above and future projections, the Management is of the view that the Company has started moving in the right direction and would achieve better results in future.

4.2.2 Sales tax

Other receivables as at 30 June 2013 includes a sum of Rs. 610.459 million relating to the refund claims for the period from July 2000 to June 2007, withheld by the Sales Tax Department on account of sales tax on service connection charges, sales tax on meter burnt charges, input inadmissible and some other matters. The audit observations issued by the Department in this regard had already been responded by the Company's lawyer.

The management is of the view that the ultimate outcome of this matter will be decided in favour of the Company. The Company has made an aggregate provision of Rs. 232.050 million in prior years, against above refundable balance of Rs. 610.459 million.

Upto the current year tax department has disallowed input tax claims amounting to Rs.733.47 million whilst processing sales tax refund claims of the Company relating to tax periods July 2007 through May 2013 for want of verification / validation by FBR refund processing system. The Company lawyer has filed appeal before the Commissioner Inland Revenue Appeals which is pending for decision. However, based on facts of the case and identical legal precedence, Management and its lawyers are confident that ultimate decision will be in favour of the Company.

4.2.3 Tariff adjustment

In previous years, the tariff adjustment mechanism was to pass on the effect of variation in cost of fuel and power purchase on quarterly basis. This formula capped adjustment on account of quarterly fuel price and cost of power purchase to 4% and the remaining burden or relief was to be carried forward to the next quarterly adjustment. The purpose of the said tariff adjustment structure was to pass on the effect of variation in the cost of fuel and power purchase in full within the framework of the 4% price cap. However, the adverse fuel price movements since 2005 resulted in additional costs which were not being recovered due to 4% cap and increasing burden was being placed upon the company with respect to such unrecovered amount.

The Company, on February 20th, 2006, submitted petition for revision of the above adjustment mechanism formula, which was accepted by NEPRA, and passed order to remove the above cap which was eventually notified by GOP in September 2008. However, the issue to deal with the backlog of unrecovered costs amounting to Rs. 6,037 million (verified by the Ministry of Water and Power) arising from the application of the 4% cap was not taken up by NEPRA.

The Economic Co-ordination Committee (ECC), on a summary moved by the Ministry of Water and Power, in Case No. ECC-164/16/2008 dated 14-10-2008 reviewed the matter of recovery of amounts as a result of the application of the 4% capping formula and decided that the said unrecovered cost has been incurred by the company and NEPRA may take the amount into account in the subsequent quarterly adjustment, but the NEPRA is of the view that the tariff mechanism does not have such mechanism.

On 1 June 2012 the Additional Secretary of Ministry of Water and Power wrote a letter to Joint Secretary (CF-II) Finance Division Government of Pakistan whereby this stance was communicated that the unrecovered costs of the Company were pending due to non availability of mechanism with NEPRA although it has already been acknowledged by ECC that GoP owes this amount to the Company, and therefore this unrecovered cost of Rs. 6,037 million to be settled as per the options available with GoP to resolve this issue.

During last year, in view of the above situation the Management considered it certain that the unrecovered of Rs. 6,037 million would be recovered. Accordingly the entire amount of Rs. 6,037 million was recognized as tariff adjustment subsidy receivable from Government of Pakistan.

Tariff adjustments receivable includes certain adjustments to account for items including where the final mechanism of settlement have not been notified / finalized by NEPRA as part of its tariff determination process.

4.2.4 Share capital

Increase in Authorized Share Capital

The Board of Directors and the shareholders of the Company in their meeting held on 26 August 2010 and 21 October 2010, respectively, have approved the increase in authorized share capital to Rs 125,000 million from existing authorized share capital of Rs. 100,000 million. All the formalities relating to increase in authorized share capital have been completed.

Issue of further share capital – Right shares

This represents Ordinary shares amounting to 13,053,262,120 (2012: 11,767,547,836) were issued at Rs. 3.5 each. KES Power Limited (the Holding Company) subscribed for its share of right issue and also subscribed unsubscribed minority shares. The Government of Pakistan also subscribed for its share in the right issue. The transaction costs incurred on issue of these shares are amounted to Rs. 341.560 million (2012: Rs. 296.640 million).

Issuance of further share capital to International Finance Corporation *(IFC) and Asian Development Bank (ADB)*

During the year, the shareholders of the Company, by way of a special resolution passed in the extraordinary general meeting of the Company, held on 08 October 2012, resolved the issuance of additional share capital to International Finance Corporation and Asian Development Bank. As a result of the said resolution, the Company issued 698,071,428 ordinary shares and 696,785,714 ordinary shares having a face value of Rs. 3.5 each to International Finance Corporation and Asian Development Bank respectively. The issuance of shares was made pursuant to terms of the amended subscription agreement dated 05 May 2010 whereby the Senior Lenders exercised their right to convert their debt of USD 25 million each into ordinary shares of the Company.

Conversion of redeemable preference shares into ordinary shares

During the year, the Company has converted its redeemable preference shares into ordinary shares of the Company. The conversion of redeemable preference shares to ordinary shares was executed as per the resolution passed by the Board of Directors in their meeting dated 31 October 2012 and in accordance with Article 4 of the Subscription Agreement dated 14 November 2005 which required the Company to convert all its remaining redeemable preference shares to ordinary shares in case the Company is not able to redeem the full amount of redeemable preference shares by the redemption date. As per the terms of conversion, each redeemable preference shareholder shall become the holder of three ordinary shares for every four redeemable preference share held. Consequently, the Company converted 1,714,285,713 redeemable preference shares having face value of Rs. 3.5 each which amount to Rs. 6,000 million into 1,285,714,284 ordinary shares having face value of Rs. 3.5 each which amounts to Rs. 4,500 million resulting in a share premium of Rs. 1,500 million.

4.2.5 *Taxation*

Current/Prior Years

This represents Rs. NIL (2012: Rs. 948.584 million) charged in respect of minimum tax @1% under section 113 of the Income Tax Ordinance, 2001. Provision during the current year has not been made considering the ATIR decision in company's favour.

The Taxation Officer passed assessment orders under section 122(A) of the Income Tax Ordinance, 2001 (the Ordinance) in respect of tax years 2010 and 2011 and made certain disallowances and additions ensuing in minimum tax liability of Rs. 543 million and Rs. 1,408 million for the tax year 2010 and 2011 respectively. Taxation Officer held that the tariff adjustment claim (subsidy) is part of Turnover and also added back total depreciation allowance instead of depreciation related to cost of sales of the Company for the purpose of computing minimum tax liability under section 113 of the Ordinance.

The Company filed appeal with CIR(A) against the said assessment orders. The appeal was rejected by CIR(A), thereby maintaining the decision of ACIR. Subsequently, the Company filed appeal before Appellate Tribunal Inland Revenue (ATIR) against order of the Taxation Officer for tax year 2011 and 2010. ATIR has decided the case in favour of the Company vide its orders no. ITA No 274/KB/2012 dated 31 July 2012 for tax year 2011 and order no. ITA 877/KB/2011 dated 2 November 2012 for tax year 2010 respectively whereby orders of the learned CIR(A) were vacated and the order passed under section 122 (5A) by Addition Commissioner Inland Revenue were cancelled. The ATIR orders were passed in favour of the Company mainly considering subsidy is not part of turnover. The Department, however, has approached Honorable High Court against the decision of ATIR in tax year 2011 and has also filed Miscellaneous Application in ATIR in tax year 2010.

The Company based on the orders passed by ATIR has reversed, the provision for minimum tax liability amounting to Rs. 874 million for tax year 2011. Further, keeping in view of the similarity of the issue involved in tax year 2012, the Company has also reversed, during the current year, the provision against minimum tax liability amounting to Rs. 948 million for the tax year 2012 in these financial statements.

The returns of income have been filed up to and including tax year 2012 (corresponding to financial year ended 30 June 2012), while the income tax assessments have been finalized up to and including tax year 2011.During the year ended 30 June 2009, the Taxation Officer passed order under section 161 and 205 read with 152(5) of the Income Tax Ordinance, 2001 raised tax demand of Rs. 22.368 million for withholding income tax on payments of rentals of power plant to a non-resident company at the rate of 12.5% instead of 30% under section 152 of the Ordinance. Management considers that under Article 12 of the double taxation treaty between Pakistan and UK, such rentals are subject to 12.5% and therefore, no provision in these financial statements have been made in this regard. An appeal has been filed before Appellate Tribunal Inland Revenue subsequent to the Commissioner Inland Revenue (Appeals) decision confirming the order of the taxation officer. The Tax Department has revised the assessment orders for the tax year 2004, 2005, 2006, 2007 & 2008 raising tax demand of Rs. 51.437 million, Rs. 65.338 million, Rs. 95.150 million, Rs. 76.860 million, and Rs. 109.837 million respectively, on account of levy of minimum tax at the rate of 0.5% of turnover on "other income" and "tariff adjustment" subsidy from Government of Pakistan.

The Commissioner Inland Revenue has given decision in respect of tax Year 2004, tax year 2005, & tax year 2008 whereas the decision is pending in respect of Tax Year 2006 & 2007. However, the Minimum tax related issues were not adjudicated in Commissioner Inland Revenue order. Accordingly, rectification letters have been filed against this omission in orders and appeals with Income Tax Appellate Tribunal (ITAT) with regard to tax year 2004, 2005 and 2008 have also been filed.

The management based on advice of its tax consultants is of the view that the tax demand is unjustified and not in accordance with true interpretation of law. As such, the ultimate outcome will be in favour of the Company. The Company's contention is further strengthened by the decision of Appellate Tribunal in tax years 2010 & 2011 whereby it held that the Government Subsidy is not the part of Turnover.

The Tax Department has also raised tax demands during the year 2012 of Rs. 58.317 & Rs. 164.081 million on account of default Surcharge under section 205 of Income Tax Ordinance, 2001 for the year 2010 and 2011 respectively for failure to deposit advance income tax (minimum tax) under section 147 of Income Tax Ordinance, 2001. Management contends that in terms of proviso to section 113, the Company was not required to pay minimum tax under section 113 for the tax years 2010 and 2011; and therefore, the demand raised by the tax department is illegal. Further, the Appellate Tribunal has already given decision in favour of the Company in Tax year 2010 and 2011 as described in note 42.2 above. As the assessment orders under section 122(5A) have been cancelled by the ATIR in both years and after nullification of principal demand, there is strong likelihood that the above mentioned tax demands pending to be heard in Appellate Tribunal Inland Revenue will also be vacated. Simultaneously, the Company has also filed a writ petition with the High Court of Sindh who has granted the stay and maintained the case "Status quo".

During the current year the Tax Department has also raised the tax demands of Rs 53.766 million & Rs.64.524 million under section 205 as default surcharge for delayed depositing of withholding tax under section 235 during tax year 2013. Management contends that the demands are illegal and against natural justice as the delay was caused due to pendency of substantially high GST refunds which were available with the tax department. Appeals filed by the Company are pending for decision before the Commissioner Inland Revenue Appeals. Simultaneously, the Company has also filed writ petitions with the High Court of Sindh which has granted stay and maintained status quo in this regard.

Deferred Tax

Deferred tax asset, amounting to Rs. 116,874 million(2012: Rs. 96,316 million) has not been recognized in these financial statements as the Company is of the prudent view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized. At the year end, the Company's tax losses amounted to Rs. 380,589 million (2012: Rs. 327,808 million).

4.2.6 Late payment surcharge from public sector consumers

In accordance with the Company's policy, up to 30 June 2013, Late Payment Surcharge receivable on delayed payment of electricity bills from various Government / Government controlled entities (Public Sector Consumers, "PSCs") amounting to Rs. 3,442 million (2012: Rs. 2,637 million) has not been recorded in these financial statements and will be accounted for on receipt basis. It is Management's contention that the calculation of Late Payment Surcharge on PSCs should be made on the same basis as the accrued interest on delayed payments on account of circular debt situation. If the similar basis is adopted, then the above receivable amount would substantially increase.

4.3 Financial Statements for the year ended 30 June 2012

4.3.1 Revision of Useful Life- BQPS 1

During the year ended 30 June 2012, Management appointed Iqbal A Nanjee & Company (Private) Limited "valuer" to carry out a detailed review of the record of maintenance, rehabilitation and modernisation of machinery and equipment of the Company's Power Stations in order to assess their remaining useful life. The valuer in their report dated 11 May 2012 have concluded that the power stations at Bin Qasim Power Station.1 "BQPS 1" can continue to function at their present efficiency and can achieve a total life of 35 years provided regular maintenance and rehabilitation and modernisation is carried out. Considering this, Management has revised the estimated useful life for depreciation of the major plant and machinery at BQPS 1 from the originally assessed 30 years to 35 years. This revision in useful life has resulted in the depreciation charge for the year ended 30 June 2012 on major plant and machinery at BQPS 1 to be lower by approx Rs. 1,250 million. The depreciation charge for the following 4 years will be lower by Rs. 1,250 million in each of these years.

4.3.2 *Redeemable Preference Shares*

The redeemable preference shares (the shares) have been treated as part of equity on the following basis:

- The shares were issued under the provisions of section 86 of the Companies Ordinance, 1984 (the Ordinance) read with section 90 of the Ordinance and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000.

- The financial capital of the Company and the issue of the shares were duly approved by the shareholders of the Company at the Extraordinary General Meeting held on 02 March 2006.

- Return of allotment of shares was filed under section 73(1) of the Ordinance.

- The Company is required to set-up a reserve for the redemption of Preference shares, under section 85 of the Ordinance, in respect of the shares redeemed which effectively makes Redeemable Preference shares a part of equity.

- Dividend on the shares is appropriation of profit both under the Ordinance and the tax laws.

- The requirements of the Ordinance take precedence over the requirements of International Accounting Standards.

- The preference shareholders have the right to convert these shares into Ordinary shares.

Further, the matter regarding the classification of Redeemable Preference share capital as either debt or equity instrument has been examined by the Institute of Chartered Accountants of Pakistan (ICAP) as a result of which the ICAP has advised the Securities and Exchange Commission of Pakistan (SECP) to make necessary amendments in the Companies Ordinance, 1984, and / or to issue a clarification in order to remove the inconsistency between the Companies Ordinance, 1984 and the International Accounting Standards. Pending the decision of the SECP in this matter, the Preference share capital has been classified as equity in these financial statements.

4.3.3 *Accrued Mark-up on Long Term deposits from customers*

The Company had a practice of accruing and paying mark-up of 5% per annum to consumers on the security deposits maintained by consumers with the Company for their connections. During the year ended 30 June 2012, Management determined that this practice of accruing and paying mark up on security deposit is not followed by any other distribution company and there is no requirement specified or prescribed in a) the rules and regulations promulgated under the Nepra Act, b) regulation of generation, transmission and distribution act, 1997, c) the consumer services manual, or d) any contractual arrangement between KESC and its consumers.

Management have obtained a legal opinion which supports the Management's above position and confirms that there appears to be no legal obligation on the Company to pay any mark up / return on the security deposits of the consumers of the Company and accordingly Management may discontinue the existing practice of accruing and paying mark up to its consumers on their security deposits, and considering the same principle in respect of accrued mark up presently recorded as a liability the same amount may be reversed. Further the lawyer contends that there is no legal obligation on the Company to notify the consumer as it discontinues its practice of paying mark up on security deposits.

In light of the above, the Company has decided to discontinue the practice of payment / adjustment of mark-up on security deposits to consumers and the unpaid liability accrued for mark-up on security deposits has been reversed.

4.3.4 *Late Payment Surcharge from Public Sector Consumers*

In accordance with the Company's policy, up to 30 June 2012, Late Payment Surcharge receivable on delayed payment of electricity bills from various Government / Government controlled entities (Public Sector Consumers, "PSCs") amounting to Rs. 2,637 million (2011: Rs. 2,101 million) has not been recorded in these financial statements and will be accounted for on receipt basis. It is Management's contention that the calculation of Late Payment Surcharge on PSCs should be made on the same basis as the accrued interest on delayed payments on account of circular debt situation. If the similar basis is adopted, then the above receivable amount would substantially increase.

4.3.5 *Taxation*

Current and Prior Year

The returns of income have been filed up to and including tax year 2011 (corresponding to financial year ended 30 June 2011), while the income tax assessments have been finalized up to and including tax year 2011.

During the year ended 30 June 2009, the Taxation Officer passed order under section 161 and 205 read with 152(5) of the Income Tax Ordinance, 2001 raised tax demand of Rs. 22.368 million for withholding income tax on payments of rentals of power plant to a non-resident company at the rate of 12.5% instead of 30% under section 152 of the Ordinance. Management considers that under Article 12 of the double taxation treaty between Pakistan and UK, such rentals are subject to 12.5% and therefore, no provision in these financial statements have been made in this regard. An appeal has been filed before Appellate Tribunal Inland Revenue subsequent to the Commissioner Inland Revenue (Appeals) decision confirming the order of the taxation officer.

The Tax Department has revised the assessment orders for the tax year 2004, 2005, 2006, 2007 & 2008 raising tax demand of Rs. 51.437 million, Rs. 65.338 million, Rs. 95.150 million and Rs. 76.860 million, and Rs. 109.837 million respectively, on account of levy of minimum tax at the rate of 0.5% of turnover on "other income" and "tariff adjustment" subsidy from Government of Pakistan.

The Commissioner Inland Revenue (CIRA), has decided the case in favour of the Company in tax years 2004 and 2008 where as the decision is pending for tax years 2005, 2006 and 2007. However, the Commissioner has filed an appeal with Income Tax Appellate Tribunal (ITAT) with regards to 2004 and 2008.

Management based on the advice of its tax consultants is of the view that the tax demand is unjustified and not in accordance with the true interpretation of the law and the ultimate outcome will be in favour of the Company. Appeals filed against these orders are pending before the Commissioner Appeals Inland Revenue.

The tax department has imposed minimum tax amounting to Rs. 543.440 million for tax year 2010 and Rs.1,408.752 million for tax year 2011 by revising the order under section 122(5A) of the Income Tax Ordinance, 2001. Under proviso to section 113, minimum tax is not applicable in case of a Company which has declared gross loss before set off of depreciation and other inadmissible expenses under the Income Tax Ordinance, 2001. Based on that provision, the Company filed return with no minimum tax liability. The Commissioner Inland Revenue Appeal has decided the case against the company in both years, following which the company has filed appeal in Tribunal against the order of the commissioner Inland Revenue Appeals. Based on the consultant's advise, the management is confident that the ultimate outcome will be in favour of company, however, being prudent, the charge against minimum tax liability for tax year 2011 amounting to Rs.874.964 million has been provided in the accounts.

The Tax Department also raised tax demands of Rs. 200.532 million and Rs. 173.030 million on account of Default Surcharge under section 205 of Income Tax ordinance, 2001 for the year 2010 and 2011 respectively for delayed depositing of withholding income tax. Management contends that the demands are illegal and against natural justice as the delay was caused due to pendency of substantially high GST refunds which were available with the tax department. Appeal filed by the Company is pending for decision before the Commissioner Inland Revenue Appeals. Simultaneously, the Company has also filed a writ petition with the High Court of Sindh who has granted the stay and maintained the case "Status quo".

The Tax Department has also raised tax demands during the current year of Rs. 58.317 million and Rs. 164.081 million on account of Default Surcharge under section 205 of Income Tax ordinance, 2001 for the year 2010 and 2011 respectively for failure to deposit advance income tax under section 147 Income Tax Ordinance, 2001. Management contends that in terms of proviso to section 113, the Company was not required to pay advance minimum tax under section 147 in tax years 2010 and 2011;

and therefore, the demand raised by the tax department is illegal. Appeals filed by the Company are pending for decision before the Appellate Tribunal Inland Revenue after the decision of the Commissioner Inland Revenue (Appeals) uphelding the order of TO in this regard.

Simultaneously, the Company has also filed a writ petition with the High Court of Sindh who has granted the stay and maintained the case "Status quo".

Deferred taxation

Deferred tax asset, amounting to Rs. 32,701 million (2011: Rs. 33,482 million), has not been recognized in these financial statements as the Company is of the prudent view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized. At the year end, the Company's tax losses amounted to Rs. 139,511 million (2011: Rs. 116,555 million).

4.4 Financial Statements for the year ended 30 June 2011

4.4.1 Taxation

Current and prior years

This represents Rs. 874.964 million (2010: Rs. Nil) charged in respect of minimum tax @1% under section 113 of the Income Tax Ordinance, 2001.

The returns of income have been filed up to and including tax year 2010 (corresponding to financial year ended 30 June 2010), while the income tax assessments have been finalized up to and including tax year 2010. The return of income for tax year 2009 filed under the Universal Self Assessment Scheme is deemed to be assessed under Section 120 of the Income Tax Ordinance, 2001.

The Departmental appeal for the assessment year 1995-96 filed before the Honourable High Court against the order of the ITAT is pending for decision wherein the ITAT had decided the case in favour of the Company on application of section 80C. However, the Tax Department in the assessment years 1993-94 and 1994-95, in the light of the letter of the Commissioner (Legal Division), Large taxpayers Unit, Karachi dated 24 May 2006 has withdrawn its appeal filed before the Honourable High Court on application of Section 80C of the repealed Ordinance.

During the year ended 30 June 2009, the Taxation Officer passed order under section 161/205 read with 152(5) of the Income Tax Ordinance, 2001 raised tax demand of Rs. 22.368 million for withholding income tax on payments of rentals of power plant to a non-resident company at the rate of 12.5% instead of 30% under section 152 of the Ordinance. The Management consider that under Article 12 of the double taxation treaty between Pakistan and UK, such rentals are subject to 12.5% and therefore, no provision in these financial statements have been made in this regard. An appeal filed before the CIT (Appeals) is pending.

The Tax Department has revised the assessment orders for the tax year 2004, 2005, 2006, 2007&2008 raising tax demand of Rs. 51.437 million, Rs. 65.338 million, Rs. 95.150 million and Rs. 76.860 million, and Rs. 109.837 million respectively, on account of levy of minimum tax at the rate of 0.5% of turnover on "other income" and "tariff adjustment" subsidy from Government of Pakistan.

Management based on the advice of its tax consultants is of the view that the tax demand is unjustified and not in accordance with the true interpretation of the law and the ultimate outcome will be in favour of the Company. Appeals filed against these orders pending before the Commissioner Appeals In Land Revenue.

During the year, the tax department has imposed minimum tax amounting to Rs. 53.440 million for tax year 2010 by revising the order under section 221 of the Income Tax Ordinance, 2001. Under proviso to section 113, minimum tax is not applicable in case of a company which has declared gross loss before set off of depreciation and other inadmissible expenses under the Income Tax Ordinance, 2001. Based on that provision, the Company filed return with no minimum tax liability. The Commissioner Inland Revenue Appeal has decided the case against the company, following which the company has filed appeal in Tribunal against the order of the commissioner Inland Revenue Appeals. Based on the consultant's advise, the management is confident that the ultimate outcome will be in favour of company.

The Tax Department also raised tax demands of 179.858 million and 109.307 million on account of Default Surcharge under section 205 of Income Tax ordinance, 2001 for the year 2010 and 2011 respectively for delayed depositing of withholding income tax. The management contends that the demands are illegal and against natural justice as the delay was caused due to pendency of substantially high GST refunds which were available with the tax department. Appeal filed by the company is pending for decision before the Commissioner Inland Revenue Appeals. Simultaneously, the Company has also filed a writ petition with the High Court of Sindh who has granted the stay and maintained the case "Status quo".

Deferred Tax

Deferred tax asset, amounting to Rs. 33,482 million has not been recognized in these financial statements as the Company is of the prudent view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized. At the year end, the Company's tax losses amounted to Rs. 116,555 million.

4.5 Financial Statements for the year ended 30 June 2010

4.5.1 Changes in Accounting Policies

Starting 1 July 2009, the Company has changed its accounting policies in the following areas:

- Revised IAS 1 Presentation of Financial Statements (2007); became effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company has opted to present two statements; a profit and loss account and a statement of comprehensive income.

- IFRS 8 - Operating Segments (effective from 1 January 2009). This standard requires the Company to determine and present operating segments based on the information that is provided internally to the Company's Chief Operating Decision Maker, that is, the organisation's function which allocates resources to and assesses performance of its operating segments. Management has determined that the Company has a single reportable segment and therefore the adoption of 'the said IFRS has only resulted in some entity wide disclosures.

4.5.2 Revaluation of property, plant and equipment

During the year ended 30 June 2009 and 30 June 2010, revaluation exercises were carried out by an independent valuer, Colliers International Pakistan (Private) Limited, Iqbal Nanji and Company and Harvester Services (Private) Limited.

The fair values were determined with reference to market based evidence, based on active market prices and relevant enquiries and information as considered necessary, adjusted for any difference in nature, location or condition of the specific property and in case where market based evidence are not available or not applicable due to the specialized nature of asset, than it were based on depreciated replacement cost method.

	Surplus on revaluation	**Cost / Written down values**
	(Rupees in '000)	
Leasehold land	2,448,723	277
Plant and machinery	34,753,442	30,727,998
Transmission grid equipments	11,290,541	11,399,460
	48,492,706	**42,127,735**

Had there been no revaluation, the values of specific classes of leasehold land, plant and machinery and transmission grid equipments would have been amounted to:

	Surplus on revaluation	**Cost / Written down values**
	(Rupees in '000)	
Leasehold land	322,413	322,413
Plant and machinery	50,802,746	30,727,998
Transmission grid equipments	19,176,583	11,399,460
	70,301,742	**42,449,871**

Certain generating units included in plant and machinery are not operative, accordingly, those are appearing at historical cost, less accumulated depreciation and impairment loss, if any.

Due to nature of Company's operations, certain assets included in transmission and distribution network are not in possession of the Company. In view of large number of consumers, the management considers it impracticable to disclose particulars of assets not in the possession of the Company as required under Para 5 of Part I of the Fourth Schedule to the Companies Ordinance, 1984.

4.5.3 Tariff Adjustment

During the year ended 30 June 2010, National Electric Power Regulatory Authority (NEPRA) decided the matter of Fuel Price Adjustment for the months from July 2009 to March 2010 and Government of Pakistan (GoP) notified the decision through SRO 387(I)/2010 dated 4 April 2010. As per the NEPRA's order, the monthly fuel cost and power purchase cost variation from July 2009 through March 2010 amounted to Rs. 6,388 million was adjusted against consumers monthly bills as Fuel Surcharge Adjustment (FSA) to the extent of Rs. 4,348 million and the balance of Rs. 1,448 million along with the variation in the O&M cost and Capacity Charge of IPPs and other external sources adjusted separately in quarterly tariff determination.

The GOP through aforesaid SRO directed the Company to charge consumers on a monthly basis from June 2010 through December 2010 in respect of FSA amounted to

Rs. 4,348 million. Accordingly, at 30 June 2010, the Company has recorded a revenue mounted to Rs. 3,766 million representing FSA receivable determined on the billing history of comparative months of 2009. A petition was filed in the High Court of Sindh against the charging of FSA to the customers. After the initial stay order, the High Court of Sindh has vacated the stay order and allowed the Company to charge the above FSA in the monthly billing as per the schedule provided in the SRO.

4.5.4 Taxation

Current / Prior Years

In view of taxable loss and gross loss for the year ended 30 June 2010 before set off of depreciation and other inadmissible expenses under Income Tax Ordinance, 2001, (the Ordinance), no provision for current income tax was made in the financial statements for the year ended 30 June 2010.

The returns of income has been filed up to and including tax year 2009 (corresponding to financial year ended 30 June 2009), while the income tax assessments have been finalized up to and including tax year 2007. The return of income for tax 2003, 2008 and 2009 have been filed under the Universal Self Assessment Scheme and are deemed to be assessed under Section 120 of the Income Tax Ordinance, 2001.

The Departmental appeal for the assessment year 1995-96 filed before the Honourable High Court against the order of the ITAT is pending for decision wherein the ITAT had decided the case in favour of the Company on application of section 80C. However, the Tax Department in the assessment years 1993-94 and 1994-95, in the light of the letter of the Commissioner (Legal Division), Large taxpayers Unit, Karachi dated 24 May 2006 had withdrawn its appeal filed before the Honourable High Court on application of Section 80C of the repealed Ordinance.

During the year ended 30 June 2009, the Taxation Officer vide Order D.C. No. 123/183 dated 6 May 2009 passed under section 161/205 read with 152(5) of the Income Tax Ordinance, 2001 raised tax demand of Rs. 22.368 million for withholding income tax on payments of rentals of power plant to a non-resident company at the rate of 12.5% instead of 30% under section 152 of the Ordinance. The Management considers that under Article 12 of the double taxation treaty between Pakistan and UK, such rentals are subject to 12.5% and therefore, no provision in the financial statements had been made in this regard. An appeal filed before the CIT (Appeals) is pending.

During the year, the tax department had revised the assessment orders for the tax year 2004, 2005, 2006 and 2007 raising tax demand of Rs. 51.437 million, Rs. 65.338 million, Rs. 95.150 million and Rs. 76.860 million, respectively, on account of levy of minimum tax at the rate of 0.5% of turnover on "other income" and "tariff adjustment subsidy from Government of Pakistan". Management based on the advice of its tax consultants believes that the tax demand is unjustified and not in accordance with the true interpretation of the law and the ultimate outcome will be in favour of the Company. Therefore, no provision in the financial statements has been made in this respect.

Deferred

Deferred tax asset, amounted to Rs. 29,443 million had not been recognized in the financial statements, as the Company had prudent view that it is not probable that sufficient taxable profit will be available in the foreseeable future against which deductible temporary differences, unused tax losses and unused tax credits can be utilized. At the year end 30 June 2010, the Company's tax losses amounted to Rs. 107,728 million.

Yours faithfully,

K-ELECTRIC
Energy That Moves Life

6.2 AUDITOR'S CERTIFICATE ON THE SUBSCRIBED AND PAID-UP CAPITAL

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

The Board of Directors
K-Electric Limited (formerly Karachi Electric Supply Company Limited)
KE House, 39-B
Sunset Boulevard
Phase II, DHA
Karachi

Our ref KA-ZQ-419

Contact Mohammad Mahmood Hussain

15 January 2015

Dear Sirs,

Auditors' certificate on issued, subscribed and paid-up share capital

We have checked from the books of account and records of K-Electric Limited (formerly Karachi Electric Supply Company Limited) ("the Company") that the issued, subscribed and paid-up share capital of the Company as at 30 June 2014 was Rs. 96,261.551 million, comprises as follows:

(No. of shares)		(Rupees in '000)
	Issued for cash	
45,371,105	Ordinary shares of Rs. 10 each fully paid	453,711
14,448,119,262	Ordinary shares of Rs. 3.5 each fully paid, net	50,568,417
14,493,490,367		**51,022,128**
	Issued for consideration other than cash	
8,622,045,600	Ordinary shares of Rs. 10 each fully paid	86,220,456
4,366,782,389	Ordinary shares of Rs. 3.50 each fully paid	15,283,738
12,988,827,989		101,504,194
27,482,318,356		**152,526,322**
132,875,889	Ordinary shares of Rs. 10 each fully paid as bonus shares	1,328,759
27,615,194,245		**153,855,081**
	Reduction in capital	(57,201,902)
27,615,194,245		**96,653,179**
	Transaction Costs on issuance of shares	(391,628)
27,615,194,245		**96,261,551**

KPMG

KPMG Taseer Hadi & Co.

Karachi Electric Supply Company Limited
Auditors' certificate on issued, subscribed and paid-up share capital
15 January 2015

Our audit report on the financial statements for the year ended 30 June 2014 contains emphasis of matter paragraphs whereby we have drawn attention to;

(i) note 32.1.1 of the financial statements which describes that in view of the continuing debt situation and non recovery from various consumers in the public sector, the management considers that the late payment surcharge/interest on delayed payment will be ultimately be settled on a net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge/interest. The company has also obtained legal opinions in this respect. Accordingly, the company has accrued interest on a net basis.

Yours faithfully,

KPMG T-R

6.3 AUDITORS' CERTIFICATE FOR BREAK-UP VALUE OF SHARES

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

The Board of Directors
K-Electric Limited (formerly Karachi Electric Supply Company Limited)
KE House, 39-B
Sunset Boulevard
Phase II, DHA
Karachi

Our ref KA-ZQ-420

Contact Mohammad Mahmood Hussain

15 January 2015

Dear Sirs,

Auditors' certificate for break-up value of shares

As requested, we confirm that the break-up value of the ordinary shares of K-Electric Limited (formerly Karachi Electric Supply Company Limited) (the Company) of Rs. 3.50 each, based on the audited financial statements for the year ended 30 June 2014 is as follows:

	(Rupees in '000)
Issued, subscribed and paid-up capital	96,261,551
Capital reserves	509,172
Share Premium	1,500,000
Revenue reserves	5,372,356
Accumulated losses	(59,742,221)
Other reserve	(359,552)
	43,541,306
Surplus on revaluation of property, plant and equipment, net of deferred tax	27,425,967
	70,967,273
Number of shares	27,615,194,245
	(Rupees)
Break-up value per ordinary share of Rs. 3.50 each (excluding surplus on revaluation of property, plant and equipment)	1.58
Break-up value per ordinary share of Rs. 3.50 each (including surplus on revaluation of property, plant and equipment)	2.57

KPMG

KPMG Taseer Hadi & Co.

Karachi Electric Supply Company Limited
Auditors' certificate for break-up value of shares
15 January 2015

Our audit report on the financial statements for the year ended 30 June 2014 contains emphasis of matter paragraphs whereby we have drawn attention to;

(i) note 32.1.1 of the financial statements which describes that in view of the continuing debt situation and non recovery from various consumers in the public sector, the management considers that the late payment surcharge/interest on delayed payment will be ultimately be settled on a net basis with similar treatment of receivables and payables without accounting for any delayed payment surcharge/interest. The company has also obtained legal opinions in this respect. Accordingly, the company has accrued interest on a net basis.

Yours faithfully,

KPMG T— R—

K-ELECTRIC
Energy That Moves Life

6.4 ACCOUNTS AS AT JUNE 30, 2014

K-ELECTRIC LIMITED

(FORMERLY KARACHI ELECTRIC SUPPLY COMPANY LIMITED)

BALANCE SHEET

AS AT 30 JUNE 2014

	Note	2014	2013 (Restated)	2012 (Restated)
			(Rupees in '000)	
ASSETS				
Operating fixed assets	4	**170,286,970**	164,681,401	170,423,386
Intangible assets	5	**376,230**	504,823	19,117
		170,663,200	165,186,224	170,442,503
Long term investments	6	**-**	-	-
Long term loans and advances	7	**29,376**	41,220	49,234
Long term deposits and prepayments	8	**105,816**	104,594	118,701
Deferred tax asset		**2,345,773**	-	-
		173,144,165	165,332,038	170,610,438
CURRENT ASSETS				
Due from the Government	9	**-**	317,750	317,750
Stores, spare parts and loose tools	10	**5,968,300**	4,607,043	4,414,562
Trade debts	11	**75,704,095**	62,843,648	49,381,277
Loans and advances	12	**1,485,855**	418,979	501,007
Trade deposits and short term prepayments	13	**2,218,028**	2,736,495	2,214,629
Other receivables	14	**44,240,998**	38,498,853	41,519,735
Derivative financial assets	15	**1,862,728**	2,523,006	2,135,048
Taxation-net	29	**1,037,924**	810,957	-
Cash and bank balances	16	**653,473**	790,396	1,183,765
		133,171,401	113,547,127	101,667,773
TOTAL ASSETS		**306,315,566**	278,879,165	272,278,211
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Share capital	17	**96,261,551**	96,261,551	92,957,949
Reserves				
Capital reserves	18	**509,172**	509,172	509,172
Share premium		**1,500,000**	1,500,000	-
Revenue reserves	19	**5,372,356**	5,372,356	5,372,356
Accumulated losses		**(59,742,221)**	(74,674,804)	(83,671,318)
Other reserves		**(359,552)**	(490,460)	(621,373)
		(52,720,245)	(67,783,736)	(78,411,163)
TOTAL EQUITY		**43,541,306**	28,477,815	14,546,786
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	20	**27,425,967**	25,236,527	27,095,083
		70,967,273	53,714,342	41,641,869
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term financing	21	**18,231,391**	24,901,685	43,183,473
Long term deposits	22	**5,865,741**	5,114,912	4,754,318
Deferred liabilities	23	**4,946,221**	5,299,062	5,676,957
Deferred revenue	24	**16,303,048**	15,600,186	16,103,412
Deferred tax liability	20	**14,767,933**	13,588,899	14,589,659
		60,114,334	64,504,744	84,307,819
CURRENT LIABILITIES				
Current maturity of long term financing	33	**9,928,007**	14,964,692	14,217,317
Trade and other payables	25	**110,406,240**	96,214,810	98,892,023
Accrued mark-up	26	**5,719,543**	5,776,415	3,739,614
Short term borrowings	27	**43,286,450**	37,608,485	23,420,575
Short term deposits	28	**5,883,741**	6,085,699	5,387,090
Taxation - net		**-**	-	661,926
Provisions	30	**9,978**	9,978	9,978
		175,233,959	160,660,079	146,328,523
CONTINGENCIES AND COMMITMENTS	32			
TOTAL EQUITY AND LIABILITIES		**306,315,566**	278,879,165	272,278,211

The annexed notes 1 to 57 form an integral part of these financial statements.

Nayyer Hussain
Chief Executive Officer

Mubasher H. Sheikh
Director

K-ELECTRIC LIMITED
(Formerly Karachi Electric Supply Company Limited)
PROFIT & LOSS ACCOUNT
For the year ended 30 June 2014

	Note	2014	2013 (Restated)
		(Rupees in '000)	
REVENUE			
Sale of energy – net	34	**139,112,606**	112,165,872
Tariff adjustment	35	**55,377,622**	76,615,185
Rental of meters and equipment		**218,087**	217,591
		194,708,315	188,998,648
EXPENDITURE			
Purchase of electricity	36	**(82,970,897)**	(78,371,645)
Consumption of fuel and oil	37	**(64,335,938)**	(67,807,844)
		(147,306,835)	(146,179,489)
Expenses incurred in generation, transmission and distribution	38	**(14,983,057)**	(13,999,481)
GROSS PROFIT		**32,418,423**	28,819,678
Consumers services and administrative expenses	39	**(16,247,074)**	(15,301,832)
Other operating expenses	40	**(1,483,990)**	(646,507)
Other income	41	**6,162,939**	5,090,344
		(11,568,125)	(10,857,995)
OPERATING PROFIT		**20,850,298**	17,961,683
Finance cost	42	**(11,275,212)**	(13,960,441)
PROFIT BEFORE TAXATION		**9,575,086**	4,001,242
Taxation			
- Prior	43	**-**	1,823,548
- Deferred	43	**3,312,149**	1,000,760
		3,312,149	2,824,308
NET PROFIT FOR THE YEAR		**12,887,235**	6,825,550
		(Rupees)	
EARNING PER SHARE - BASIC / DILUTED	44	**0.47**	0.26
		(Rupees in '000)	
Earning Before Interest, Tax, Depreciation and Amortization (EBITDA)		**30,158,619**	26,902,772

The annexed notes 1 to 57 form an integral part of these financial statements.

Nayyer Hussain
Chief Executive Officer

Mubasher H. Sheikh
Director

K-ELECTRIC
Energy That Moves Life

K-ELECTRIC LIMITED

(Formerly Karachi Electric Supply Company Limited)

CASH FLOW STATEMENT

For the year ended 30 June 2014

	Note	**2014**	2013 *(Restated)*
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**9,575,086**	4,001,242
Adjustments for non-cash charges and other items:			
Depreciation and amortization		**9,308,323**	8,941,089
Provision for deferred liabilities		**876,857**	1,172,537
Provision for slow moving stores		**130,929**	153,893
Provision for debts considered doubtful		**6,689,225**	6,155,460
Gain on sale of fixed assets		**(100,016)**	(213,469)
Finance costs		**11,275,212**	13,960,439
Fixed asset written-off		**32,910**	17,358
Amortization of deferred revenue		**(1,199,103)**	(1,174,727)
Return on bank deposits		**(323,573)**	(335,242)
Operating profit before working capital changes		**36,265,850**	32,678,580
Working capital changes			
(Increase) / decrease in current assets			
Stores, spares parts and loose tools		**(1,492,186)**	(679,837)
Trade debts		**(19,549,672)**	(19,617,831)
Loans and advances		**(1,066,876)**	82,028
Trade deposits and short term prepayments		**518,467**	(521,866)
Due from the Government		**317,140**	-
Other receivables		**(5,741,535)**	3,020,882
		(27,014,662)	(17,716,624)
Increase / (decrease) in current liabilities			
Trade and other payables		**15,492,750**	(2,677,206)
Short-term deposits		**(201,958)**	698,609
		15,290,792	(1,978,597)
Cash generated from operations		**24,541,980**	12,983,359
Deferred liabilities paid		**(979,243)**	(1,238,024)
Income tax paid		**(226,967)**	350,665
Receipts in deferred revenue		**1,901,965**	671,501
Finance cost paid		**(11,237,711)**	(11,690,974)
Interest received on bank deposits		**323,573**	335,242
		(10,218,383)	(11,571,590)
Net cash generated from operating activities		**14,323,597**	1,411,769
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		**(8,831,040)**	(3,442,636)
Proceed from disposal of fixed assets		**242,591**	287,397
Long term loans		**11,844**	8,014
Long-term deposits		**(1,222)**	14,107
Net cash used in investing activities		**(8,577,827)**	(3,133,118)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subscription of shares		**-**	4,882,000
Syndicated Loan for PKR 7,700 million term facility		**2,271,175**	-
Payment of long term financing - net		**(14,582,662)**	(18,024,125)
Transaction cost for capital issuance		**-**	(78,399)
KESC Azm Certificates (payment) / receipts		**(263,083)**	267,968
KE Azm Sukuk Certificates receipts net off transaction cost		**5,682,133**	-
Short term borrowing acquired		**4,145,506**	9,558,341
Security deposit from consumers		**750,829**	360,594
Net cash used in financing activities		**(1,996,102)**	(3,033,621)
Net increase / (decrease) in cash and cash equivalent		**3,749,668**	(4,754,970)
Cash and cash equivalent at beginning of the year		**(6,927,479)**	(2,172,509)
Cash and cash equivalent at end of the year	31	**(3,177,811)**	(6,927,479)

The annexed notes 1 to 57 form an integral part of these financial statements.

Nayyer Hussain
Chief Executive Officer

Mubasher H. Sheikh
Director

6.5 UN-AUDITED ACCOUNTS AS AT DECEMBER 31, 2014

K-ELECTRIC LIMITED
Condensed Interim Balance Sheet
As at 31 December 2014

	Note	December 2014 (Un-Audited)	June 2014 (Audited)
		(Rupees in '000)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	**170,220,122**	170,286,970
Intangible assets		**254,966**	376,230
		170,475,088	170,663,200
Long-term investments	20.6	**-**	-
Long-term loans to employees		**28,768**	29,376
Long-term deposits		**6,080**	105,816
Deferred tax assets	6	**7,140,158**	2,345,773
		177,650,094	173,144,165
CURRENT ASSETS			
Stores, spare parts and loose tools		**6,195,678**	5,968,300
Trade debts	7	**78,093,466**	75,704,095
Loans and advances		**1,513,006**	1,485,855
Trade deposits and short term prepayments		**4,901,683**	2,218,028
Other receivables	8	**33,847,558**	44,240,998
Derivative financial assets		**1,750,405**	1,862,728
Taxation-net		**1,165,005**	1,037,924
Cash and bank balances		**1,435,446**	653,473
		128,902,247	133,171,401
TOTAL ASSETS		**306,552,341**	306,315,566
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital		**125,000,000**	125,000,000
Issued, subscribed and paid up capital		**96,261,551**	96,261,551
Reserves			
Capital reserves		**509,172**	509,172
Share premium		**1,500,000**	1,500,000
Revenue reserves		**5,372,356**	5,372,356
Other reserve		**(294,098)**	(359,552)
		7,087,430	7,021,976
Accumulated losses		**(45,729,668)**	(59,742,221)
		57,619,313	43,541,306
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		**26,547,355**	27,425,967
LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term financing	9	**8,283,469**	18,231,391
Long-term deposits		**6,299,784**	5,865,741
Employee retirement benefits	10	**5,131,552**	4,946,221
Deferred revenue		**16,632,101**	16,303,048
Deferred tax liability		**14,294,832**	14,767,933
		50,641,738	60,114,334
CURRENT LIABILITIES			
Current maturity of long term financing	9.1	**19,701,931**	9,928,007
Trade and other payables	11	**94,863,620**	108,739,560
Accrued mark-up		**5,849,076**	5,719,543
Short term borrowings	12	**44,778,694**	44,953,130
Short term deposits		**6,540,636**	5,883,741
Provisions		**9,978**	9,978
		171,743,935	175,233,959
CONTINGENCIES AND COMMITMENTS	13		
TOTAL EQUITY AND LIABILITIES		**306,552,341**	306,315,566

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen
Chief Executive Officer

Mubasher H. Sheikh
Director

K-ELECTRIC
Energy That Moves Life

K-ELECTRIC LIMITED
CONDENSED INTERIM PROFIT & LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2014

	Note	Six Months Period Ended 31 December 2014	Six Months Period Ended 31 December 2013	Three Months Period Ended 31 December 2014	Three Months Period Ended 31 December 2013
		(Rupees in '000)			
REVENUE					
Sale of energy – net	14	**74,643,712**	68,413,331	**33,049,029**	34,727,155
Tariff adjustment		**26,051,018**	27,078,743	**11,839,920**	11,552,248
Rental of meters and equipment		**110,022**	108,953	**55,180**	54,494
		100,804,752	95,601,027	**44,944,129**	46,333,897
EXPENDITURE					
Purchase of electricity	15	**(37,872,727)**	(40,065,495)	**(17,162,677)**	(21,226,988)
Consumption of fuel and oil	16	**(33,277,639)**	(32,958,909)	**(11,824,670)**	(13,145,475)
		(71,150,366)	(73,024,404)	**(28,987,347)**	(34,372,463)
Expenses incurred in generation, transmission and distribution		**(7,774,228)**	(7,353,562)	**(3,958,568)**	(3,485,410)
GROSS PROFIT		**21,880,158**	15,223,061	**11,998,214**	8,476,024
Consumers services and administrative expenses		**(10,297,904)**	(7,289,275)	**(5,200,807)**	(3,992,873)
Other operating expenses		**(1,151,296)**	(575,356)	**(508,357)**	(494,857)
Other income		**3,016,350**	2,701,749	**1,515,910**	1,702,656
		(8,432,850)	(5,162,882)	**(4,193,254)**	(2,785,074)
OPERATING PROFIT		**13,447,308**	10,060,179	**7,804,960**	5,690,950
Finance cost	17	**(5,439,462)**	(5,826,533)	**(2,702,294)**	(2,961,512)
PROFIT BEFORE TAXATION		**8,007,846**	4,233,646	**5,102,666**	2,729,438
Deferred taxation	18	**5,267,484**	484,354	**5,025,890**	241,312
NET PROFIT FOR THE PERIOD		**13,275,330**	4,718,000	**10,128,556**	2,970,750
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)		**18,159,015**	14,624,824	**10,150,342**	7,991,812
		(Rupees)			
EARNINGS PER SHARE - BASIC / DILUTED		**0.48**	0.17	**0.37**	0.11

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Muhammad Tayyab Tareen
Chief Executive Officer

Mubasher H. Sheikh
Director

6.6 CREDIT RATING REPORTS

6.6.1 Entity and Instrument Rating by JCR-VIS Credit Rating Company Limited

JCR-VIS Credit Rating Company Limited Rating Report

Technical Partner – IIRA, Bahrain I JV Partner – CRISL, Bangladesh

K-Electric Limited *(formerly Karachi Electric Supply Company Limited)*

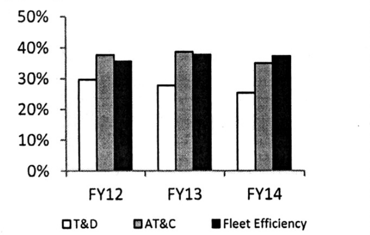
Chairman: Mr. Tabish Gauhar; Chief Executive Officer: Mr. Tayyab Tareen

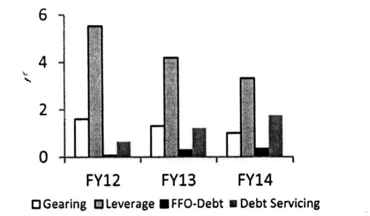
March 26, 2015

Analysts: Talha Iqbal
Mohammad Arsal Ayub

Category	Latest	Previous
Entity	**AA/A-1** *Nov 28, '14*	**A+/A-2** *Jan 2, '14*
Outlook	***Stable*** *Nov 28, '14*	***Positive*** *Jan 2, '14*
Sukuk-1 (Rs. 0.75b)	**AA**	**A+**
Sukuk-2 (Rs. 3.75b)	**AA**	**A+**
Sukuk-3 (Rs. 1.5b)	**AA**	**A+**
	Nov 28, '14	*Jan 2, '14*
Sukuk-4 (Rs. 22b)	**AA+(Final)** *Mar 26, '15*	**AA+(Preliminary)** *Jan 29,'15*

Key Operational & Financial Trends





(All figures in PKR Billions)	FY12	FY13	FY14
Net Sales	162.8	189.0	194.7
Net Profit/(loss)	2.6	6.8	12.9
Gross Margin	10.0%	15.2%	16.6%
Net Margin	1.6%	3.6%	6.6%
Tier-1Equity	15.4	28.5	43.5
Total Debt	72.7	70.9	72.7
Long Term Debt*	43.4	31.8	25.8
FFO	5.3	21.1	26.0
FFO/Total Debt	7.9%	29.8%	35.8%
ROAE	-	14.1%	21.5%
ROAA	1.0%	2.5%	4.4%

Rating Rationale

The ratings assigned to K-Electric Limited (KE) are underpinned by the strategic importance of the company as a vertically integrated utility having exclusive rights to distribute electricity in the largest metropolitan city of Pakistan. The upgrade takes into account the strong business risk profile of KE as evident from continuous improvement across various operational métrics.

The company has achieved notable improvement in fleet efficiency in the last few years. Further improvement in this area is expected in view of the on-going conversion of three open cycle power plants to combined cycle power plants. Moreover, major capacity enhancement projects such as development of 660 MWs coal fired project and various other small scale initiatives, are expected to add to the company's capacity, including the utilization of alternate energy sources, and look promising for the company's projected generation profile, in the backdrop of the demand-supply gap.

Positive trend in Transmission & Distribution (T&D) losses (FY14: 25.3%; FY13: 27.8%) along with management's projections for continuity of this trend have also been factored into the assigned ratings. At current levels, T&D losses are weaker than NEPRA's benchmark. Management has projected continued reduction in T&D losses on the back of aggressive detection drive along with initiatives such as Aerial Bundled Cabling, Smart Grid and Mobile Meter Reading solutions. Aggregate Technical & Commercial (AT&C) losses have also trended down with overall improvement in recovery ratio to 87.0% (FY13: 84.9%); however recovery from public sector consumers at 63% continues to be a drag. Some improvement may be witnessed in the same during FY15 in view of allocation of funds to Karachi Water & Sewerage Board in Finance Bill 2015 of Sindh Government, for payment of electricity bills. Further investments in the distribution infrastructure may also be required to replace the ageing equipment.

Financial risk profile of the company has also improved as reflected by declining leverage indicators and improved cash flow coverage. With higher sales and improved recovery ratio, the company's FFO to total debt ratio improved to 0.36x (FY13: 0.30x). In addition to overall shortfall in recoveries from end consumers, major items affecting the company's working capital cycle include recoveries in lieu of subsidy from the GoP and payments owed to NTDC; the company's net receiver position in this respect is expected to be reversed with increase in tariff for residential consumers. Moreover, the recent dip in international oil prices is expected to reduce the company's working capital requirement and have a positive impact on profitability.

KE is planning to issue Sukuk of Rs. 22b (inclusive of a green shoe option of Rs. 2b). Proceeds of the Sukuk issue will largely be utilized towards repayment of the company's existing long term debt. The entire Sukuk issue will have repayment linked to specific receivables from 495 identified industrial customers, which have an extended history of timely payments with the company and have priority of electricity supply over other consumers. The ratings assigned to the Rs. 22b Sukuk are supported by additional cushion whereby a cash collection mechanism will be triggered if overall entity level debt service coverage falls below a pre-defined threshold and retention of amount equivalent to one-third of the quarterly installment by the collection agent to meet the upcoming installment. Debt repayment capacity is expected to remain comfortable level under realistic stress test scenario. KE also plans to acquire additional debt in FY17 for transmission enhancement and rehabilitation projects; however, the company's growth projections indicate that even after taking additional debt into account, gearing remains at manageable levels on account of internal capital generation.

Key risk factors primarily stem from developments in the external environment and the company's relationship with third parties, including regulatory authority/suppliers/consumers. The provision of 650 MWs from Water and Power Development Authority (WAPDA), the Power Purchase Agreement (PPA) for which expired in January 2015, is a key component of the overall supply by KE. Negotiations for future terms of supply are on-going and will be keenly tracked by JCR-VIS. Chances of complete discontinuation of the 650MW power supply are considered remote, given the strategic importance of Karachi and other relevant factors.

External relations with sole gas supplier, Sui Southern Gas Company Limited (SSGC), have eased with agreement of a Payment Plan. The plan also covers clearing of historical dues of SSGC, though there continues to be uncertainty regarding the total amount payable; timely resolution of the same, in addition to other outstanding legal matters is considered important.

JCR-VIS sensitizes the projections made available by management to determine debt servicing capacity under realistic stress test scenarios; however, the assigned ratings do not incorporate Force Majeure situations.

Overview of the Institution

KE was incorporated on September 13, 1913. KE was initially privatized in 2005 when Saudi Al-Jomaih Group of Companies and Kuwait's National Industries Group acquired major stake in the company. In 2008, Al-Jomaih approached Abraaj Capital and a deal to transfer management control was finalized between the two parties, which entailed investment of $361m by Abraaj Capital over the subsequent few years. Abraaj Capital, through KES Power Limited, is now the major shareholder of KE. Financial Statements for FY14 were audited by M/s KPMG

JCR-VIS

JCR-VIS Credit Rating Company Limited
Technical Partner – IIRA, Bahrain I JV Partner – CRISL, Bangladesh

K-Electric Rating History

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		Rating Type: Entity		
12/1/2014	AA	Stable	A-1	Upgrade
1/2/2014	A+	Positive	A-2	Reaffirmed
11/25/2013	A+	Positive	A-2	Initial

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		Rating Type: Sukuk 1,2 & 3		
12/1/2014	AA	Stable		Upgrade
1/2/2014	A+	Positive		Final
11/25/2013	A+	Positive		Preliminary
12/1/2014	AA	Stable		Upgrade
1/2/2014	A+	Positive		Final
11/25/2013	A+	Positive		Preliminary
12/1/2014	AA	Stable		Upgrade
1/2/2014	A+	Positive		Final
11/25/2013	A+	Positive		Preliminary

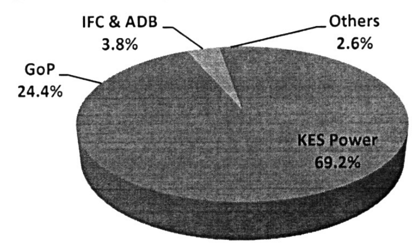
Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		Rating Type: Sukuk 4		
1/29/2015	AA+	Stable		Preliminary
3/26/2015	AA+	Stable		Final

JCR-VIS Credit Rating Company Limited
Technical Partner – IIRA, Bahrain I JV Partner – CRISL, Bangladesh

Corporate Profile

K-Electric Limited (KE), *formerly Karachi Electric Supply Company Limited*, was incorporated as a limited liability company in 1913 under the repealed Indian Companies Act, 1882 (now Companies Ordinance, 1984). The company is listed on all 3 stock exchanges in Pakistan. Previously a public sector company, KE was privatized in 2005 with around three-quarters of the company's shares sold to a consortium of Saudi Al-Jomaih Group of Companies and Kuwait's National Industries Group (NIG). Later, a Dubai-based private equity firm, Abraaj Capital (Abraaj), acquired controlling stake in KES Power Limited, the holding company of KE that owned 71.5% of KE's shares at the time. By virtue of this transaction, the management control of KE was vested with Abraaj. Also part of the deal was the commitment by Abraaj to inject equity to the tune of $361m into the company in addition to which the Government of Pakistan (GoP) committed $125m. In FY13, International Finance Corporation (IFC) and Asian Development Bank (ADB) converted $50m of long term loans extended to KE into equity, reposing confidence in the company. Subsequent to the conversion, IFC & ADB also hold 3.8% stake in the company. Current shareholding of the company is presented in the figure below:

Figure 1: Shareholding of K-Electric



**KES Power Limited is the Holding company of KE. Majority shareholding of KES Power Limited rests with Abraaj Capital whilst other investors include Denham Capital & Al-Jomaih Group.*

Abraaj is a leading investor in growing markets operating through more than 25 offices in Asia, Africa, Latin America and the Middle East. The group has an asset base in excess of $7.5b located in over 50 destinations across the globe. As per the notification issued on the local bourse, dated June 30, 2014, the group has mandated Citi Group to identify strategic options for its divestment from KE. This is in line with Abraaj's strategy as a private equity investor to take exit from investee companies after completing a pre-defined investment horizon and achieving performance milestones. Future implications of this on the entity itself will be keenly tracked by JCR-VIS, in terms of the profile of new sponsor and/or management changes, if any.

Including the CEO, Board of Directors (BoD) of KE comprises 13 members. The major sponsor, Abraaj, has seven representatives on the Board; GoP is represented by three members. Apart from these, Saudi Al-Jomaih Group of Companies and NIG have one seat each on the Board and 1 director is independent. (Please refer to Annexure A for further details on BoD members).

The BoD is chaired by the company's ex-CEO, Mr. Tabish Gohar; he possesses extensive experience in the power sector both locally and internationally. Mr. Gohar is Partner at Abraaj Group and Country Head of Abraaj Pakistan operations. The company's management team is spearheaded by Mr. Tayyab Tareen, who took charge as CEO in November 2014 in place of the outgoing CEO Mr. Nayyar Hussain. Mr. Tareen has been associated with KE for the last 6 years and has served the company as its Chief Financial Officer and Chief Strategy Officer, before moving back to parent company, Abraaj, in 2013 where he set up the Pakistan Investment Fund and was also appointed as its CEO. Mr. Tareen has been on KE's board since 2009. Remaining management team of KE comprises seasoned professionals, who have been instrumental in achieving turnaround in the company's performance.

Overall Board oversight is considered adequate with focus on strategy and controls. There was lack of turnout observed from representatives of GoP. Key operational matters such as capital expenditures, interaction with regulatory authorities and other third parties, management initiatives to address operational risks, among others, feature as key items of discussion at the Board level. Financial statements of each quarter along with performance across key operational metrics are also discussed by Board members.

Board Committees include Board Audit Committee (BAC), Board Finance Committee (BFC) & Board Human Resource & Remuneration Committee (BHRRC). The BAC is chaired by an independent director, Mr. Khalid Rafi.

Core Functions

KE is the only fully integrated utility company in Pakistan, having its own generation, transmission and distribution platform. As per a notification published on the stock exchange in May 2014, the company's BoD has directed the management to initiate an unbundling process of KE's core functions, i.e. power generation and transmission & distribution, into separate entities. In this regard, consultants having prior experience of executing similar transactions have been appointed.

Generation

KE has an installed generation capacity of 2,345 MWs of which 420 MWs is dedicated for coal conversion, in lieu of which NEPRA's tariff approval is awaited. The gross dependable capacity in FY14 was 1,652 MWs (9FY13: 1,643 MWs). Installed capacity of each of KE's power plants is as follows:

Table 1: KE's Power Plants

	Name	GDC
1.	Bin Qasim Power Station 1 (BQPS-1)[1]	755 MWs
2.	Bin Qasim Power Station 2 (BQPS-2)	529MWs
3.	Korangi Combined Cycle Power Plant (KCCPP)	192 MWs
4.	GE Jenbecher (SITE &Korangi)	88 MWs
5.	Korangi Thermal Power Station	88MW

Gross Dependable Capacity is the actual amount of electricity that can be reliably produced by a power plant. The above table excludes capacity of Units 3&4 of BQPS-I, and Unit 3 of KTPS.

The above listed power plants are utilized in order of economic feasibility, per unit of electricity produced. Apart from internal generation, power purchases are made from NTDC, Kannup and Independent Power Producers (IPPs). Power Purchase Agreement (PPA) in place with NTDC provides 650 MWs of electricity from the national grid. The PPA with NTDC expired in January 2015. Negotiations for the same are o0n-going. KE has also signed PPAs, with Tapal Energy (Pvt.) Limited and Gul Ahmed Energy Limited and others for a cumulative power purchase of 365 MWs.

On the generation front, KE has multiple on-going capacity and efficiency enhancement projects. Of these, the major project that KE has been actively pursuing is the coal conversion of two units of BQPS 1 (unit 3 and 4). This project is being developed under an IPP structure by the name of K-Energy. During FY14, proposed license modification of these two units was approved by NEPRA; however, tariff approval from NEPRA is still awaited. The management, keeping in view the delay in approval, has decided to incur necessary capex on these two units so that they can operate on full capacity in the coming summer season when demand is high. Apart from these, there are various smaller scale initiatives also on the anvil to add to the company's capacity, including the utilization of alternate energy sources.

1 Includes 420MW capacity dedicated for coal conversion

On-going efficiency enhancement projects include conversion of open cycle plants to combined cycle power plants. These include SGTPS, KGTPS and two open cycle units of KCCPP. KCCPP has been executed to the extent of 80% and the management expects to complete the same before February 2015 while SGTPS and KGTPS projects are expected to be executed in the second half of FY15. Incremental impact of efficiency enhancement projects is approximately 2%. Full year impact of the same on financials of KE is expected to be witnessed in FY16.

In FY14, the company's average fleet efficiency was reported at 37.0% as compared to 36.6% in FY13 (FY09: 30.6%). Efficiency improvement over the last few years has largely been achieved with the completion of KCCPP and BQPS-2. The same is projected to continue to improve on account of improved gas supply as per arrangement with SSGC and on-going efficiency enhancement projects.

Transmission & Distribution (T&D)

Transmission losses can be defined as loss of electrical units during transmission from source to the grid station. Loss of electrical units subsequent to this are categorized as distribution loss; these losses are incurred mainly on account of old transmission equipment being used in densely populated residential areas and on account of electricity theft through hook (kunda) connections or meter pilferage.

In the out-going year, overall T&D losses of the company reduced further to 25.3% (FY13: 27.8%; FY12: 29.7%); T&D losses have reduced notably by 10.6% since Abraaj Group took management control of KE. The management has undertaken sizeable capital expenditure on the T&D network to reduce losses on each end. This will be an area of continued focus, going forward as well. For achieving sustained T&D loss reduction, the company has installed "Aerial Bundled Cabling" (ABC) in high loss areas. ABC has been successfully rolled-out on 168 PMTs resulting in significant loss reduction on those PMTs. Although these cables add to technical losses as the bundled cable poses more resistance, however it also results in considerably lower distribution losses by deterring the hook (kunda) connection.

Furthermore, an initiative targeting technical loss reduction was undertaken on certain feeders through network optimization. As per management, this is expected to result in significant reduction in technical loss as well as consumer complaints related to faults and trippings owing to improved High Tension: Low Tension ratio of the distribution system. Pilot project has been implemented and is targeted to be rolled on 80-100 feeders across the distribution network during FY15.

The company has also under undertaken the Smart Grid initiative which will reinvent the Distribution Network Management System by improving operations and reduction in network outage time. The Smart Grid Meters will allow the management to monitor flow of electricity from PMTs to end users and detect the source of loss of units. Moreover, management will also be able to remotely shut off power where discrepancies are detected. The company also replaced a number of old electro mechanical meters which had become slow over time, with new electro static meters. Further replacements are planned in the ongoing year to control meter tampering and for increased metering accuracy.

Another operational metric against which KE monitors its performance is Aggregate Technical & Commercial Loss (AT&C). This adds the impact of non-recovery into T&D losses. In FY14 the company's AT&C reduced further to 35% (FY13: 38.7%; FY12: 37.7%) on account of improved recoveries. Overall recovery ratio for the company has improved to 87.1% (FY13:

84.9%). The recoveries from industrial consumers are almost 100% whilst recoveries from public sector consumers continue to persist at similar level observed in the preceding year at approximately 63%. As per management, customized payment solutions have allowed the company to recover more than Rs. 2b against overdue receivables, in the outgoing year.

In order to efficiently address customer complaints and manage operations, KE has 28 Integrated Business Centers (IBCs) situated in 4 regions, with each reporting to their respective regional head. In addition, the company also has a separate dedicated IBC for public sector consumers. For two areas in Karachi i.e. Orangi and Gadap, which have faced critical law & order issues in the past, KE had outsourced the management of these areas to Distribution Service Providers (DSPs).

The management has devised an 'IBC Incentive and Reprimand Policy' by way of which Standard Operating Procedures (SOPs) have been defined. The management also deliberated to set up a Compliance Cell in 8 IBCs, where each IBC will have a dedicated compliance officer who will review documents and identify revenue leakages.

Key Operational Risks

KE's key risk factors primarily stem from developments in the external environment and the company's relationship with third parties, including regulatory authority/ suppliers/ consumers. Some of these risks are discussed hereunder:

- The prevailing economic conditions and other uncertainties may have an adverse impact on the cost of doing business, going forward, through their transmission effect on interest and exchange rates.
- While license modification of two units of BQPS-1 having nameplate capacity of 420 MWs was achieved in FY14, tariff approval from NEPRA for the coal conversion project has faced delays; the project would require at least two and a half years to come online after the notification of tariff. The commissioning of this project was to coincide with the expiry of PPA with NTDC. The provision of 650 MWs from Water and Power Development Authority (WAPDA), the Power Purchase Agreement (PPA) for which expired in January 2015, is a key component of the overall supply by KE. Negotiations for future terms of supply are on-going and will be keenly tracked by JCR-VIS. Chances of complete discontinuation of the 650MW power supply are considered remote, given the strategic importance of Karachi and other relevant factors.
- External relations with sole gas supplier, Sui Southern Gas Company Limited (SSGC), have been eased with agreement of a Payment Plan, whereby SSGC has committed to ensure a dedicated gas supply to KE throughout the year. The plan also covers clearing of historical dues of SSGC, though there continues to be uncertainty regarding the total amount payable.
- While there has been notable improvement in T&D losses and recovery ratios over time, these still remain weaker than acceptable thresholds in view of the law and order situation in certain areas, which pose challenges in terms of streamlining the 'kunda' system and non-payment issues. Moreover, recovery ratio:
  - from public sector consumers at 63.4% continues to be a drag on the company's cash flows.

- could be affected on account of changes in sales mix and an inordinate increase in tariff and gas & furnace oil prices.

- The company's earnings are subject to a claw back mechanism, whereby return in excess of a pre-defined threshold is to be shared with end consumers in terms of tariff adjustment in the subsequent period. There is disagreement over the calculation of claw back; the management has booked provisions in financial statements based on its understanding. The company is currently contesting a lawsuit in the Honorable High Court of Sindh with respect to calculation of clawback mechanism.
- Timely resolution to outstanding legal matters is considered important.

Financial Analysis

Profitability

Operating profits of the company were higher by 16% during FY14 on account of improved fuel mix, reduction in T&D losses and slight improvement in fleet efficiency. However, profit before taxes depicted a sizeable jump on account of significant reduction in finance cost. KE also benefits from sizeable tax losses which the company expects to utilize in view of expected taxable profits in future years. Future profitability levels are projected to continue to improve in view of anticipated reduction in T&D losses, efficiency enhancements during FY15 & beyond, improved gas supply and reduction in finance cost.

In FY14, the company billed a total of 11,453 GWhs (FY13: 10,942 GWhs) whilst revenues were reported at Rs. 195b (FY12: Rs. 189b). This translates into tariff of Rs. 17.0/KWh (FY13: Rs. 17.3/KWh), showcasing a marginal decline from the preceding year. The aforementioned tariff is divided into 2 portions including a portion which is receivable from the consumers and a subsidy claim from the GoP. The subsidy is mainly provided to residential consumers having monthly consumption below a pre-defined threshold. However, on an average, the tariff can be broken as follows:

Table 2: Break-up of Tariff (Figures in PKR)

	FY14	FY13	FY12
Tariff Billed	12.1	10.3	9.0
Tariff claimed from GoP	4.8	7.0	6.8
Determined – Tariff	17.0	17.3	15.8

Given the hike in electricity prices in the outgoing year, the size of revenue in lieu of subsidy from GoP has trended down to Rs. 55b (FY13: Rs. 77b) representing just 28% (FY13: 41%) of the top line. This trend is expected to continue in the ongoing year with price increase of 20% planned for residential consumers during FY15. The remaining amount of Rs. 139b is billed to different categories of consumers as shown below:

Table 3: Category-wise Sale of Energy to Consumers

	FY14	FY13	FY12
Residential	36%	40%	38%
Commercial	23%	23%	16%
Industrial	38%	31%	41%
Others	3%	6%	5%
Total (in PKR millions)	139,113	112,166	92,570

Sales mix has improved in FY14. Although the units billed to industrial consumers have changed only marginally, portion of revenues generated from them has increased on account of increase in power tariff, which has been higher for industrial consumers. However, the proportion remains lower than FY12 when conversion of industrial consumers to captive power plants was observed; this trend has witnessed a decline on account of scarcity of gas. Management is actively pursuing to increase connections in the industrial sector to further enhance sales mix.

Gross margin of KE was higher in FY14 on account of a favorable fuel mix and full year impact of operations of the more efficient BQPS-2 (FY14: 16.6%; FY13: 15.2%). Currently the cheapest form of fuel available to KE is natural gas. As per management, a KWh of electricity produced through natural gas costs about Rs. 5.5/KWh whilst production via Residual Furnace Oil (RFO) costs up to Rs. 18.5/KWh. In FY14, KE produced 8,709 GWhs (FY13: 8,567 GWhs) of electricity. Fuel mix for the year, in terms of expense incurred, is presented in the table below:

Table 4: Gas & FO Mix Based on expenditure incurred

	FY14	FY13	FY12
Natural Gas	49%	43%	46%
Furnace & Other Oils	51%	57%	54%
	64,336	67,808	58,597

In comparison to previous year, average price per mmbtu for natural gas was lower at Rs. 515 (FY13: Rs. 525) whilst average price per MT for RFO was reported at Rs. 66,058 (FY13: Rs. 65,550). Average supply of natural gas was reported higher at 168mmcfd (FY13: 164mmcfd) and total RFO consumed amounted to 497,424 MTs (FY13: 587,276 MTs). The company has recently finalized an understanding with SSGC according to which gas supply to KE will remain at a stable 210mmcfd during summers (April-October) and 130mmcfd during winters (November-March). Averaging these out, this should translate into an annual supply of approximately 180mmcfd which is higher than last year and should result in better fuel mix going forward, thereby translating into better gross margins. KE will in return pay a portion of outstanding dues along with current bill to SSGC. However, gas supply arrangement has not been finalized on account of disagreement of both parties over interest accrued.

Total power purchased during the year amounted to 7,282 GWhs (FY13: 7,257 GWhs). Power purchases are made from WAPDA and IPPs. As per management, per unit cost of electricity purchased from WAPDA is considerably lower than the units purchased from IPPs. However, on average basis, purchased electricity is more expensive than internally produced electricity, as cost of production of IPPs, other than NTDC, is significantly high.

Table 5: Purchase of Energy

Rs. in m	FY14	FY13	FY12
NTDC[2]	65%	66%	70%
IPPs	32%	28%	25%
KANUPP	3%	6%	5%
PSMC	0%	0%	0%
	82,971	**78,372**	**74,658**

Operational expenditure witnessed a slight increase in comparison to preceding year, and stood at Rs. 16.2b (FY13: Rs. 15.3b). The increase pertained to higher non-cash charges such as depreciation and provisioning against receivables. Operating profit for FY14 amounted to Rs. 20.9b (FY13: Rs. 18.0b).

Overall finance cost was lower and amounted to Rs. 11.3b (FY13: Rs. 14.0b) on account of decrease in average KIBOR and conversion of debt into equity by IFC and ABD. Accounting for finance cost, profit before tax more than doubled to Rs. 9.6b (FY13: Rs. 4b) in FY14. The company recognized deferred tax asset of Rs. 2.3b (FY13: nil) in FY14. As at end-June 2014, KE had tax losses Rs. 420b which are not recognized on books.

The company posted a net profit of Rs. 12.9b (FY13: Rs. 6.8b) which translated into a net margin of 6.6% (FY13: 3.6%) and an Earnings per Share (EPS) of Rs. 0.47 (FY13: Rs. 0.26).

Balance Sheet Composition

KE's asset base increased to Rs. 306b (FY13: Rs. 279b) by end-FY14. This increase was manifested in current assets (FY14: Rs. 133b; FY13: Rs. 114b), more specifically short-term outstanding receivables, which stood at Rs. 121b (FY13: Rs.

[2] *National Transmission & Despatch Company (NTDC) is the company responsible for transmitting the energy and makes collections on account of WAPDA.*

102b), out of which trade receivables were Rs. 76b (FY13: Rs. 63b) while remaining were non-trade receivables pertaining to tariff differential claim (TDC) and sales tax refunds. Non-current assets were also reported higher at Rs. 173b (FY13: Rs. 165b) as the company recognized a deferred tax asset of Rs. 2.3b (FY13: Nil) on its books.

At end-FY14, total liabilities amounted to Rs. 235b (FY13: Rs. 225b). Trade payables and debt on balance sheet represented 47% and 31%, respectively, of total liabilities. Net equity stood higher at Rs. 71b (FY12: Rs. 53.7b) on account of internal capital generation.

Credit Risk

KE's trade receivables amounted to Rs. 75.7b (FY13: Rs. 62.8b) at end June 2014, of which Rs. 74.6b were unsecured. An aging schedule of these receivables is presented in the table below:

Table 6: Aging of Trade Receivables

	FY14		FY13	
<30 Days	14%	48%	54%	16%
>30 Days	17%			20%
>6 months	17%			19%
1-2 years	23%	52%	46%	18%
2-3 years	11%			12%
3-4 years	5%			4%
>4 years	13%			11%
Total (in PKR millions)	75,704		62,844	

In FY14, debtor turnover days have increased notably to 174 days (FY13: 158 days). The deteriorating trend of receivables aging is mainly on account of delayed settlement from Public Sector consumers that include Karachi Water & Sewerage Board (KWSB) & City District Government Karachi (CDGK). These are strategic consumers as per the implementation agreement signed between KE and GoP. As at end-June'2014, Government and autonomous bodies had a total of Rs. 42.3b (FY13: Rs. 33.1b) outstanding. The management is actively pursuing all stakeholders for recovery of over dues from KWSB and CDGK. In the Finance Bill 2015 of Sindh Government, up to Rs. 5b have been budgeted for KWSB's payment of electricity bills which will facilitate payment of current bills that amount to Rs. 700m/month.

At end-FY14, KE had a total of Rs. 44.2b (FY13: Rs. 38.5b) outstanding as non-trade receivables which mainly pertained to TDC from GoP to the tune of Rs. 37.8b (FY13: Rs. 32.9b). Build-up of receivables has been slow given that the gap between TDC and payable to NTDC in lieu of power purchased has reduced significantly. For FY14, subsidy claim from GoP in lieu of TDC was Rs. 55.4b (FY13: Rs. 76.6b) while cost of power purchased from NTDC was Rs. 53.6b (FY13: Rs. 51.8b).

The company has an offsetting agreement with GoP, whereby it is agreed that subsidy claims are to be directly released to NTDC, given that both entities are government owned. The offsetting mechanism acts as a risk hedge for KE. The company's net receiver position in this respect is expected to be reversed with increase in tariff for residential consumers in FY15.

Table 7: Payables and Receivables from Government (All figures in PKR millions)

Receivables from GoP & Associated Bodies	FY14	FY13
In lieu of Tariff Adjustment	37,796	32,942
In lieu of Electricity Bill	42,289	33,127
Total Receivables	80,085	66,069
Payables to GoP & Associated Bodies		
In lieu of Power Purchase - WAPDA	37,904	20,726
In lieu of Fuel Purchase – SSGC	29,371	32,921
- PSO	5,324	12,089
Total Payables	72,599	65,736

The company is contesting claims by NTDC & SSGC in lieu of late payment surcharge and/or mark-up on arrears, with the company's contention being that some of these have arisen due to delays in recoveries from public sector companies, in addition to also contesting the mechanism for calculation of the claimed amounts. Finalization of these matters is considered essential to eliminate uncertainties with regards to the company's potential liabilities.

Capitalization & Funding

The company's paid-up capital has remained at Rs. 96.3b whilst total tier-1 equity rose to Rs. 43.5b (FY13 Rs. 28.5b) on account of internal capital generation. As at end-FY14, the company also carried a revaluation surplus of Rs. 27.4b (FY13: Rs. 25.2b).

In absolute terms, KE's total debt increased by Rs. 1.8b to reach Rs. 72.7b. Break-up of debt is presented in the table below:

Table 8: Break-up of Total Debt (All figures in PKR billions)

	FY14	FY13
Long Term Financing	33.2	33.8
Short-Term Facilities	39.3	37.2
Total Debt	72.7	70.9

Since the past year, the management has made a conscious effort to renegotiate the company's overall debt at better rates, in line with company's improving business risk profile. In FY14, the company issued a Rs. 6b Sukuk instrument. The Sukuk structure is based on Shirkat-ul-Milk. Sukuk and was issued in three tenor buckets with maturities of 13 months, 3 years and 5 years, following a bullet repayment structure. This, along with another Term Finance Certificate that has an outstanding balance of Rs. 1.7b, has been classified as short term debt on account of an Early Purchase option.

The short term borrowings primarily consist of running finance facilities taken from various commercial banks to make payments to SSGC, PSO, Byco, PPL and other IPPs. These also include Rs. 3.6b pertaining to Murabaha Financing facility that has been acquired to fund working capital requirements and retire import documents.

Overall leverage indicators have trended downwards while cash flow position has showcased improvement. With improved overall recovery ratio of 87.1% (FY13: 84.9%) and favorable fuel mix, the company's FFO increased to Rs. 26.0b (FY13: Rs. 21.1b); this translates to an FFO-debt ratio of 0.36x (FY13: 0.30x). KE's leverage ratio declined to 3.3x (FY13: 4.2x) as equity rose considerably. Gearing of the company was also lower at 1.0x (FY13: 1.3x). Going forward, KE plans to acquire additional debt for transmission enhancement and rehabilitation project. The objective of the same is to reduce losses, increase reliability, stability and capacity of the grid. However, the company's growth projections indicate that even after taking additional debt into account, gearing remains at manageable levels on account of internal capital generation.

Over the outgoing year, the company undertook capital expenditure of Rs. 8.5b, breakup of which is presented in the table below:

Table 9: Capital Expenditure Incurred (Segment-wise)

	FY14	FY13	FY12
Generation	5,195	1,081	6,176
Transmission	272	65	482
Distribution	3,044	2,149	2,145
Capex (Rs. In m)	8,511	3,295	8,803

As can be seen in the table above, capital expenditure (capex) incurred on generation and distribution has increased once again after FY13. The capex incurred on generation is primarily in lieu of efficiency enhancement projects. Distribution related capex projected for FY15, includes capex for reduction in technical losses, implementation of Smart Grid Meters, ABC installation, roll-out of new feeders etc.

Sukuk

Table 10: Sukuk Details

Sukuk Issuer	K-Electric Limited

JCR-VIS Credit Rating Company Limited
Technical Partner – IIRA, Bahrain I JV Partner – CRISL, Bangladesh

Size of Issue	Rs. 22b (including green shoe option of Rs. 2b)
Tenure	7 years (includes grace period of 2 years)
Installment Intervals	Quarterly
Profit Rate	KIBOR + 1%
Securitization	• Identified Assets worth Rs. 29.33b • Repayment linked to specific receivables from 495 identified industrial customers.

K-Electric Limited (KE) is planning to issue a Sukuk of Rs. 22b (inclusive of a green shoe option of Rs. 2b). Proceeds of the Sukuk issue will be utilized towards repayment of certain portion of KE's existing long term debt and for permanent working capital requirements. The Company expects to be able to raise fresh funding at improved pricing, given the improvement in risk profile of the entity itself over time.

The Sukuk issue is proposed to be secured by way of first pari-passu charge over identified assets to the tune of Rs. 29b of which Rs. 22b worth of assets will be transferred to the Investment Agent. The Investment Agent will purchase the identified assets from KE and enter into a Musharaka Arrangement with KE whereby Sukuk subscribers will jointly own Musharaka Assets in the pre-agreed investment ratio. Expenditure related to upkeep of these assets, including insurance/takaful expenditure, will be undertaken by the Managing Co-Owner i.e. KE, who will also continue to use these assets and retain it on its books on behalf of the Investment Agent, on trust basis.

The entire Sukuk issue will have repayment linked to specific receivables from 495 identified industrial customers, which have an extended history of timely payments with the Company and have priority of electricity supply over other consumers. Additional long term debt of slightly over Rs. 9b also enjoys similar charge over these receivables. The receivables from the earmarked customers provide sufficient margin over the repayments to be made from the same. Other structural features of the Sukuk include monthly retention of amount equivalent to one-third of the quarterly installment in an escrow account by the collection agent from the revenues of these 495 customers to meet the upcoming installment while excess proceeds after meeting the retention requirement will be released to KE each month.

An additional cover for the Sukuk subscribers is that in case the company's EBITDA to total debt falls below a pre-defined threshold (30%), an accelerated recovery mechanism will be triggered. Once this happens, the Sukuk Trustee will inform the Collection Agent to block the excess proceeds that would have been transferred to KE and the same will be transferred to Sukuk Holders' account till such time that the total amount transferred equals the amount of next 5 installments to be paid to the Sukuk Holders. In case the Company's EBITDA to total debt level is restored to 30% during the intervening period, all blocked funds will be released to KE by the Sukuk Trustee.

Sensitizing FFO for lower than projected efficiency or higher T&D losses, the debt repayment capacity still remains at comfortable levels. The assigned rating however does not incorporate Force Majeure situations

JCR-VIS

JCR-VIS Credit Rating Company Limited
Technical Partner – IIRA, Bahrain I JV Partner – CRISL, Bangladesh

Annexure A: Profile of BoD members

Name	Designation	Details
Tabish Gauhar	Chairman	• **Experience:** 20 years in the infrastructure sector • Partner at The Abraaj Group • Director, MSF(Pakistan), Byco Industries Inc. (Mauritius) and KES Power
Muhammad Tayyab Tareen	Chief Executive Officer –KE Executive Director	• **Experience:** 21 years with multinationals • Managing Director - The Abraaj Group •
Nayyer Hussain	Non-Executive Director	• Ex-CEO, KE (12 Feb 2013 to 27 Oct 2014) • CEO, Abraaj Pakistan Investment Fund
Khalid Rafi	Independent Director	• **Experience:** 20 years at Price Waterhouse Coopers LLP • Non-Executive Director, Unilever Pakistan Limited • Chairman, FAMCO
Aziz Moolji	Non-Executive Director	• Board Observer, Network International LLC • Board Member, Marine Hospitality Holdings Ltd.
Frederic Sicre	Non-Executive Director	• **Experience:** 20 years • Managing Director - The Abraaj Group • Chairman, Mustaqbali Foundation • Director, Wamda Ltd, Injaz & Dubai Cares • Board Member, Education for Employment
Mubasher H. Sheikh	Non-Executive Director	• Group Financial Controller, National Industries Group, Kuwait • Board Member, Proclad Group Ltd, UAE; and National Combined Industries Holding Company for Energy, Kuwait.
Muhammad Zargham Ishaq Khan	Non-Executive Director	• Representative - GOP: (Joint Secretary (Power) Ministry of Water & Power, GOP) • Director, LESCO, PESCO, HESCO, MEPCO & GEPCO
Khaqan Murtaza	Non-Executive Director	• Representative - GOP: (Joint Secretary (Entities & Discos) Ministry of Water & Power, GOP) • Director, PEPCO
Noor Ahmed	Non-Executive Director	• Representative - GOP: (Sr. Joint Secretary (CF-II) Finance Division, GOP) • Director in PHPL, GENCO Holding (Pvt.) Ltd., ISGL & PARCO
Omar Khan Lodhi	Non-Executive Director	• **Experience:** 20 years of investing and operating • Partner and Regional Head of The Abraaj Group for East Asia
Shan A. Ashary	Non-Executive Director	• **Experience:** 30 years of proven success in managing international investments, operations of a large diversified group, finance, treasury, public accounting and strategic and corporate planning. • Investment Adviser, Al-Jomaih Holding Co. (Saudi Arabia)
Syed Arshad Masood Zahidi	Executive Director	• **Experience:** 22 years in process design, business development, project management and plant management • Director at The Abraaj Group

6.6.2 Instrument Rating by IIRA

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

SUKUK RATING REPORT

K-ELECTRIC LIMITED

Report Date:

March 12, 2015

PKR 22b Sukuk	**Rating** (March 12, 2015) **AA+(pk)**

	Latest Rating (March 5, 2015)	Previous Rating (January 5, 2014)
PKR 6b AZM Sukuk	**AA(pk)**	**A+(pk)**

Company Information

- **Established in 1913**
- **Vertically integrated power utility company**
- **2.5 million industrial, commercial, agricultural and residential customers**
- **Sole Electricity distributor for Karachi and its adjoining areas**
- **Chief Executive Officer:** Mr. Tayyab Tareen
- **Chairman:** Mr. Tabish Gauhar
- **External Auditors:** KPMG Taseer Hadi & Company
- **Staff Strength:** 10,530 as of December 2014

Country Overview

The Islamic Republic of Pakistan is one of the most populous countries in the Islamic Ummah ranking second after Indonesia, with a total population of 184.3m. The country is rich in natural resources, benefitting from diverse climatic zones, a fertile soil and large reserves of coal and other mineral resources. A key strength is its food production capability which goes beyond food sufficiency, with agriculture accounting for a major component of the country's exports after textiles. However, in relation to its sizable population, its per Capita GDP (PPP) at USD 3,100 ranks 177 in the world. A significant portion, 56.4% of the country's population falls within the age bracket of 15 and 54, which augurs well for the economy's potential, while at the same time requiring significant investment to be made in areas such as education.

Economic growth trends have been disrupted time and again and a myriad of social challenges confront the policy makers, among which illiteracy, infrastructural weaknesses, and the weak law and order situation are chief concerns. This is manifested in poverty and selective access to basic facilities like health care, drinking water, energy and public safety.

Pakistan's GDP growth is estimated north of 4% for fiscal year 2014, and approximating USD 247b. An adverse trade balance and recurring fiscal deficits have continued to stress the country's economic health. Oil imports have been a major component of the country's import profile and contribute to the overall trade imbalances of the economy. The importance of energy sufficiency for an urbanized population of 37% and a growing industrial base cannot be over stressed.

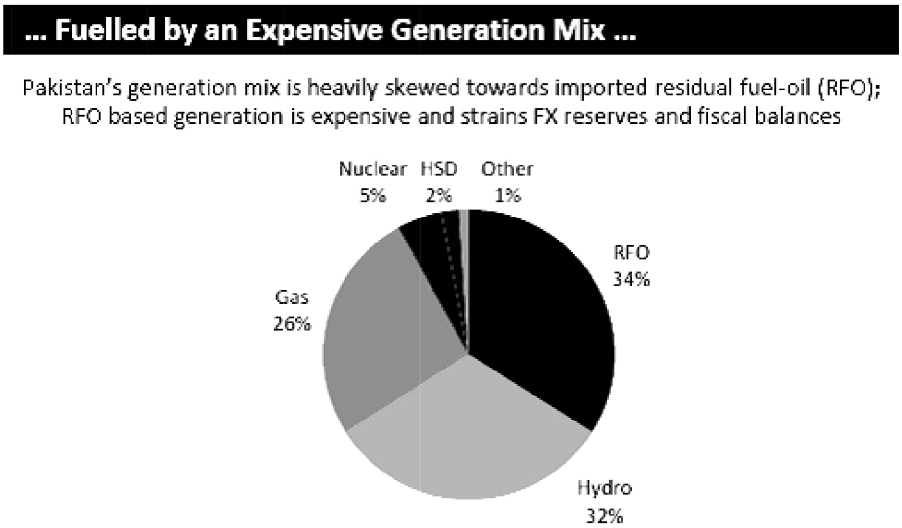
The economy of Pakistan has exhibited favorable trends over the past two years; there has been improvement in foreign currency reserves to USD 15.26b, and launch of infrastructure projects to spur economic activity. Inflation has dipped particularly in the last quarter of 2014 and the Pakistan Rupee has stabilized around 101.75 PKR / USD as of the date of this report.

Addressing one of the country's biggest challenges with regards to civil security, military operations have been intensified in areas believed to have been harboring potentially disruptive elements, in an effort to improve the law and order situation and bolster the country's relations with key foreign partners.

Power Sector of Pakistan

Pakistan's total electricity demand is 16,596MW, while it produces 10,886MW - a deficiency of 5,710MW. Rapidly growing demand, system losses, growing dependence on fuel supply on account of both inadequacy and variability of the hydro power generation system, are the major causes of the energy crisis in Pakistan. At present, hydro power meets 30% of the country's power needs. The country's power generation, transmission and distribution system has been sourced to a web of companies including Generators/ Producers and The National Transmission and Despatch Company (NTDC). NTDC transmits power generated by WAPDA (Water and Power Development Authority) - Pakistan's biggest and wholly government owned power generator - and other producers to regional distribution companies set up to cater to regions across the country.

There are four main producer categories in Pakistan. These include WAPDA, K-Electric, a host of Independent Power Producers (IPPs) - both Publicly and Privately owned, and Nuclear energy producers, controlled by the Atomic Energy Commission of Pakistan. WAPDA is the only generator producing both hydro and thermally generated power. K-Electric produces thermal energy and given its transmission and distribution capability, it is the only vertically integrated utility of Pakistan, serving the largest metropolitan city of the country. The distribution company network, in addition to K-Electric, comprises 8 companies spread over the country.



K-Electric

K-Electric Limited is in the business of generating, transmitting and distributing electricity to approximately 2.5 million industrial, commercial, agricultural and residential customers and a populace of 20 million people spread across the city of Karachi and its adjoining areas. Established in 1913, K-Electric has a 100 year history behind it, during which time Karachi has grown manifolds to become the 8th largest city by population and the 3rd largest city by area covered, globally. K-Electric is governed by the Electricity Act, 1910 as amended to date & NEPRA Act 1997. Prior to January 2014, K-Electric was named the Karachi Electric Supply Corporation Limited (KESC).

The company was privatized in November 2005 with the transfer of 73% shares of Government of Pakistan to a consortium of Al Jomaih Group of Saudi Arabia and National Industries Group of Kuwait. However, in April 2009, Abraaj Capital acquired majority equity stake along with full management control of the Company through investment in KES Power (Holding Company of KE), bringing in significant number of professional managers with experience in running utility and other large companies. Abraaj Capital, the largest private equity player in the world outside of the U.S and Europe has invested USD 361 million in the Company's capital as of June 30, 2013. Further the Government of Pakistan had also injected USD 122.4m up till 2012. During the fiscal year 2012-13 International Finance Corporation (IFC) and Asian Development Bank (ADB) converted USD 25 million each of their debt into equity resulting in approximately 5% shareholding in the Company.

As of June 30, 2014, the shareholding structure of the Company is as follows:

Shareholding Breakup as of June 30, 2014	
Shareholder	**Shareholding**
KES Power Limited (Holding Company)	69.20%
President of the Islamic Republic of Pakistan (GOP)	24.36%
IFC/ADB	3.80%
Others	2.64%
Total	100%

The company has thirteen Directors on the board, including the Chairman. Board of Directors comprises nine Non-Executive Directors (seven of which have been nominated by The Abraaj Group), two Executive Directors and one Independent Director. There are board committees for Audit, Finance and Human Resource & Remuneration. The Chairman of the Board is Mr. Tabish Gauhar, who was Chief Executive Officer (CEO) of the company from November 2009 to February 2013, when Mr. Nayyer Hussain was appointed at the helm of the company. More recently, Mr. Tayyab Tareen has been appointed as Chief Executive. The particulars of the Board of Directors are as follows:

S. No.	Name	Category
1.	Tabish Gauhar	Chairman of the Board
2.	Tayyab Tareen	Chief Executive Officer
3.	Khalid Rafi	Independent Director
4.	Shan A. Ashary	Non-Executive Director
5.	Mubasher H. Sheikh	Non-Executive Director
6.	Muhammad Zargham Eshaq Khan	Non-Executive Director
7.	Frederic Sicre	Non-Executive Director
8.	Omar Khan Lodhi	Non-Executive Director
9.	Aziz Moolji	Non-Executive Director
10.	Noor Ahmed	Non-Executive Director
11.	Nayyer Husain	Non-Executive Director
12.	Syed Arshad Masood Zahidi	Executive Director
13	KhaqanMurtaza	Non-Executive Director

The organizational turnaround is evident, both financially and organizationally with the previously over staffed, loss making corporation, having posted its first profit in years in FY2012. K-Electric has undertaken a number of measures to enhance the efficiency of its existing plants, amongst which the conversion of some of its open cycle plants to combined cycle plants, is noteworthy and as a result of which fleet efficiency has increased from 30.7% in 2008 to 37% by June 2014. K-Electric has 6 power plants with a total generation capacity of 2,422MW, of which 420 MW is currently non-operational. In addition, the company also procures electricity from NTDC and Independent Power Producers (IPPs) for onward distribution to its licensed areas.

During the last 4 years and after the takeover by the present management, K-Electric has added a total of 1,010 MW to generation capacity with the following breakup:

Capacity Enhancement	
Combined Cycle Power Plant (CCPP) Korangi	220 MW
General Electric Jenbacher (GEJB) gas generators at Korangi and SITE	180 MW
Bin Qasim Power Station (BQPS)-1 rehabilitation	50 MW
Bin Qasim Power Station (BQPS)-2	560 MW
Total	1010 MW

Improvements have also been made to the transmission and distribution network. Transmission and distribution (T&D) losses have been the hallmark of the distribution industry in many of the emerging markets. Through specific control measures and an active awareness drive, T&D losses have gone down from 34.1% in 2007-08 to 23.8% for July – Dec 2014.

The planned increase in the use of Aerial Bundled Cabling, which has already benefitted 175,000 customers all over Karachi, and other initiatives such as mobile meter reading, upgrade of grid stations, etc. are likely to reduce distribution losses further. Strategic endeavors underway include conversion of three open cycle plants to combined cycle power plants and development of 660 MWs coal fired project. The drive towards renewable energy is also an important initiative in the area of generation.

Financial Performance

The financial and organizational reinforcement discussed earlier, has translated into improvements in revenue, administrative costs and the company's debt access, resulting in an all across improvement to earnings. Top line performance has continued to improve over time, posting PKR 194.7b during FY14 in total revenues (FY13: PKR 189.0b), and a CAGR of 22.9% from FY09 to FY14. This is backed by addition of 1,010 MW to K-Electric's generation capacity, increase in fleet efficiency and reduction in Aggregate Technical & Commercial (AT&C) losses. The latter two elements also resulted in significant improvements to gross margin, which rose from 0.2% in FY11 to 16.6% in FY14. First quarter of the present financial year indicate further growth in revenues to Rs. 55.86b, translating into annualized growth of almost 15%.

A snapshot of key historical financials is presented below:

PKR Millions	**FY14**	**FY13**	**FY12**	**FY11**	**FY10**	**FY09**
Net Sales	194,708	188,999	162,816	130,721	103,936	85,224
Operating expenses % sales	9.11%	8.44%	8.06%	7.69%	8.29%	6.70%
Contribution Margin	24.34%	22.66%	18.16%	11.27%	6.61%	3.35%
Gross Margin	16.65%	15.25%	9.99%	0.19%	-3.90%	-7.78%
Operating Profit Margin	10.71%	9.45%	6.31%	-3.77%	-7.61%	-11.57%
Net Profit Margin	6.62%	3.61%	1.61%	-7.19%	-14.09%	-18.09%
Total Assets	306,316	278,879	272,278	236,352	207,629	131,935
Total Equity	43,541	28,478	14,547	-2,449	-525	-566
Funds From Operations (FFO)	26,047	21,104	5,257	-3,642	-8,119	-9,401
Long-Term Debt	33,151	33,755	45,102	41,072	26,794	17,882

Short-Term Debt	39,578	37,183	21,763	21,374	13,442	13,114
Total Debt	72,728	70,938	66,865	62,446	40,235	30,966
(FFO)/Total debt (x)	0.36	0.30	0.08	N/A	N/A	N/A
Current Ratio	0.76	0.71	0.70	0.57	0.71	0.82
Debt Leverage (x)	3.32	4.19	5.54	7.92	5.62	-16.00
Gearing (x)	1.67	2.49	4.35	N/A	N/A	N/A
Gearing with trade creditors (x)	4.12	5.82	10.79	N/A	N/A	N/A
LT debt to total debt (x)	0.46	0.48	0.67	0.66	0.67	0.58

Key Risks

1. **Supply of natural gas**, which is the cheapest source of fuel for energy generation, from the Sui Southern Gas Company (SSGC) was unreliable in the past. A payment plan agreed with SSGC provides assurance regarding the supply of gas to K-Electric, which has followed a more reliable trend in recent months. Disagreement however remains over the total amount payable to SSGC; timely resolution of the same is also considered important.

2. **Interest rate risk**: the proposed Sukuk is a floating rate instrument and benchmarked to the Karachi Interbank Offer Rate (KIBOR). KIBOR has historically witnessed significant volatility, although it has been relatively stable during FY2014 and has been steadily falling in recent periods; KIBOR currently stands at around 8.5%. Projections provided by the management assume a KIBOR of 12% through the course of the Sukuk, which offers financial space in the present scenario.

3. K-Electric faces **supply risk** stemming primarily from its electricity purchase agreement with NTDC, which expired in January2015. However, considering, the strategic importance of Karachi to Pakistan's economy, management is confident that GoP will reach an agreement with the Company for renewal of the Power Purchase Agreement. Meanwhile, the company plans to incur necessary capex to rehabilitate two units of BQPS-1, which are currently non-operational, if tariff notification for the coal project to be undertaken with K-Energy faces further delays.

4. While individual consumers are subject to load shed, corporate customers are supplied electricity on a regular basis. The proposed Sukuk issuance is collateralized through specific corporate receivables, which is a mitigating factor to risk.

Sukuk Structures

Structure of the PKR 22b Sukuk

The proposed issue amount of the Sukuk is PKR 22b; this is to be issued for a tenor of seven years, including a grace period of 2 years. This instrument will replace existing long-term facilities, which will be repaid prematurely. KE has identified a specific pool of plant and machinery valuing 29.34b, of which Rs. 22b will be sold to the investors, through the Investment agent, on deferred payment basis. A diminishing Musharka agreement has been executed between investors and K-Electric, for joint ownership of Musharaka assets in a pre-determined investment ratio. A payment agreement has also been subsequently entered into, in which the investors' share of the jointly owned assets would be leased to KE, against quarterly rental payments. KE has provided a purchase undertaking to purchase the investors' share in equal installments.

The Sukuk will be further structured such that gross revenues from a set of prime 495 industrial customers of K-Electric will be used to make the Sukuk payments. These customers have a recovery rate of 98% and constitute approximately 15% to K-Electric's monthly billing. Selected consumers mostly comprise local corporate concerns, which are exempted from power outages.

The issue rate is expected to be Karachi Interbank Offer Rate (KIBOR) (currently 8.5%) plus 1.00% spread. Payments on the Sukuk will be made quarterly collections from the designated customers will begin to accumulate to the extent of a third of the upcoming installment due, in each of the three months - and will be maintained in this account till the amount due has been collected and the installment paid.

The amount to be routed each month through the designated bank account presently amounts to PKR 2.4b or PKR 7.2b each quarter which is expected to provide more than double the coverage of each installment amount expected. This structure will remain in place against the same corporate receivables on PKR 7.7b syndicated financing undertaken by the company in May 2014 and Azm Certificates amounting PKR 1.7b; the latter is due to be fully settled during the grace period of the PKR 22b Sukuk issue.

Risk Implications of the PKR 22b Sukuk Structure

The effect of this mechanism on the repayment possibility is favorable, because it firstly immunizes each upcoming repayment from margin risks, emanating from fuel usage and fuel price volatility risks or non-payment against units supplied by non-collateralized customers of the corporation. The recovery rate on these customer relationships is higher than average recovery rate of 84.9% and creates a paripassu charge on these receivables along with the stake of investors in the PKR 7.7b syndicated financing facility and the AZM Certificates amounting PKR 1.7b. The repayment mechanism also protects the investors from cash constraints arising on account of adverse developments in the company's working capital.

The Sukuk holders, along with local syndicate of PKR 7.7 billion and AZM TFC holders, will have first charge over the 495 specific consumer receivables. Proceeds from these consumers will be deposited into specific collection account which will be under lien of above mentioned lenders

(Syndicate and TFC/Sukuk holders). The Collection Account will be subject to the following two conditions:

1)The Collection Agent will, on a monthly basis, retain an amount equivalent to one third of the quarterly installment due for all relevant lenders. The excess proceeds after meeting the retention requirement will be released to K-Electric each month.

2) In case the EBITDA / Total Debt measure falls below 30% in any quarter ("The threshold amount"), the Sukuk Trustee will inform the Collection Agent to block the excess proceeds that would have been transferred to KE and the same will be transferred to Sukuk Holders account till such time that the total amount transferred equals the amount of next 5 installments for the Sukuk Holders. In case the relevant threshold percentage is met during the intervening period, all blocked funds in excess of amounts as designated under Condition 1, will be released to K-Electric by the Sukuk Trustee.

From a Shari'a standpoint the structure has obtained approval from a panel of 4 eminent Shari'a scholars in Pakistan. The panel through its Fatwa on the structure has stated that following a review of all transaction documents, the transaction structure and the relevant documents have been found to not contain any element, repugnant to Shari'a and that the structure is in line with the Shari'a guidelines as issued by regulatory authorities, in its entirety.

PKR 6b AZM Sukuk

This PKR 6b Sukuk issue branded as the 'AZM Sukuk' was issued in March 2014 and comprises three tenor buckets with maturities of 13 months, 3 and 5 years. Rental payment frequency is monthly for the Sukuk with tenor of 13 months and quarterly for Sukuk with tenors of 3 and 5 years. Sukuk holders have exclusive charge by way of hypothecation over the assets backing the Sukuk which comprise specifically identified grid stations having a value of PKR 8.1b.

With improvement in profitability, and resultantly cash flows, on the back of efficiency enhancements and lower T&D losses, ability to service debt obligations is expected to remain strong over the life of the Sukuk. Timely recovery of net tariff differential claims and dues from public sector entities is important from the perspective of cash flow management. The Sukuk has enabled K-Electric to reduce reliance on bank credit. Islamic International Rating Agency has an outstanding national scale rating of 'A+' (Single A Plus) to this Sukuk issue.

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

The foreign currency ratings by IIRA measure the ability of the rated entities to service their foreign currency obligations. These ratings incorporate all the sovereign risks of a country, including the risk of converting local currency to foreign currency.

Local Currency Ratings

The local currency ratings by IIRA measure the ability of the rated entities to service their local currency obligations. These ratings incorporate all the sovereign risks of a country, except the risk of converting local currency to foreign currency.

Ratings on National Scale

The national scale local currency ratings assigned by IIRA are tiered against an assumed local government rating of 'AAA' and, therefore, do not incorporate all the sovereign risks of a country.

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

IIRA uses a scale of AAA to C to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and C being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA : High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A : Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB : Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB : Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B : Obligations deemed likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC : Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Rating Outlook : The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of rating change.

Rating Watch-list : IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+ : Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1 : High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A2 : Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3 : Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B : Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards
(91-93), (94-97), (98-100)*
Rights of various stakeholders are well protected and the overall governance framework is strong.

(76-90) – Strong Fiduciary Standards
(76-80), (81-85), (86-90)*
Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards
(61-65), (66-70), (71-75)*
Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards
(40-46), (47-56), (54-60)*
Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards
Rights of various stakeholders are at high risk and the overall governance framework is weak.

**Apart from the lowest score range, all score ranges have been split into three sub-divisions for further clarity*

7. TRUSTEE AND SECURITY

7.1 THE SUKUK / MUSHARAKA ASSETS

The Issue has been structured based on the following Assets ("**Sukuk Assets**" / "**Musharaka Assets**").

S. No.	Unit No.	Asset Description (Plant and Machinery)*			PKR	
		Boiler	Turbine	Generator	Value***	Book Values**
1	1	ELPASO type Single drum, Natural Circulation Single Reheat Steam: 680 T / H, 145 bar, 530 C Manufacturer: Hitachi-Babcock	Capacity: 210 MW Tandem Compound Double Flow Stages: HP-8, IP-6, LP-2X5 Steam Condition: 140 bar, 525 C Manufacturer: Hitachi	248 MVA, 21 KV Type: TFLQQ Stator: H2O Cooled Rotor: H2 Cooled Manufacturer: Hitachi	3,404,542,178	2,356,076,995
2	2	ELPASO type Single drum, Natural Circulation Single Reheat Steam: 680 T / H, 145 bar, 530 C Manufacturer: Hitachi-Babcock	Capacity: 210 MW Tandem Compound Double Flow Stages: HP-8, IP-6, LP-2X5 Steam Condition: 140 bar, 525 C Manufacturer: Hitachi	248 MVA, 21 KV Type: TFLQQ Stator: H2O Cooled Rotor: H2 Cooled Manufacturer: Hitachi	3,964,628,491	2,828,558,492
3	5	ELPASO type Single drum, Natural Circulation Single Reheat Steam: 680 T / H, 145 bar, 530 C Manufacturer: Hitachi-Babcock	Capacity: 210 MW Tandem Compound Double Flow Stages: HP-8, IP-6, LP-2X5 Steam Condition: 140 bar, 525 C Manufacturer: Hitachi	248 MVA, 18 KV Type: TFLQQ Stator: H2 Cooled Rotor: H2 Cooled Manufacturer: Hitachi	9,363,713,814	6,472,084,004
4	6	ELPASO type Single drum, Natural Circulation Single Reheat Steam: 680 T / H, 145 bar, 530 C Manufacturer: Hitachi-Babcock	Capacity: 210 MW Tandem Compound Double Flow Stages: HP-8, IP-6, LP-2X5 Steam Condition: 140 bar, 525 C Manufacturer: Hitachi	248 MVA, 18 KV Type: TFLQQ Stator: H2 Cooled Rotor: H2 Cooled Manufacturer: Hitachi	13,354,328,798	9,032,377,955
		Total			**30,087,213,281**	**20,689,097,446**

** Located at KE Bin Qasim 1 Plant at Port Qasim Industrial Area*
*** Book value net of depreciation as per the KE financial statements for the half year ended December 31, 2014*
**** As per the valuation report dated June 15, 2013 by M/s Iqbal A. Nanjee & Co. (Pvt) Ltd.*

7.2 SECURITY / HYPOTHECATION OF ASSETS

A first pari passu hypothecation charge has been created over the specified Hypothecated Properties in favour of the Security Trustee for the benefit of Sukuk holders to secure the Sukuk facility under Letter of Hypothecation dated February 11, 2015, registered with SECP under Certificate of Registration of Mortgage dated February 13, 2015 issued by SECP, which is pari passu with first charge over the specified Hypothecated Properties in favour of Unit Conversion Lenders and Bridge Financier. Secured amount under the above Letter of Hypothecation is PKR 29,333,333,334/-.

A first pari passu hypothecation charge has been created on the Hypothecated Receivables, Accounts and Deposits in favour of the Security Trustee for the benefit of Sukuk holders, under Letter of Hypothecation of Hypothecated Receivables and Accounts (Sukuk parties) dated March 26, 2015, registered with SECP under Certificate of Registration of Mortgage dated April 6, 2015, issued by SECP which is pari passu with first charges over such Hypothecated Receivables, Accounts and Deposit in favour of Unit Conversion Lenders for PKR 10,266,667,000/- and Azm Certificate Holders for PKR 2,267,000,000/-. Secured amount under the above Letter of Hypothecation of Hypothecated Receivables and Accounts (Sukuk parties) is PKR 29,333,333,334/-.

"***Hypothecated Properties***" means:

(1) All present and future:

(a) Assets and properties (excluding, stores, spares and fuel) existing and located on each of the Bin Qasim Site (other than Units 3 and 4 of BQPS-1), the Korangi Site, the Korangi Gas Plant Site and the S.I.T.E Plant Site, including without limitation:

(i) All plants, machineries and equipments existing and located in each of the Bin Qasim Plant located on Bin Qasim Site, the Korangi Plant located on the Korangi Site, the Korangi Gas Plant located on the Korangi Gas Plant Site and the S.I.T.E Plant located on the S.I.T.E. Plant Site.

(ii) The assets and properties forming part of the Generation Expansion and the Jenbacher Project Expansion.

(iii) The assets and the properties to be supplied to the Company by the Bin Qasim Equipment Supply Contractor under the Bin Qasim Equipment Supply Agreement, Korangi Equipment Supply Contractor under the Korangi Equipment Supply Agreement and Jenbacher Supplier under the Jenbacher Supply Contracts.

(b) Such stores and spares of K-Electric wheresoever located, which are of a value not more than fifteen percent (15%) of the aggregate value of all stores and spares, wheresoever located, of K-Electric.

(2) All sum of money payable under the specified project documents to K-Electric, K-Electric's right to make claims and recover sums payable under such project documents and all rights, privileges and other benefits accruing to K-Electric under the project documents.

(3) All amounts that may be paid and or that K-Electric may have a claim on pursuant to the specified insurances and the insurance contracts.

(4) All the rights to and benefits of K-Electric under the insurances or to and benefits of the Security Trustee by virtue of loss payee and / or additional insured provisions related to the insurance, and includes all claims and other sums (including "refund of premium") payable under, and the right to make all claims and recover all sums payable under all insurance contracts provided however excluding, at all times, the Excluded Insurance Proceeds (i.e. 85% (eighty five percent) of the insurance proceeds received in respect of the insurances and the insurance contracts relating to

stores and spares of K-Electric and all insurance proceeds received in respect of the insurances and the insurance contracts relating to fuel).

"***Hypothecated Receivables, Accounts and Deposits***" means the following:

a) the specific consumer receivables accruing from 495 industrial consumers being the amounts paid or to be paid by them to K-Electric under the consumer bills issued to such consumers by K-Electric; (such 495 specific consumers mainly consist of industrial consumers, from which average monthly billing during the period from Mar-14 to Feb-15 is of PKR 2.6 Billion);

b) the following bank accounts of K-Electric wherein the above consumer receivables will be deposited and all amounts standing to the credit of such bank accounts and / or any one of them and includes all amounts that may be deposited in such accounts at any time and from time to time excluding such excess funds which will be transferred to K-Electric in accordance with Collection Agreement dated March 26, 2015 after schedule payments to Sukuk holders, Units Conversion Lenders and Azm Certificate Holders.

S.No.	Name of Bank	Title of Account	Account Number
1.	MCB Bank Limited	K-Electric, Abdullah Haroon Road, MCB Bank Limited	006901010010699
2.	United Bank Limited	KESC, Corporate Branch, United Bank Limited	0290159-0
3.	United Bank Limited	Master Collection Account, Corporate Branch, United Bank Limited	120 0062-3
4.	National Bank of Pakistan	K-Electric Limited, AIMAI House, National Bank of Pakistan	3626-2
5.	Habib Metropolitan Bank Limited	K-Electric Limited, Main Branch, Habib Metropolitan Bank Limited	6-1-1-20319-714-388083
6.	Bank Al-Habib Limited	K-Electric Limited, Main Branch I.I. Chundrigar Road	1001-0081-162059-02-3

CIRCUMSTANCES UNDER WHICH SECURITY BECOMES ENFORCEABLE

In terms of Article 8.2 of the Declaration of Trust, upon occurrence of a Dissolution Event, the Sukuk Trustee shall issue a Dissolution Notification to all Sukuk Holders with relevant details along with a notice for passing an Extraordinary Resolution of Sukuk Holders.

Under Article 8.3.1 of the Declaration of Trust, upon occurrence of a Dissolution Event and if so directed by an Extraordinary Resolution passed by Sukuk Holders as defined in Schedule 2 of Declaration of Trust, the Sukuk Trustee shall issue notice to the Issuer for payment of redemption amount of Sukuk Buy Out Price (Applicable upon termination).

Under Article 8.3.2 of the Declaration of Trust, if the Issuer fails to pay such amount, the Sukuk Trustee shall be entitled to enforce the security subject to terms and conditions of Security Sharing Agreement dated March 26, 2015 executed between the Sukuk Trustee, Unit Conversion Lenders and TFCs Trustees, particularly in terms of Article 4 of such Security Sharing Agreement in relation to common securities / charges.

RESTRICTION ON THE ISSUER WITH RESPECT TO CREATION OF FURTHER CHARGES ON THE SPECIFIED HYPOTHECATED ASSETS

The Issuer cannot create any superior, pari passu or inferior charge over the Hypothecated Assets or any portion thereof without prior consent of the Sukuk Trustee. However, such prior consent of Sukuk Trustee will not be unreasonably withheld by Sukuk Trustee / Investment Agent (and consent of Sukuk Holders will also not be required) for creation of pari passu and / or inferior charges over the Hypothecated Assets if the proposed charge is in relation to permitted financial indebtedness, appropriate cushion is available in the value of the Hypothecated Assets to cover such new security and such new financiers will agree to become party to the New Security Sharing Agreement.

MINIMUM AMOUNT OF THE SECURITY TO BE MAINTAINED AT ALL TIMES DURING THE TENURE OF THE SUKUK

In terms of Letter of Hypothecation dated February 11, 2015 executed by the Issuer in favour of Sukuk Trustee for the benefit of Sukuk Holders, secured amount is PKR 29,333,333,334/-.

In terms of Clause 16 of such Letter of Hypothecation, the market value of the Hypothecated Properties shall not at any time fall below the amount of the balance due to the Sukuk Holders for the time being under the Sukuk Transaction Documents together with profit, service charges, costs and expenses.

In terms of Clause 8 of the Letter of Hypothecation, the Trustee and / or its nominees shall be entitled, on prior written notice to the Company, to enter any premises and to inspect, value, insure, superintend and / or take particulars of the Hypothecated Properties and to check any statements, accounts, reports and information pertaining to the Hypothecated Properties.

7.3 THE TRUSTEE / INVESTMENT AGENT

In order to safeguard the interests of the Sukuk holders, Pak Brunei Investment Company Limited has been appointed to act as Trustee / Investment Agent for the Issue. The Issuer shall pay to the Trustee / Investment Agent an annual fee of PKR 1,200,000/-. The fee shall be payable at the beginning of each year commencing from the date of signing of the Trust Deeds and on each subsequent anniversary thereof. **The Bankers to the Issue have been instructed to inform the Trustee on a daily basis of the subscriptions received for issuance of Sukuk.**

As per the terms of the Declarations of Trust executed between KE and the Trustee, the Trustee will ensure the following:

- The terms and conditions of the Declaration of Trust and Security Documents are adhered to; and
- The interests of the Sukuk Holders are safeguarded by taking the actions that it deems necessary (as prescribed by the Declaration of Trust / Trust Deed) in the event of any breach of terms and conditions of Sukuk and the Declaration of Trust (dated February 10, 2015 and subsequently amended vide the First Amendment Deed to the Declaration of Trust dated March 26, 2015) by KE.

7.4 THE TRUST DEED

The Declaration of Trust for the Sukuk dated February 10, 2015 and subsequently amended vide the First Amendment Deed to the Declaration of Trust dated March 26, 2015 executed between the Company and Pak Brunei Investment Company Limited specifies the rights and obligations of the Trustee. In the event of KE defaulting on any of its obligations under the terms of the Declarations of Trust / Trust Deeds, the Trustee may enforce KE's obligations in accordance with the terms of the Trust Deeds in line with the Transaction Documents. **For information of the investors and Sukuk holders, the Declaration of Trust dated February 10, 2015, the First Amendement Deed to the Declaration of Trust dated March 26, 2015 and subsequent Amendments Deeds, if any, to the Declaration of Trust shall be uploaded on the website of the Comapny and the Trustee and shall remain there till maturity of the Sukuk. The proceeds of any such enforcement shall be distributed to the Sukuk holders at the time in proportion to the amounts owed to each Sukuk holder pursuant to the Sukuk.**

7.5 DISSOLUTION EVENTS / EVENTS OF DEFAULT

The Dissolution Events are covered under para 8.1 of the Declaration of Trust (the Declaration) executed between the Company and the Trustee to the Issue.

Under the Declaration of Trust each of the following events constitutes a Dissolution Event:

(a) the failure of the Issuer to:

(i) pay any Rental Payments or Buy Out Prices before the relevant Payment Dates in accordance with the Declaration and the Conditions; or

(ii) pay any amounts payable by the Issuer under the Declaration (other than as specified in sub-clause (i) above) and such failure continues for a period of fifteen (15) consecutive Business Days after expiry of the payment date as provided under a demand for the payment of the same put to the Issuer;

(b) default by the Issuer in the performance or observance of or compliance with any of its other material obligations or undertakings under the Sukuk Transaction Documents and such default (other than as specified in sub-clause (a) above) continues for a period of thirty (30) days from the date of receipt of notice by the Issuer from the Sukuk Trustee in respect of the same;

(c) an event of default (howsoever described and / or defined) occurs under a Sukuk Transaction Document and such event of default (other than as specified in sub-clause (a) above) continues for a period of thirty (30) days from the date of receipt of notice by the Issuer from the Sukuk Trustee in respect of the same;

(d) any representation or warranty made or deemed to be made or repeated by the Issuer in or pursuant to the Declaration is found to be incorrect and / or misleading;

(e) the Issuer assigns or enters into an arrangement for the benefit of its creditors in respect of any Financial Indebtedness, which has a Material Adverse Effect[4] in the reasonable opinion of Sukuk Trustee;

(f) the Issuer:

(i) voluntarily or involuntarily becomes the subject of bankruptcy or insolvency proceedings except for proceedings which are frivolous in nature; and / or

(ii) elects to become a party to or is subject to any proceedings or procedure under any law for the relief of financially distressed debtors, except for proceedings which are frivolous in nature; and / or

(iii) admits in writing its inability to pay its debts as they mature, to the Sukuk Trustee; and / or

(iv) a receiver or an administrator is appointed for all or any part of its assets or business;

(g) the Issuer is unable or admits its inability to meet its payment obligations in respect of its Financial Indebtedness as the same fall due, suspends making payments on any of its Financial Indebtedness or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling its Financial Indebtedness or any portion thereof;

(h) a moratorium is declared in respect of any Financial Indebtedness of the Issuer;

(i) any corporate action, legal proceedings or other procedure or steps are taken by the Issuer in relation to the suspension of payments, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Issuer other than a solvent liquidation or reorganisation;

(j) the Issuer enters into or initiates steps for entering into a composition, compromise, assignment or arrangement with any of its creditors, which has a Material Adverse Effect in the reasonable opinion of Sukuk Trustee;

[4] Sukuk Trustee will determine whether any event or circumstance is likely to have a material adverse effect on the ability of the Issuer to perform and comply with any of its obligations under any Sukuk Transaction Document. Sukuk Trustee is entitled to consult any advisor in this regard.

(k) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of the Issuer (if applicable) or any of its assets;

(l) enforcement of any Security Interest over substantial assets of the Issuer, which has a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(m) any governmental agency nationalizes, acquires or expropriates (with or without compensation) any or all the assets of the Issuer including but not restricted to the Secured Properties;

(n) any other event or circumstance arising out of the Issuer's negligence or default which results in a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(o) any Financial Indebtedness of the Issuer is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (howsoever described), which has a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(p) any commitment for any Financial Indebtedness of the Issuer is cancelled or suspended by a creditor of the Issuer, as a result of an event of default (however described), which has a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(q) it is or becomes unlawful for the Issuer to perform any of its material obligations under the Declaration;

(r) any obligation or obligations of the Issuer under the Declaration or any Sukuk Transaction Document are not, or cease to be, legal, valid, binding or enforceable and the cessation individually or cumulatively has a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(s) the Declaration and / or any Sukuk Transaction Document ceases to be in full force and effect;

(t) the Issuer repudiates the Declaration or evidences an intention to repudiate the Declaration;

(u) any Security Document ceases to be in full force and effect or is declared to be void or is repudiated and the conditions resulting in the repudiation are not remedied and / or replacement Security Documents are not executed within a period of thirty (30) business days from the date on which the Security Documents become void and / or are repudiated;

(v) any court or arbitrator passes a final non-appealable judgment or arbitral award for payment, against the Issuer and the Issuer fails to effect such payment within sixty (60) days from the date on which the obligation to pay arises and provided the same has a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(w) the Issuer fails to comply with any law or regulation to which it may be subject and the same has a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee;

(x) the Issuer fails to comply with the covenants set out in the Declaration and such failure continues for a period of thirty (30) days from the date of receipt of a notice by the Issuer from the Sukuk Trustee in respect of the same or from the date on which the Issuer has knowledge of the same, whichever is earlier;

(y) the Issuer suspends, ceases, or threatens to suspend or cease, to carry on all or a substantial part of its business or to change the nature of its business from that undertaken at the date of the Declaration; and

(z) any event or series of events (whether related or not) occurs which would have a Material Adverse Effect in the reasonable opinion of the Sukuk Trustee.

Note: It is confirmed that all events of default have been disclosed in this prospectus in the same manner as per the Declaration of Trust dated February 10, 2015 and subsequently amended vide the First Amendment Deed to the Declaration of Trust dated March 26, 2015.

8. MANAGEMENT OF THE COMPANY

8.1 BOARD OF DIRECTORS OF K-ELECTRIC LIMITED

The Company's affairs are governed by a Board of Directors, which currently consists of the Chief Executive Officer and twelve other Directors. The CEO has an overall responsibility to manage the portfolio of businesses of the Company.

S. No.	Names & Designation	Address / Other Office	Directorship Held in Other Companies
1	Tabish Gauhar Chairman	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi.	MSF (Pakistan) Byco Industries Inc. (Mauritius)
2	M. Tayyab Tareen CEO	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi.	Nil
3	Nayyer Hussain	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi	Nil
4	Syed Arshad Masood Zahidi	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi.	Nil
5	Omar Khan Lodhi	Abraaj Capital, Asia Pte Ltd. 10 Collyer Quay # 39-04, Ocean Financial Center Singapore, 049315	Nil
6	Shan A. Ashary	Aljomaih Holding Co., Aljomaih Building, P.O.Box 54308, Riyadh 11514, Saudi Arabia. Investment Advisor, Aljomaih Holding Co. (Saudi Arabia)	Nil
7	Mubasher H. Sheikh	P.O. BOX 417 SAFAT, 13005, SAFAT, KUWAIT, Group Financial Controller, National Industries Group, KUWAIT	National Combined Industries Holding Company for Energy, Kuwait. Proclad Group Limited, UAE
8	Aziz Moolji	Al Barsha 1, Barsha Villas. Villa No. 3, Dubai. UAE	Marine Hospitality Holdings Ltd.
9	Frederic Sicre	Jumeira 3 161 Al Safee Street, P.O. Box 504905, Dubai, UAE	Mustaqbali Foundation Wamda Limited Injaz Dubai Cares Education For Employment
10	Khalid Rafi Independent Director	8-C, Khyaban-e-Shujaat, Phase-V, DHA Karachi.	FAMCO Century Insurance Company Limited
11	Noor Ahmed Director Government of Pakistan	House No. 25-I/A, Block-A, Satellite Town, Rawalpindi Sr. Joint Secretary (CF-II), Finance Division, GOP, Pakistan Secretariat Block-Q, Islamabad	PHPL GENCO Holding (Pvt) Limited ISGPL PARCO
12	Muhammad Zargham Eshaq Khan Director Government of Pakistan	H # 118-A, Mohalla Babar Block, New Garden Town, Lahore Joint Secretary (Power), Ministry of Water & Power, GOP, Pakistan Secretariat, Block-A, Islamabad	LESCO PESCO HESCO MEPCO GEPCO
13	Khaqan Murtaza Director Government of Pakistan	Joint Secretary (Entities & Discos), Ministry of Water & Power, GOP, Pakistan Secretariat, Block-A, Islamabad	PEPCO

8.2 PROFILE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Tabish Gauhar has 19 years of experience in the infrastructure sector in the Middle East, South Asia, Europe and Africa. He is a Partner at The Abraaj Group, and non-executive Chairman of KE having previously served as its CEO between November 2009 and February 2013. Before joining The Abraaj Group he was the Regional CFO at AES Corporation for Europe, Middle East & Africa. He previously worked with International Power on its Hub Power Project in Pakistan. He started his career at Exxon Chemical. He graduated with a First Class Honors degree in Electrical Engineering from King's College, London (Chevening / ICI Scholar), and also holds an MBA (Finance) from the Institute of Business Administration in Pakistan.

8.3 PROFILE OF THE CHIEF EXECUTIVE OFFICER

Muhammad Tayyab Tareen was appointed as the new Chief Executive Officer by K-Electric's Board of Directors on November 27, 2014.

He has been on the KE board since 2009 and has also served as the Chief Financial Officer and Chief Strategy Officer, before moving back to the parent company Abraaj in 2013, where he had set up the Pakistan Investment Fund and was also appointed as its CEO.

He joined The Abraaj Group in 2006. He has over 20 years of experience, mainly with multinationals, covering areas of business turnarounds, financial management, planning and business acquisitions. Prior to joining Abraaj, he was the Chief Financial Officer (CFO) of the Coca-Cola Company managed bottler in the UAE and Oman, a business that saw a successful turnaround from losses to sustained profitability within two years. From 1997 to 2001, he was with Coca-Cola Beverages Pakistan as CFO and Company Secretary. He started his career in 1995 with Packages Limited in Pakistan as Manager Project Financing, responsible for investment reviews and project financing. He is a qualified Chartered Accountant from England and Wales.

8.4 PROFILE OF THE CHIEF FINANCIAL OFFICER

Syed Moonis Abdullah Alvi is the Chief Financial Officer of KE. He is responsible for all financial activities within the organization including financial planning, budgeting, insurance, payroll, taxation and treasury activities as well as financial reporting. He has significant experience in handling corporate and related matters. Prior to joining KE, he was associated with a Bi-industrial Conglomerate from 1997-2008 as Group Director Treasury and was involved in various significant transactions. He started his career as Deputy Manager Assurance with KPMG Taseer Hadi & Co and was with KPMG from 1989-1997. He is a fellow member of the Institute of Chartered Accountants of Pakistan.

8.5 OVERDUE LOANS

The Company has no overdue loans (local and foreign currency).

8.6 POWERS OF DIRECTORS

As required under section 196 of the Companies Ordinance, 1984, and the Articles of Association of the Company, the authority to conduct business of the Company is vested with its Board of Directors and they may exercise all such powers of the Company as are not required by the Companies Ordinance, 1984 or the Articles of Association of the Company or by a special resolution, required to be exercised by the Company in the general meeting of the shareholders.

8.7 NUMBER OF DIRECTORS

Pursuant to section 174 of the Companies Ordinance, 1984, the number of directors of a listed company should not be less than seven (7). At present, the Board of KE consists of 13 Directors.

8.8 QUALIFICATION OF DIRECTORS

A Director must be a member; however no share qualification is prescribed pursuant to the Articles of Association of the Company. The condition for a director to be a member under Section 187(h) of the Companies Ordinance, 1984 and Article 64 (A-.viii) shall not apply to a person representing the Government or an institution or authority which is a Member, a whole-time Director who is an employee of the company, a Chief Executive, or a person representing a Creditor.

8.9 REMUNERATION OF DIRECTORS

The remuneration of a Director for attending meetings of the Board or a Committee formed by the Board shall be PKR 50,000/- for each meeting attended by him, or such other amount as may be prescribed by the Board, provided that a Director who is an Executive of the Company shall not be entitled to any remuneration for attending meetings of the Board or a Committee formed by the Board. The Directors may also be paid all travelling, hotel and other expenses, properly incurred by them in attending and returning from meetings of the Director or any Committee of the Directors or general meetings of the Company or in connection with the business of the Company. Where a Director or a firm of which such Director is a partner or a private Company of which such Director is a Director holds an office of profit under the Company other than the office of Chief Executive or an office as legal or technical Adviser or Banker, the terms of remuneration for such office shall be sanctioned by an Ordinary Resolution of the Company, except that the remuneration of Directors who are Executives of the Company shall be decided by the Board of Directors.

8.10 AMOUNT OF BENEFITS TO PROMOTERS AND OFFICERS DURING THE LAST TWO YEARS

No benefit has been given or is intended to be given by the Company to the promoters and officers of the Company other than remuneration for services rendered by them as full time Executives of the Company.

8.11 INTEREST OF DIRECTORS

The Directors may be deemed to be interested to the extent of fees payable to them for attending Board meetings. The Directors performing whole time service to the Company may also be deemed to be interested in the remuneration payable to them by the Company. The Directors may also be deemed to be interested to the extent of any shares held by each of them in the Company and / or the Sukuk applied for and allotted to them through the public Issue.

8.12 INTEREST OF DIRECTORS IN PROPERTY ACQUIRED BY THE COMPANY

None of the Directors of the Company had or has any interest in any property acquired by the Company within the last two years.

8.13 ELECTION OF DIRECTORS

The Directors shall comply with the provisions of Section 174 to 178, 180 and 184 of the Ordinance relating to the election of Directors and matters ancillary thereto. The thirteen (13) present Directors of the Company were elected / nominated effective October 8, 2012. The Board of Directors of the company in exercise of powers vested in it through Section 180 (2) of the Companies Ordinance, 1984, has made appointment of Directors in order to fill in the casual vacancies occurred from time to time for the remainder of the three year term.

8.14 BORROWING POWERS

The Directors may from time to time raise or borrow any sum or sums of money or make any arrangement for finance for the purpose of the Company. The Director may raise or secure the payment of such sum or sums or financial arrangement in such manner and upon such terms and conditions in all respects as they think fit and in particular by making, drawing, accepting or endorsing on behalf of the Company any promissory notes or bills of exchange or by issuing bonds, perpetual or redeemable debentures or debenture stock or any mortgage, charge or other security on the undertaking or the whole or any part of the property of the Company (both present and future) but no such charge shall be created on unpaid capital of the Company.

8.15 VOTING RIGHTS

The Sukuk shall not carry any voting rights in relation to the Company.

9. MISCELLANEOUS INFORMATION

9.1 REGISTERED OFFICE / HEAD OFFICE	KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi. Phone: 021-32637133 Fax: 021-99205165 Website: www.ke.com.pk
9.2 AUDITORS	KPMG Taseer Hadi & Company, Chartered Accountants 1st Floor Sheikh Sultan Trust, Building No. 2, Beaumont Road, Karachi 75530 Phone:021-35685847 Fax: 021-35685095 Website: www.kpmg.com.pk
9.3 LEGAL ADVISOR TO THE ISSUE	HaidermotaBNR & Co. Barristers at Law & Corporate Counsellors Karachi Office: D-79, Block 5, Clifton, Karachi 75600 Phone: 021-111 520 000 Fax: 021-35871054 Website: www.hmcobnr.com.pk
9.4 REGISTRAR / TRANSFER AGENT	Central Depository Company of Pakistan Limited
9.5 BANKERS TO THE ISSUE	1. Al Baraka Bank (Pakistan) Limited 2. Allied Bank Limited 3. Askari Bank Limited 4. Bank Alfalah Limited 5. Bank Al-Habib Limited 6. BankIslami Pakistan Limited 7. Burj Bank Limited 8. Dubai Islamic Bank Pakistan Limited 9. Faysal Bank Limited 10. Habib Bank Limited 11. Habib Metropolitan Bank Limited 12. MCB Bank Limited 13. Meezan Bank Limited 14. NIB Bank Limited 15. Samba Bank Limited 16. Sindh Bank Limited 17. Standard Chartered Bank (Pakistan) Limited 18. Summit Bank Limited 19. United Bank Limited
9.6 BANKER TO THE ISSUE FOR E-APPLICATION	Habib Bank Limited

9.7 MATERIAL CONTRACTS / DOCUMENTS RELATED TO THE ISSUE

1. Investment Agency Agreement (Investment Agent) dated February 10, 2015
2. Asset Purchase Agreement dated February 10, 2015
3. Agreement to Enter into Musharaka dated February 10, 2015
4. Rental Payment Agreement dated February 10, 2015
5. Service Agency Agreement dated February 10, 2015
6. Declaration of Trust dated February 10, 2015
7. Purchase Undertaking (Periodic Redemption and Termination) dated February 10, 2015
8. Sale Undertaking (Early Purchase) dated February 10, 2015
9. Letter of Hypothecation dated February 11, 2015

10. Private Placement Agreements dated February 12, 2015
11. Final Shariah Board Fatwa dated February 06, 2015
12. Letter of Hypothecation of Hypothecated Receivables and Accounts dated March 26, 2015
13. Letter of Lien and Set Off dated March 26, 2015
14. Security Sharing Agreement dated March 26, 2015
15. First Amendment Deed to the Declaration of Trust dated March 26, 2015
16. Collection Agreement dated March 26, 2015

S. No.	Private Placement Institutions	Amount (PKR in M)	Agreement Date
1	Habib Bank Limited	4,500	February 12, 2015
2	Meezan Bank Limited	2,600	February 12, 2015
3	United Bank Limited	2,500	February 12, 2015
4	National Bank of Pakistan	2,000	February 12, 2015
5	MCB Bank Limited	1,150	February 12, 2015
6	Dubai Islamic Bank Pakistan Limited	1,150	February 12, 2015
7	Meezan Islamic Income Fund	800	February 12, 2015
8	Meezan Balance Fund	300	February 12, 2015
	Total	**15,000**	

9.8 INSPECTION OF DOCUMENTS AND CONTRACTS

All the Balance Sheets and Profit & Loss Accounts, Copies of the Memorandum and the Articles of Association, the Auditor's Certificates, Trust Deeds, the Letters of Hypothecation, the Credit Rating Reports by JCR-VIS and IIRA, Clearance letter from KSE and the Approval Letter from Securities & Exchange Commission of Pakistan, and the copies of Agreements referred to in this Prospectus may be inspected during usual business hours on any working day at the registered office of the Company from the date of publication of this Prospectus until the closing of the Subscription Period.

9.9 LEGAL PROCEEDINGS

The Company is party to number of cases as disclosed in the note 32 of the Annual Financial Statements for the year ended June 30, 2014. Based on the opinion of the Company's legal counsel, the management is confident that the outcome of these cases will be in favour of the Company. Accordingly, no provision has been made in respect of those cases in the Financial Statements ending June 30, 2014.

9.10 INDEMNITY

As per the Article 105 of Company's Articles of Association, Every Director, Chief Executive, Chairman, Manager or Officer of the Company or any person (whether an Officer of the Company or not) employed by the Company as Auditor or Advisor, shall be indemnified out of the fund of the Company against any liability incurred by him as such Director, Chief Executive, Chairman, Manager, Officer, Auditor, or Advisor in defending any proceedings, whether civil or criminal, in which judgment is given in connection with any application under Section 488 of the Ordinance in which relief is granted to him by Court.

9.11 CAPITALIZATION OF RESERVES

Year	2014	2013	2012	2011	2010	2009	2008	2007	2006
Stock Dividend	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
No. of Shares*	NA	NA	NA	NA	NA	NA	NA	NA	NA

* Number of bonus shares

9.12 REVALUATION OF FIXED ASSETS

During the year ended June 30, 2009 and 2010, revaluation exercises were carried out by an independent valuer. The fair values were determined with reference to market based evidence, based on active market prices and based on depreciated replacement cost method.

	Surplus on Revaluation	Written Down Values
	PKR in ‘000s	
Leasehold land	3,194,189	322,411
Plant and machinery	34,753,442	31,931,330
Transmission grid equipments	11,290,541	11,399,461
	49,238,172	**43,653,202**

During the year ended 30 June, 2014, revaluation exercise of leasehold lands was carried out by an independent valuer. The fair value were determined with reference to market based evidence, based on active market prices and relevant enquires and information as considered necessary, adjusted for any difference in nature, location or condition of the specific property. Surplus on revaluation arises were as follows:

	Surplus on Revaluation	Written Down Values
	PKR in ‘000s	
Leasehold land	6,129,743	1,957,639

Source: KE Annual Accounts 2014

9.13 MEMORANDUM OF ASSOCIATION

The Memorandum of Association, inter alia, contains the objects for which the Company was incorporated and the business that the Company is authorized to undertake. A copy of the Memorandum of Association annexed to this Prospectus is being published with all issues hereof except those released as newspaper advertisement.

9.14 VENDORS

The Company has no Vendors in terms of Clause 12 of Section 1 Part 1 of the Second Schedule of the Ordinance.

9.15 SUBSIDIARY COMPANIES

The Company has no subsidiary Companies.

9.16 INVESTMENT IN ASSOCIATED COMPANIES

The Company holds 5% of the total share capital of Karachi Organic Energy (Private) Limited (KOEL) by virtue of investment in 1,010,790 ordinary shares having face value of PKR 10 each which amounts to total investment of PKR 10,107,900. KOEL has been incorporated for the set up and operation of a biogas project.

10. APPLICATION AND ALLOTMENT INSTRUCTIONS

GENERAL INSTRUCTIONS

1) Eligible Investors includes:

a) Pakistani citizens resident in or outside Pakistan or Persons holding two nationalities including Pakistani nationality;
b) Foreign Nationals whether living in or outside Pakistan
c) Companies, bodies corporate or other legal entities incorporated or established in or outside Pakistan (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
d) Mutual Funds, Provident / Pension / Gratuity funds / Trusts, (subject to the terms of the Trust Deeds and Existing Regulations); and
e) Branches in Pakistan of Companies and bodies corporate incorporated outside Pakistan.

2) APPLICATION MUST BE MADE ON THE COMMISSION'S APPROVED APPLICATION FORM OR A LEGIBLE PHOTOCOPY THEREOF ON A PAPER OF A4 SIZE WEIGHING ATLEAST 62 GRAMS.

3) Copies of Prospectus and application forms can be obtained from the members of KSE, the Bankers to the Issue and their branches, and the registered office of K-Electric Limited. The Prospectus and the application forms can also be downloaded from the website: http://www.ke.com.pk

In order to facilitate investors, Habib Bank Limited is offering facility of electronic submission of applications (e-IPO) to its account holders. HBL account holders can use HBL InternetBanking to submit their applications online via link https://www.hblibank.com. Further, please note that online applications can be submitted 24 hours a day during the Subscription Period which will remain open for three months from the date of subscription i.e. from May 14, 2015 and will close at 12:00 midnight on August 13, 2015, unless full subscription is received before the end of Subscription Period

4) The applicants opting for scripless form of Sukuk are required to complete the relevant sections of the application. In accordance with provisions of the Central Depositories Act, 1997 and the CDC Regulations, credit of such Sukuk is allowed ONLY in the applicant's own CDC Account. In case of discrepancy between the information provided in the application form and the information already held by CDS, the Issuer reserves the right to issue Sukuk in physical form.

5) Name(s) and address (es) must be written in full block letters, in English and should not be abbreviated.

6) All applications must bear the name and signature of the applicant. In case of difference of signature with the bank and Computerized National Identity Card (CNIC) or National Identity Card for Overseas Pakistanis (NICOP) or Passport both the signatures should be affixed on the application form.

7) There will be a preferential period of fifteen (15) days from the date of the commencement of the Subscription Period. During the preferential period, only individuals including NRPs will be allowed to subscribe during this period. After the said fifteen (15) day period, both individual including NRPs and institutional investors will be allowed to subscribe.

8) APPLICATIONS MADE BY INDIVIDUAL INVESTORS

i. In case of individual investors, an attested photocopy of CNIC (in case of RPs) / Passport (in case of NRPs and FIs) as the case may be, should be enclosed and the number of CNIC / Passport should be written against the name of the applicant. Copy of these documents can be attested by any Federal / Provincial Government Gazetted Officer, Councilor, Oath Commissioner or Head Master of High School or Bank Manager in the country of applicant's residence.

ii. Original CNIC / Passport, along with one attested photocopy, must be produced for verification to the banker to the issue at the time of presenting the application. The attested photocopy will, after verification, be retained by the bank branch along with the application.

9) APPLICATIONS MADE BY INSTITUTIONAL INVESTORS

i. Applications made by Companies, Corporate bodies, Mutual funds, Provident / Pension / Gratuity funds / Trusts and other Legal Entities must be accompanied by an attested photocopy of their Memorandum and Articles of Association or equivalent instrument / document. Where applications are made by virtue of Power of Attorney, the same should also be submitted along with the application. Any Federal / Provincial Government Gazetted Officer, Councilor, Bank Manager, Oath Commissioner and Head Master of High School in the country of applicant's residence can attest copies of such documents.

ii. Attested photocopies of the documents mentioned in 9(i) must be produced for verification to the banker to the issue and the applicant's banker (if different from the banker to the issue / offer) at the time of presenting the application. The attested copies, will after verification, be retained by the bank branch along with the application.

10) Joint application in the name of more than 2 persons will not be accepted. In case of joint application each applicant must sign the application form and submit attested copies of their CNICs / Passport. The Sukuk will be dispatched to the person whose name appears first on the application form while in case of CDS, it will be credited to the CDS account mentioned on the face of the form and where any amount is refundable, in whole or in part, the same will be refunded by cheque or other means by post, or through the bank where the application was submitted, to the person named first on the application form, without interest, profit or return. Please note that joint application will be considered as a single application for the purpose of allotment of Sukuk.

11) The person to be nominated shall not be a person other than the following relatives of the member, namely, a spouse, father, mother, brother, sister and son or daughter, including a step or adopted child. The nominee must sign the application form and submit attested copies of their CNICs / Passport.

12) Subscription money must be paid by cheque drawn on applicant's own bank account or pay order / bank draft payable to one of the Bankers to the Issue "**KE Sukuk Subscription A/C**", and crossed "**A/C PAYEE ONLY**".

13) The applicant should have at least one bank account with any of the commercial banks but not necessarily with the Bankers to the Issue. The applicants not having a bank account at all (non account holders) are not allowed to submit application for subscription of Sukuk.

14) Applications are not to be made by minors and / or persons of unsound mind.

15) Applicants should ensure that the bank branch, to which the application is submitted, completes the relevant portion of the application form.

16) Applicants should retain the bottom portion of their application forms as provisional acknowledgement of submission of their applications. This should not be construed as an acceptance of the application or a guarantee that the applicant will be allotted the number of Sukuk for which the application has been made.

17) Making of any false statements in the application or willfully embodying incorrect information therein shall make the application fictitious and the applicant or the bank shall be liable for legal action.

18) Bankers to the Issue are prohibited to recover any charges from the subscribers for collecting subscription applications. Hence, the applicants are advised not to pay any extra charges to the Bankers to the Issue.

19) For the applications made through pay order / bank draft, it would be permissible for a banker to the issue to deduct the bank charges while making refund of subscription money to unsuccessful applicants through pay order / bank draft individually for each application.

20) It would be permissible for a Banker to the Issue to refund subscription money to unsuccessful applicants having an account in its bank by crediting such account instead of remitting the same by cheque, pay order or bank draft. Applicants should, therefore, not fail to give their bank account numbers.

21) FACILITIES AVAILABLE TO FOREIGN / NON-RESIDENT PAKISTANI INVESTORS

Foreign investors and non-resident Pakistani investors may subscribe for Sukuk being issued through this Prospectus by using their SCRA. For detail please see Chapter 20 of the Foreign Exchange Manual of the State Bank of Pakistan.

Foreign investors do not require any regulatory approvals to invest in the Sukuk being offered by the Company. Payment in respect of investment in Sukuk has to be made in foreign currency through an inward remittance or through surplus balances in SCRA. Local currency cash account(s) opened for the purpose of Foreign Portfolio Investment (FPI) is classified as SCRA. There are no restrictions on repatriation on sale (redemption) and profit payments. Underlying client names / beneficial owners are required to be disclosed at depository level.

Key documents required for opening of SCRA account by individuals are:

1. Account opening request
2. Passport / ID

General documentation required for opening of SCRA account by corporate are:

1. Account opening request
2. Board Resolution and Signatories list
3. Passport / ID of Board of Directors
4. Passport / ID of all Authorised Signatories
5. Certificate of Incorporation (COI). Equivalent / Supporting Documents: Trade Registry Certificate, Business Registration Certificate, Certificate of Commencement of Business
6. Memorandum & Articles of Association
7. Withholding tax registration certificate / Certificate of Country of Domicile of Client
8. Latest Annual Report
9. List of Board of Directors
10. List of Shareholders (>10% holding) and Key Officers

It is however pertinent to note that the procedure and requirements of each institution differs, hence it is advised to request the procedure from each relevant institution.

BASIS OF ALLOTMENT

1. The minimum amount of application for subscription of Sukuk is PKR 10,000/-.

2. Application for Sukuk below the aggregate face value of PKR 10,000/- shall not be entertained.

3. Applications for Sukuk by the general public, including institutions and individuals (resident Pakistanis, NRPs and foreigners) must be made for a minimum of the aggregate face value of PKR 10,000/- or in multiples of PKR 5,000/- for amounts above PKR 10,000/-

4. Allotment of Sukuk will be made on **first come, first served basis** and applications for subscription of Sukuk will not be accepted once the target amount of PKR 7,000 Million (inclusive of Green Shoe Option) is subscribed. **In case Bankers to the Issue on any given day accept subscriptions which result in the target amount under the Sukuk being exceeded, then all applications in excess of the target amount will be returned to the applicants without any profit within three (03) business days, therefore, there will be no oversubscription. In order to ensure that allotment of Sukuk is made to the applicants on first come, first served basis, the Bankers to the Issue shall mark each Subscription Application with the date and time of their receipt of clear funds. Further, only those applications received with clear funds by close of business on each day will be reported by Bankers to the Issue to the Registrar to determine allotment. Applications not marked with date and time of receipt of clear funds shall be accommodated after all the applications properly marked with date and time, have been accommodated.**

5. No applications for subscription will be accepted by Bankers to the Issue before the start of subscription period.

6. Allotment of Sukuk shall be subject to scrutiny of applications for subscription.

7. Applications, which do not meet the above requirements, or applications which are incomplete will be rejected. The applicants are, therefore, required to fill in all data fields in the Application Form.

8. The Registrar will dispatch Sukuk to successful applicants or credit the respective CDS accounts of the successful applicants (as the case maybe). Therefore, applicants are advised to fill in accurate mailing address and CDS account details, if any.

9. The investors who do not have a CDC account may contact Central Depository Company through below details. CDC is also running a country-wide account opening campaign in collaboration with EFU Life Assurance Limited. To Know when CDC will be in your city, please contact CDC through the following:

<table>
<tr><td colspan="4">Customer Support Services: 0800-23275
Website: www.cdcpakistan.com
Email: info@cdcpak.com</td></tr>
<tr><td>Head Office:

CDC House, 99-B, Block ‘B’, S.M.C.H.S., Main Shahra-e-Faisal, Karachi - 74400.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326031</td><td>KSE Office:

Mezzanine Floor, Karachi Stock Exchange Building, I.I. Chundrigar Road, Karachi.
Tel: (92-21) 32416774
Fax: (92-21) 32444491</td><td>Lahore Office:

2nd Floor, 307 Upper Mall, Lahore - 54000.
Tel: (92-42) 35789378
Fax: (92-42) 35789340</td><td>Islamabad Office:

Room # 410, 4th Floor, Islamabad Stock Exchange Towers, 55-B, Jinnah Avenue, Blue Area, Islamabad.
Tel: (92-51) 2895456-9
Fax: (92-51) 2895454</td></tr>
</table>

10. BANKERS TO THE ISSUE

Code	Name of Banks	Code	Name of Banks
01	Al Baraka Bank (Pakistan) Limited	11	Habib Metropolitan Bank Limited
02	Allied Bank Limited	12	MCB Bank Limited
03	Askari Bank Limited	13	Meezan Bank Limited
04	Bank Alfalah Limited	14	NIB Bank Limited
05	Bank AL Habib Limited	15	Samba Bank Limited
06	BankIslami Pakistan Limited	16	Sindh Bank Limited
07	Burj Bank Limited	17	Standard Chartered Bank (Pakistan) Limited
08	Dubai Islamic Bank Pakistan Limited	18	Summit Bank Limited
09	Faysal Bank Limited	19	United Bank Limited
10	Habib Bank Limited		

In order to facilitate investors, Habib Bank Limited is offering electronic submission of application (e-IPO) to its account holders. HBL account holders can use HBL InternetBanking to submit their application online via link https://www.hblibank.com. Further, please note that online applications can be submitted 24 hours a day during the Subscription Period which will remain open for three months from the date of subscription i.e. from May 14, 2015 and will close at 12:00 midnight on August 13, 2015, unless full subscription is received before the end of Subscription Period.

11. Occupation Code

Code	Occupation	Code	Occupation
01	Business	06	Professional
02	Business Executive	07	Student
03	Service	08	Agriculturist
04	Housewife	09	Industrialist
05	Household	10	Other

12. Nationality Code

Code		Code	
001	U.S.A	006	Iran
002	U.K	007	Bangladesh
003	U.A.E	008	China
004	K.S.A	009	Bahrain
005	Oman	010	Other

For further queries you may contact:

Habib Bank Limited
Name: Khurram Shaukat
Phone: (021) 32439400
E-mail: khurram.shaukat@hbl.com

HBL Islamic Banking
Name: Faizan Ahmed
Phone: (021) 32464828
E-mail: faizan.ahmed@hbl.com

K-Electric Limited
Name: Danyaal Jamal
Phone: (021) 32637133 Ext: 7225
E-mail: danyaal.jamal@ke.com.pk

Meezan Bank Limited
Name: Urooj ul Hassan Khan
Phone: (021) 38103500
E-mail: urooj.hasan@meezanbank.com

11. SIGNATORIES TO THE PROSPECTUS

S. No.	Names of Directors	Signature
1	**Tabish Gauhar** *Chairman*	-Sd-
2	**Muhammad Tayyab Tareen** *Chief Executive Officer*	-Sd-
3	**Nayyer Hussain**	-Sd-
4	**Shan A. Ashary**	-Sd-
5	**Mubasher H. Sheikh**	-Sd-
6	**Frederic Sicre**	-Sd-
7	**Khalid Rafi**	-Sd-
8	**Syed Arshad Masood Zahidi**	-Sd-
9	**Omar Khan Lodhi**	-Sd-
10	**Noor Ahmed**	-Sd-
11	**Muhammad Zargham Eshaq Khan**	-Sd-
12	**Aziz Moolji**	-Sd-
13	**Khaqan Murtaza**	-Sd-

Witness 1:

Name: Khurram Shaukat Signature: -Sd-

Place: Karachi

Witness 2:

Name: Khurram Iqbal Signature: -Sd-

Place: Karachi

12. MEMORANDUM OF ASSOCIATION

I. The name of the company is **K-Electric Limited**.

II. The registered offices of the Company will be situated in Karachi, Sindh, Pakistan.

III. The objects for which the Company is established are:

1. To carry on at Karachi and elsewhere in Pakistan, the business of an electric light company in all its branches and in particular to construct, lay down, establish and fix all necessary cables, wires, lines, accumulators, lamps and works and to generate, accumulate, transmit, distribute and supply electricity and to light cities, towns, streets, docks, markets, theaters, buildings and places both public and private.

2. To carry on the business of Electrical Engineers, Electricians, Engineers, and Contractors, Shopkeepers, Agents and Manufacturers of Electrical apparatus, and of generating, producing and supplying light, heat, sound and power by electricity, galvanism, magnetism or otherwise, suppliers of electricity whether for the purposes of light, heat, motive power, telephonic, telegraphic industrial or other purposes and generally to provide, work, maintain and carry out all necessary cables, wires, accumulators, lamps exchanges telephones and apparatus.

3. For the purposes of the above section, to buy, sell, hire or deal in cables, wires, accumulators, lamps, exchanges, telephones, fittings and furniture and apparatus of every kind with special reference to apparatus connected with the producing, storing, supplying, using, regulating or measuring the supply or facilitating the use of electricity or electrical currents or force.

4. To buy, sell, hire, manufacture, deal in, turn to account, plant, machinery, implements, convenience, provisions, articles and products capable of being used in connection with the operations of or required by workmen and others employed by the Company or incidentally or conveniently connected with any such business as aforesaid.

5. To construct, purchase, lease or otherwise acquire any tramways, railways, aerial ropeways or any other means of transport by land, air or water.

6. To equip and to maintain and work by electricity, steam, petrol or other mechanical power or by animal power, all tramways, railways, aerial ropeways or other means of transport by air, land or water in which the Company may at any time be interested.

7. To carry on the business of tramways, railways, omnibus and van proprietors and carriers of passengers and goods by air, land or water and of manufacturers of and dealers in tramways, carriages, trucks, locomotives, launches, accumulators, dynamos and other chattels and effect and conveniences required for making, maintaining equipping and working tramways, railways, aerial ropeways or any other means of transport by air, land or water.

8. To purchase, take in, exchange or lease rent, occupy or otherwise acquire any lands, hereditaments and estates and any property and effects thereon or used or connected therewith and to acquire any grants, concessions, leases, rights easements, licenses, privileges, and any other interests in land.

9. To acquire, erect, construct, lay down, enlarge, alter and maintain any buildings, works, and machinery necessary or convenient for the Company's' business.

10. To sell, lease, improve, manage, develop, mortgage, exchange turn to account or otherwise deal with, dispose of absolutely, conditionally, or for any, limited interest, and grant any leave or license in respect of all or any of the rights or privileges of the Company, and to distribute in specie as dividend or bonus any money,

shares, stocks, debentures or debenture stock that may be accepted as consideration for any such sale, lease, exchange or other disposition.

11. To promote, amalgamate with or buy up any other Company for the purpose of acquiring all or any of the property and liabilities of this Company, or for any other purpose which may seem directly or indirectly calculated to benefit this other purpose which may seem directly or indirectly calculated to benefit this Company having and to take or otherwise acquire and hold shares in any other company objects altogether or in part similar to those of this Company, or carrying on any business capable of being conducted so as directly or indirectly to benefit this Company.

12. To enter into partnership or into any arrangement for sharing profits, union of interest, co-operation, joint venture, reciprocal concession, or otherwise with any person or company carrying on or engaged in or about to carry on or engage in any business or transaction capable of being conducted so as to directly or indirectly benefit this Company, and to lend money to guarantee the contracts of, or otherwise assist any such person or company, and to take, or otherwise acquire shares and securities of any such company and to sell, hold, reissue, with or without guarantee, or otherwise deal with the same.

13. To carry on any other business which may seem to the Company capable of being conveniently carried on in connection with the above or calculated to directly or indirectly enhance the value of or render profitable any of the Company's property or rights.

14. To enter into any arrangement with any Government or authority, supreme, municipal, local or otherwise that may seem conducive to the Company's objects or any of them; to obtain from any such Government or authority any rights, privileges, and concessions which the Company may think desirable to obtain and carry out, exercise and comply with any such arrangements, rights, privileges and concessions, and to apply for and obtain licenses, provisional orders, special Acts or other statutory or parliamentary authority for supplying electricity for any public or private purpose.

15. To promote any Bill or Bills in any parliament or any application or applications to any public authority for any order, provisional order or license and to enter into any contract to bear and pay the expenses of or in connection with the same or arising there out, and to underwrite or guarantee the capital required for carrying out any undertaking authorised by any such Act, order or license.

16. To purchase or otherwise acquire any patents, brevets d'inventions, licenses, concessions and the like conferring any exclusive or non-exclusive or limited right to use any invention which may seem capable of being used for any of the purposes of the Company or, the acquisition of which may seem calculated directly or indirectly to benefit the Company, and to use, exercise, develop or grant licenses in respect of, or otherwise turn to account, the property and right so acquired.

17. To pay for any property or rights acquired by the Company either in cash or shares with or without preferred or deferred right, in respect of dividend or repayment of capital, or otherwise, or by any securities which the Company has power to issue or partly in one mode and partly in another and generally on such terms as the Directors may approve.

18. To issue all or any part of the original or other share capital whether preference or ordinary shares of the Company at par or at premium or at discount and as fully or partly paid up.

19. To borrow and raise money in such manner as the Company shall think fit and in particular by the issue of debentures, mortgage debentures, or debenture stock payable to bearer or otherwise and either permanent or redeemable or repayment and collaterally to secure any securities of the Company by means of a Trust Deed or otherwise.

20. To invest and deal with the money of the Company not immediately required upon such securities and in such manner as may from time to time be determined.

21. To make, draw, endorse, accept and negotiate Bills of Exchange, promissory notes or any other negotiable instruments.

22. To receive money on deposit, at interest or otherwise and to lend money, and in particular to customers and others having dealings with the Company and to guarantee the performance of any contracts.

23. To remunerate any person or company for services rendered in placing or assisting to place or in guaranteeing any of the shares in the Company's capital or any debentures or other Securities of the Company.

24. To indenture, contract or otherwise engage handicraftsmen and other workmen, skilled and unskilled and to import labour.

25. To grant pensions, allowances, gratuities and bonuses to the persons employed by or trading with the Company and to aid in the establishment and support of and to subscribe to any association or institutions, calculated to benefit persons employed by the Company or having dealings with the Company.

26. To pay out of the funds of the Company all expenses which the Company may lawfully or by agreement with Government pay, incident to the formation, registration and advertising of or raising money for the Company by debentures or otherwise and the issue of its capital, including brokerage and commission for obtaining applications for or taking, placing or underwriting, shares, debentures or debenture stock and to apply at the cost of the Company to the Government of Pakistan or any other Government Authority, for any extension of the Company's powers.

27. To guarantee the performance of any contract.

28. To procure the Company to be registered or recognised in any country or place outside Pakistan and to keep branch registers.

29. To do all or any of the above acts in any part of the world as Principals, Agents, Contractors, Trustees or otherwise, and by or through Trustees, Agents or otherwise, and either alone or in conjunction with others.

30. To do all such other things as are incidental or conducive to the attainment of the above objects.

31. And it is hereby declared that the word "Company" in this clause shall be deemed to include any authority, partnership or other body of person whether incorporated or not incorporated, and the word "person" shall be deemed to include any partnership, association or other body of persons, and any company if the context so admits; and the intention is that the objects set forth in each of the several paragraphs of this clause have the widest possible construction, and shall be in no wise limited or restricted by reference to or inference from the terms of any other paragraph of this clause or name of the Company except as otherwise expressed therein.

IV. The Liability of the Members is Limited.

V. The share capital of the Company is PKR 125,000,000,000 (Rupees One Hundred Twenty-Five Billion Only) divided into the following kinds of shares:

i. Share Capital of PKR 115,000,000,000 (Rupees One Hundred Fifteen Billion Only) divided into 32,857,142,857 ordinary shares of PKR 3.50 each.

ii. Shares Capital of PKR 10,000,000,000 (Rupees Ten Billion Only) divided into 2,857,142,857 Redeemable Preference Shares of PKR 3.50 each.

We, the several persons whose names and addresses are subscribed, are desirous of, being formed a Company in pursuance of this Memorandum of Association, and we respectively agree to take the number of shares in the Capital of the Company set opposite our respective names.

Dated this Sixth day of September 1913.

Name of Subscriber	Address and Description of Subscriber	Number of Ordinary Shares taken by each Subscriber	Witness to Signature
T.L.F. Beaumount	Merchant, Karachi	1 (one)	
Ghulamali G. Chagla	Merchant, Karachi	1 (one)	
Nadirshaw E. Dinshaw	Merchant, Karachi	1 (one)	
W.U. Nicholas	Merchant, Karachi	1 (one)	
B. Frank Jones	Merchant, Karachi	1 (one)	
Chellaram Dulloomal	Merchant, Karachi	1 (one)	
Abdool Rahim Saleh Mahomed	Merchant, Karachi	1 (one)	

INVESTMENT IN SECURITIES IS A HIGHLY RISKY BUSINESS. INVESTORS ARE, THEREFORE, ADVISED IN THEIR OWN INTEREST TO CAREFULLY READ THE CONTENTS OF THE PROSPECTUS ESPECIALLY THE RISK FACTORS BEFORE MAKING ANY INVESTMENT DECISION

K-ELECTRIC
Energy That Moves Life

K-ELECTRIC LIMITED (KE)

KE SUKUK-UL-SHIRKAH APPLICATION FORM

For the applicant(s) opting for credit of their account in the Central Depository Company of Pakistan Limited (Refer to instruction No. 4 on the reverse hereof)

SUBSCRIPTION DATES
FROM May 14, 2015 TO August 13, 2015
during banking hours

The Company Secretary
K-Electric Limited
KE House,
Plot No. 39/B,
Sunset Boulevard,
D.H.A., Phase II, Karachi
www.ke.com.pk

Sukuk Delivery / Credit Options (Please tick one) CDC ☐ Physical ☐

CDC PARTICIPANT / ACCOUNT HOLDER ID	SUB ACCOUNT NUMBER	HOUSE A/C NO.

OR

CDC INVESTOR ACCOUNT SERVICES ID	CDC INVESTOR ACCOUNT NO.

For Brokers

Broker's Stamp & Code	
KSE	01
Code	

For Bankers

Banker's Stamp	
Bank Code	Branch Code

Application Serial No.

1) PAYMENT DETAILS (Minimum investment amount is PKR 10,000/-)

I / We apply for the following number of Sukuk for PKR 5,000/- per certificate in case of certificates credited to CDC account and PKR 5,000/- per certificate in case of certificates delivered physically, for the value indicated below.

No. of Sukuk Applied For	Amount Payable in PKR	Cheque / Demand Draft / Pay Order No.

2) I / We authorize you to send the Sukuk to me / us pursuant to this application and if no Sukuk is allotted to me / us you are hereby authorized to return to me / us by cheque or other means my / our application money for the amount of Sukuk Certificates not delivered by post at my / our risk to the address written below, or to the Banker to the Issue through which I / we have submitted this application.

For Pakistanis	
Resident	01
Non-resident	02

3) DECLARATION

I / We declare that: i) I am / we are national(s) of ____________; ii) I am / We are not minor(s); iii) I / We have not made nor have I / we instructed any other person(s) / institution (s) to make any other application(s) in my / our name(s) or in the name of any other person on my / our behalf or in any fictitious name; iv) I / We agree to abide by the instructions provided with this application and in case of any information given herein being incorrect I / we understand that I / we shall not be entitled to the allotment of Sukuk if successful rather the application money shall be liable to confiscation if this declaration proves to be incorrect at any time; v) I / We understand that the Sukuk Issue is inline with Shariah principles and I / We are satisfied with the Fatwa issued by Shariah Advisory Board for the KE Sukuk Issue.

4) CONSENT

I / We hereby agree to appoint Pak Brunei Investment Company Limited as the Trustee and Investment Agent in respect of the KE SUKUK-UL-SHIRKAH and transaction documents

Yours faithfully,

Signature(s) a) ______________________ b) ______________________

5) ALL DETAILS MUST BE WRITTEN IN B L O C K - L E T T E R S IN THE SPACES PROVIDED, LEGIBLY IN BLACK PEN.

a) Name in Full (as per CNIC) Mr. / Ms. / Mrs / Co. Please Tick					
Father's / Husband's Name (as per CNIC)					
Identity Number (CNIC / Passport / Registration No.)					
Full Address					
Phone No., if any		**Occupation Code**		**Muslim**	**Non-Muslim**
Bank Account No.		**Bank Name**			
Branch Name & Address					
Additional Information - For Non-Resident Pakistanis and Foreign Investors Only					
Place of Issue of Passport		**Date of Issue of Passport**			
Corporate Business Letter enclosed	**Yes** / **No**	**Nationality Code**	**Country of Residence**		

6) FOR JOINT HOLDERS, IF ANY

b) Name in Full (as per CNIC) Mr. / Ms. / Mrs / Co. Please Tick	
Identity Number (CNIC / Passport / Registration No.)	

7) NOMINEE INFORMATION, IF ANY *(please refer to instruction no. 11 on the reverse hereof)*

b) Name in Full (as per CNIC) Mr. / Ms. / Mrs / Co. Please Tick		**Relationship**		**Nominee Signature**
Identity Number (CNIC / Passport / Registration No.)				

8) PROFIT PAYMENT / REDEMPTION DETAILS

Payment Mode: ☐ **Transfer in Bank Account (Please fill in bank details below)** ☐ **Cheque through Mail (at Principal Holder's Mailing Address specified above)**

Title of Account		
Account Number		
Bank Name		
Branch Name and Address		**Signature of the Applicant as per the Bank account**

(TO BE FILLED IN BY THE APPLICANT'S BANKER)

9) It is certified that the above-mentioned applicant(s) is / are maintaining account number as mentioned above at this bank branch and his / her / their particulars and signature(s) are correct and verified as per the bank's record and their CNIC(s) / Passport(s). It is further certified that only one application has been made in the name of the above account holder through this branch. We also confirm that the original CNIC(s) / Passport(s) has been seen by us.
Note: In case the subscription money is paid through a bank other than the Bankers to the Issue (through pay order or bank draft), this certification shall be provided by the manager of the bank where the applicant maintains his / her bank account.

Bank's Authorized Signatory
Bank's Rubber Stamp

SPECIMEN SIGNATURE(S) OF THE APPLICANT

	NAME OF THE APPLICANT IN BLOCK LETTERS (AS PER CNIC)	SPECIMEN SIGNATURE(S)
a)		
b)		

10) INVESTOR ACKNOWLEDGEMENT RECEIPT (to be filled by the banker)

Bankers to the Issue Provisional acknowledgement of application for Sukuk of KE received from Mr. / Ms. / Mrs / Co. ______________________application for ____________ Sukuk.

Name of Bank	Branch Code	Application Serial No.	Date of Receipt

Signature & Rubber Stamp of Receiving Bank

IMPORTANT: (i) This slip must be retained by the Applicant. ii) Please read instructions provided with this application.

APPLICATION INSTRUCTIONS FOR INVESTORS

GENERAL INSTRUCTIONS

1. Eligible investors includes:

a. Pakistani citizens resident in or outside Pakistan or Persons holding two nationalities including Pakistani nationality;
b. Foreign Nationals whether living in or outside Pakistan
c. Companies, bodies corporate or other legal entities incorporated or established in or outside Pakistan (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
d. Mutual Funds, Provident / Pension / Gratuity Funds / Trusts, (subject to the terms of the Trust Deed and existing regulations); and
e. Branches in Pakistan of companies and bodies corporate incorporated outside Pakistan.

2. APPLICATION MUST BE MADE ON THE COMMISSION'S APPROVED APPLICATION FORM OR A LEGIBLE PHOTOCOPY THEREOF ON A PAPER OF A4 SIZE WEIGHING ATLEAST 62 GRAMS.

3. Copies of Prospectus and application forms can be obtained from the members of Karachi Stock Exchange Limited, Bankers to the Issue and their branches, the Financial Advisor / Arranger and the registered office of the Company. The Prospectus and the application forms can also be downloaded from the website: www.ke.com.pk.

In order to facilitate investors, Habib Bank Limited is offering electronic submission of applications (e-IPO) to its account holders. HBL account holders can use HBL InternetBanking to submit their applications online via link https://www.hblibank.com. Further, please note that online applications can be submitted 24 hours a day during the Subscription Period which will remain open for three months from the date of subscription i.e. from May 14, 2015 and will close at 12:00 midnight on August 13, 2015, unless full subscription is received before the end of Subscription Period.

4. The applicants opting for scripless form of Sukuk are required to complete the relevant sections of the application. In accordance with provisions of the Central Depositories Act, 1997 and the CDC Regulations, credit of such Sukuk is allowed ONLY in the applicant's own CDC Account. In case of discrepancy between the information provided in the application form and the information already held by CDS, the Company reserves the right to issue Sukuk in physical form.

5. Name(s) and address(es) must be written in full block letters, in English and should not be abbreviated.

6. All applications must bear the name and signature corresponding with the records of the applicant's banker. In case of difference of signature with the bank and Computerized National Identity Card (CNIC) or National Identity Card for Overseas Pakistanis (NICOP) or Passport both the signatures should be affixed on the application form.

7. There will be a preferential period of fifteen (15) day from the date of the commencement of the subscription period. Only individuals including NRPs will be allowed to subscribe during the preferential period. After the said fifteen (15) day period both individuals including NRPs and institutional investors will be allowed to subscribe.

8. APPLICATIONS MADE BY INDIVIDUAL INVESTORS

(i) In case of individual investors, an attested photocopy of CNIC (in case of RPs) / Passport (in case of NRPs and FIs) as the case may be, should be enclosed and the number of CNIC / Passport should be written against the name of the applicant. Copy of these documents can be attested by any Federal / Provincial Government Gazetted Officer, Councilor, Oath Commissioner or Head Master of High School or bank manager in the country of applicant's residence.

(ii) Original CNIC / Passport, along with one attested photocopy, must be produced for verification to the banker to the issue and the applicant's banker (if different from the banker to the issue) at the time of presenting the application. The attested photocopy will, after verification, be retained by the bank branch along with the application.

9. APPLICATIONS MADE BY INSTITUTIONAL INVESTORS

(i) Applications made by companies, corporate bodies, mutual funds, provident / pension / gratuity funds / trusts and other legal entities must be accompanied by an attested photocopy of their Memorandum and Articles of Association or equivalent instrument / document. Where applications are made by virtue of Power of Attorney, the same should also be submitted along with the application. Any Federal / Provincial Government Gazetted Officer, Councilor, Bank Manager, Oath Commissioner and Head Master of High School or bank manager in the country of applicant's residence can attest copies of such documents .

(ii) Attested photocopies of the documents mentioned in 9(i) must be produced for verification to the Banker to the Issue and the applicant's banker (if different from the Banker to the Issue) at the time of presenting the application. The attested copies, will after verification, be retained by the bank branch along with the application.

10. Joint application in the name of more than 2 persons will not be accepted. In case of joint application each applicant must sign the application form and submit attested copies of their CNICs / Passports. The Sukuk will be dispatched to the person whose name appears first on the application form while in case of CDS, it will be credited to the CDS account mentioned on the face of the form and where any amount is refundable, in whole or in part, the same will be refunded by cheque or other means by post, or through the bank where the application was submitted, to the person named first on the application form, without interest, profit or return. Please note that joint application will be considered as a single application for the purpose of allotment of Sukuk.

11. The person to be nominated shall not be a person other than the following relatives of the member, namely, a spouse, father, mother, brother, sister and son or daughter, including a step or adopted child. The nominee must sign the application form and submit attested copies of their CNICs / Passports.

12. Subscription money must be paid by cheque drawn on applicant's own bank account or pay order / bank draft payable to one of the Bankers to the Issue **"KE Sukuk Subscription A/C"** and crossed **"A / C PAYEE ONLY"**.

13. For the applications made through pay order / bank draft, it would be permissible for a banker to the Issue to deduct the bank charges while making refund of subscription money to unsuccessful applicants through pay order / bank draft individually for each application.

14. The applicant should have at least one bank account with any of the commercial banks. The applicants not having a bank account at all (non-account holders) are not allowed to submit application for subscription of Sukuk.

15. Applications are not to be made by minors and / or persons of unsound mind.

16. Applicants should ensure that the bank branch, to which the application is submitted, completes the relevant portion of the application form.

17. Applicants should retain the bottom portion of their application forms as provisional acknowledgement of submission of their applications. This should not be construed as an acceptance of the application or a guarantee that the applicant will be allotted the number of Sukuk for which the application has been made.

18. Making of any false statements in the application or willfully embodying incorrect information therein shall make the application fictitious and the applicant or the bank shall be liable for legal action.

19. Bankers to the Issue are prohibited to recover any charges from the subscribers for collecting subscription applications. Hence, the applicants are advised not to pay any extra charges to the bankers to the Issue.

20. It would be permissible for a Banker to the Issue to refund subscription money to unsuccessful applicants having an account in its bank by crediting such account instead of remitting the same by cheque, pay order or bank draft. Applicants should, therefore, not fail to give their bank account numbers.

ADDITIONAL INSTRUCTIONS FOR FOREIGN / NON-RESIDENT INVESTORS

21. In case of foreign investors who are not individuals, applications must be accompanied with a letter on applicant's letterhead stating the legal status of the applicant, place of incorporation and operations and line of business. A copy of memorandum of association or an equivalent document should also be enclosed, if available. Where applications are made by virtue of Power of Attorney, the same must be lodged with the application. Copies of these documents can be attested by the bank manager in the country of applicant's residence.

22. Applicants may also subscribe using their Special Convertible Rupee Account (SCRA) as set out under the State Bank of Pakistan's Foreign Exchange Manual.

BASIS OF ALLOTMENT

1. The minimum amount of application for subscription of Sukuk is PKR 10,000/- for both CDC and Physical form. Application for Sukuk below the total value of PKR 10,000/- shall not be entertained.

2. Application for Sukuk must be made for a minimum of the aggregate face value of PKR 10,000/-, or in multiples of PKR 5,000/- for amount above PKR 10,000/-. Applications, which are neither for PKR 5,000/- nor in multiples of PKR 5,000/- for amounts above PKR 10,000/- shall be rejected.

3. Allotment / Transfer of Sukuk to applicants shall be made in accordance with the allotment criteria / instructions disclosed in the Prospectus.

4. Allotment of Sukuk shall be subject to scrutiny of applications in accordance with the criteria disclosed in the Prospectus and / or the instructions by the Securities & Exchange Commission of Pakistan.

5. Applications, which do not meet the above requirements, or applications which are incomplete will be rejected. The applicants are, therefore, required to fill in all data fields in the Application Form.

6. The Registrar will dispatch Sukuk to successful applicants or credit the respective CDS accounts of the successful applicants (as the case maybe).

7. The investors who do not have a CDC account may contact Central Depository Company through the contact details mentioned in Section 3.9 of the Prospectus. CDC is also running a country-wide account opening campaign in collaboration with EFU Life Assurance Limited. To know when CDC will be in your city, please contact CDC through the contact details mentioned in Section 3.9 of the Prospectus.

8. BANKERS TO THE ISSUE

Code	Name of Banks	Code	Name of Banks
1	Al Baraka Bank (Pakistan) Ltd	11	Habib Metropolitan Bank Ltd
2	Allied Bank Ltd	12	MCB Bank Ltd
3	Askari Bank Limited	13	Meezan Bank Limited
4	Bank Al Falah Limited	14	NIB Bank Limited
5	Bank Al Habib Limited	15	Samba Bank Limited
6	BankIslami Pakistan Limited	16	Sindh Bank Limited
7	Burj Bank Ltd	17	Standard Chartered Bank (Pakistan) Ltd
8	Dubai Islamic Bank Pakistan Ltd	18	Summit Bank Limited
9	Faysal Bank Ltd	19	United Bank Limited
10	Habib Bank Ltd		

9. OCCUPATION CODE

Code	Occupation	Code	Occupation
1	Business	6	Professional
2	Business Executive	7	Student
3	Service	8	Agriculturist
4	Housewife	9	Industrialist
5	Household	10	Other

10. NATIONALITY CODE

Code	Name of Country	Code	Name of Country
1	USA	6	Iran
2	UK	7	Bangladesh
3	UAE	8	China
4	K.S.A.	9	Bahrain
5	Oman	10	Other

For further queries you may contact:
KE: Danyaal Jamal, Phone: (021) 32637133 E: 7225; **Habib Bank Limited**: Khurram Shaukat, Phone: (021) 32439400;
Faizan Ahmed, Phone: (021) 32464828; **Meezan Bank Limited**: Urooj ul Hassan Khan, Phone:(021) 38103500

CENTRAL DEPOSITORY COMPANY

Head Office:
CDC House,
99-B, Block 'B' S.M.C.H.S.,
Main Shahra-e-Faisal,
Karachi-74400.
Tel : (92-21) 111-111-500
Fax : (92-21) 34326031

KSE Branch:
Mezzanine Floor,
Karachi Stock Exchange Building,
Stock Exchange Road,
Karachi - 74400. Pakistan.
Ph: (92-21) 32416774 Ext: 331 , 332
Fax: (92-21) 32437277

Lahore Office:
2nd Floor,
307 Upper Mall,
Lahore - 54000.
Tel : (92-42) 35789378-87
Fax : (92-42) 35789340

Islamabad Office:
Room #410, 4th Floor,
ISE Towers, 55-B, Jinnah Avenue,
Blue Area, Islamabad - 44000.
Tel: (92-51)2895456-9
Fax: (92-51)2895454

URL: www.cdcpakistan.com **Email:** info@cdcpak.com **Customer Support Services:** 0800-CDCPL (23275)

INVESTOR ACCOUNT OPENING FORM — INDIVIDUALS

DATE	Day	Month	Year	FORM NO.	ACCOUNT NO.

(Please use block letters) (For CDC Use Only)

PART - A PARTICULARS OF APPLICANT

ACCOUNT TITLE (Name of Applicant as per CNIC/*NICOP/**Passport)	CONTACT DETAIL(s)
FATHER'S/HUSBAND'S NAME	Residence
MAILING ADDRESS (To be used for correspondence, notices & corporate actions)	Office
	Fax
PERMANENT ADDRESS (Must not be Office Address)	Cell No. Name of Network (if ported)
	E-mail*
CONTACT PERSON (Must be either Account Title/Joint Account Holder or Attorney)	*ATLEAST ONE FIELD EITHER CELL MOBILE NUMBER OR E-MAIL ADDRESS IS MANDATORY.

CNIC/*NICOP NO. *(Incase of Non-Resident Pakistani)		DATE OF EXPIRY		NTN (Optional)	
PASSPORT NO/POC (Incase of Foreign National)		DATE OF EXPIRY		NATIONALITY	
DATE OF ISSUE		PLACE OF ISSUE			

RESIDENTIAL STATUS

Mark tick [✓] in appropriate box

	Resident	Non - resident	Repatriable (Incase of Non-Resident Pakistani/Foreigner)	Non-repatriable
PAKISTANI				
FOREIGN NATIONAL				

DIVIDEND MANDATE

Mark tick [✓] in appropriate box

☐ **YES** ☐ **NO** **If yes, please provide the following details**

SCRA DETAILS

If you are maintaining any Special Convertible Rupee Account (SCRA), please provide following details

BANK ACCOUNT TITLE	SCRA ACCOUNT NO.
BANK ACCOUNT NO./ IBAN	BANK NAME
BANK NAME & BRANCH	BRANCH DETAIL
BANK ADDRESS	

PART - B OCCUPATION

Mark tick [✓] in appropriate box

☐ AGRICULTURIST ☐ SERVICE ☐ HOUSEHOLD ☐ BUSINESS EXECUTIVE ☐ HOUSE WIFE ☐ INDUSTRIALIST

☐ RETIRED PERSON ☐ PROFESSIONAL ☐ STUDENT ☐ BUSINESS ☐ OTHERS (specify) ____________

PART - C ZAKAT STATUS

(Please attach notarized copy of Zakat Declaration form for all applicants on prescribed format (CZ-50), if exemption is claimed)

☐ MUSLIM -ZAKAT PAYABLE ☐ MUSLIM - ZAKAT NON-PAYABLE ☐ NON MUSLIM ☐ NOT APPLICABLE

PART - D JOINT APPLICANT DETAILS

(Optional) Any Addition/Deletion in the name of Joint Applicant is not permissible after opening of account.

	NAME AS APPEARING ON CNIC/*NICOP/**PASSPORT/ POC			FATHER'S / HUSBAND'S NAME
1.				
	CNIC NO./ *NICOP NO.		DATE OF EXPIRY	
	**PASSPORT NO/ POC		DATE OF EXPIRY	
2.				
	CNIC NO./ *NICOP NO.		DATE OF EXPIRY	
	**PASSPORT NO/ POC		DATE OF EXPIRY	
3.				
	CNIC NO./ *NICOP NO.		DATE OF EXPIRY	
	**PASSPORT NO/ POC		DATE OF EXPIRY	

*(Incase of Non-Resident Pakistani)
**(Incase of Foreign National)

MP 11-2014

PART - E INSTRUCTIONS REGARDING OPERATIONS OF ACCOUNT

Mark tick [✓] in appropriate box

☐ SINGLY [EITHER OR SURVIVOR] ☐ JOINTLY [Any ______________]

☐ ANY OTHER ______________

PART - F NOMINEE DETAILSf- OPTIONAL

(as per Section 80 of the Companies Ordinance, 1984 & Section 25 of the Central Depositories Act, 1997)

*(Note: Incase of Joint Account nomination is not allowed)

NAME **FATHER'S/HUSBAND'S NAME**

ADDRESS

CONTACT NO. **RELATION** (Should be either spouse, father, mother, brother, sister and son or daughter, including step or adopted child)

CNIC NO./*NIC0P NO. *(Incase Nominee is a Non-Resident Pakistani) **PASSPORT No / POC** **(Incase Nominee is Foreign National)

Note: PLEASE PROVIDE COPY OF CNIC/*NICOP/**PASSPORT.

PART - G BANK VERIFICATION

(The following mandatory information is required to be provided by the Manager/Authorized officer of the bank where the applicant (Title holder) of the prospective IAS Account is maintaining a bank account)

PARTICULARS OF APPLICANT

BANK ACCOUNT TITLE **CNIC/NICOP/PASSPORT NO.**

BANK ACCOUNT NO. / IBAN **BANK NAME & BRANCH**

ADDRESS OF APPLICANT

SIGNATURE OF APPLICANT

WE DO HEREBY VERIFY THE ABOVE PARTICULARS AND SIGNATURE OF OUR ABOVE ACCOUNT HOLDER.
PARTICULARS OF BANK MANAGER/AUTHORIZED OFFICER

NAME DESIGNATION **CONTACT NO(s)**

E-MAIL ADDRESS (Optional) **SIGNATURE & BAN STAMP :**

Note:

1. Fulfillment of verification requirement is not applicable where the applicant(s) is a non-resident Pakistani or a Foreigner. Such applicants shall continue to get the account opening documents attested by consulate office of Pakistan or notary Public of the respective Country. However, the signature of a non-resident Pakistani or a Foreigner must be as per NICOP/Passport.
2. At the time of submission of account opening form self presence of the applicant is mandatory who shall present his/her original CNIC for verification purposes. In case of joint account, physical presence of all joint applicants shall be required along with original CNIC for verification purposes. The designated staff of IAS shall verify the signatures of the applicant, and where applicable for joint applicants.
3. Where any non-resident Pakistani/Foreigner personally comes to CDC offices for opening of Investor Account, all account opening formalities pertaining to resident Pakistani shall be applicable, unless the non-resident Pakistani / Foreigner produces necessary documents duly attested by consulate office of Pakistan or notary Public of the respective Country.
4. IAS will not open any account of an applicant whose photograph is not available on his/her CNIC/NICOP.

PART - H CDC Access Web (Report) Web (Online Transcation + Report)

Select the desired service(s): **IVR** ☐ Web ☐ Online Transcation ☐

If you are subscribing to CDC Access services, please provide following details, for CDC Access web + Online Transcation

DATE OF BIRTH (DP / MM / YYYY) __ __ / __ __ / __ __ __ __ **MOTHER'S NAME:**

PART - I UNDERTAKING & DECLARATION

1. I/We have read, understood, accepted and agreed to be bound by the Terms and Conditions for Investor Accounts contained in Chapter 12A of the Central Depository Company of Pakistan Limited Regulations (relevant chapter is appearing in the form). I/We further declare that all the information contained in this form is true and correct and to the best of my/our knowledge and belief. In case any of the above information is found to be false, untrue or misleading, I/we shall be held liable and responsible for any consequences thereof.
2. Incase of erroneous or unauthorized transfer or credit of book-entry securities into my/our Investor Account, I/we hereby irrevocably and unconditionally authorize CDC to rectify such entries in terms of the CDC Regulations and Procedures made there under.
3. I/We the undersigned, hereby declare that:
   a) I am an Adult.
   b) I am of sound mind.
   c) I have not applied to be adjudicated as an Insolvent and that I have not suspended payment and that I have not compounded with my creditors.
   d) I am not an undischarged insolvent.
   e) I have not, within 5 years before making this application for opening an Investor Account with the CDC, been convicted of an offence involving moral turpitude or a non-cognizable offence against any law in connection with business, professional or commercial activities.
   f) Incase of either (singly) or survivor operation, I or any joint holder of the account can notify CDC for change in address or dividend mandate or closing of account.
   g) Incase of claim of dividend in foreign exchange, I will fulfill all the formalities of State Bank of Pakistan in this regard.
   h) It is my / our sole responsibility to immediately inform CDC about any change in my registration details including any change in mailing and permanent addresses, email addresses, dividend mandate and contact numbers, failing which it will be assumed that my/our available information in the record of CDC is correct.
4. I/we hereby agree to receive Electronic Account Balance Statement (eStatement), eAlert and SMS Alert from CDC from time to time in respect of my / our Investor Account on my/our email address and/ orMobile No. respectively provided to CDC. In case, if I/we wish to receive Account Balance Statemen alert, I / We hereby undertake to inform CDC in writing.
5. I/we hereby irrevocably and unconditionally authorize CDC to provide copies of my / our account opening documents as available in the record of CDC to the Clearing Company or any other relevant authority or entity with respect to my/our Investor Account with CDC and securities transactions made therein as deemed necessary from time to time.
6. I/We hereby acknowledge and agree to abide by the CDC Regulations and Procedures as available on CDC's website and I/we shall keep myself/ourself(ves) updated with regard to any revisions in such Regulations and Procedures. My/Our use of the CDCaccess will signify my/our consent and agreement to be bound by the CDC Regulations and Procedures and Terms and Conditions of CDCaccess as the same exist at the time of such use.

PART - J DISCLAIMER FOR CDC Access

CDCaccess by the Central Depository Company of Pakistan Limited (hereinafter referred to as "CDC" which term shall mean to include the corporate entity, board of directors, officers, employees, assigns and agents of CDC) offers Investor-Account Holders:
(i) access to information, reports, account balance statements and account maintenance services (each and collectively "Information Services") through the Interactive Voice Response System, internet/ web access, eStatement (account balance statements sent through emails), eAlert (transaction alerts sent through email) and short messaging service ("SMS") or any other medium of communication, as may be introduced by CDC from time to time (each and collectively a "mode of communication"); and
(ii) ability to submit earmarking instructions for DSS ("DSS") and online transaction orders for transferring securities to other accounts as prescribed by CDC from time to time, (an "Online Transaction Order") through the internet/web portal of CDCaccess or any other transaction related service that may be introduced by CDC from time to time (each and collectively "Online Transaction Services"). CDC makes no representation or warranty for any Information Service, Online Transaction Service or of any mode of communication used in CDCaccess and the Investor-Account Holder hereby unconditionally agrees that they shall make use of CDCaccess for the purposes of any Information Service or Online Transaction Service through a mode of communication subject to all hazards and circumstances as exist with the use of such modes of communication and their networks including, but not limited to, delays in communication and uploading of data/information. CDC shall not be held liable for any improper or incorrect use of CDCaccess or any Information Service or Online Transaction Service through any mode of communication by the Investor-Account Holder and although the information thus provided or any transactions thereby submitted is intended for Investor-Account Holders, CDC assumes no responsibility for any third party's use of information obtained from or benefit taken from any transaction submitted in CDCaccess and or/ unauthorised dissemination or disclosure of any information or the failure to complete any transaction. CDC shall not be liable to any Investor-Account Holder for providing and making available CDCaccess ,the Information Services or Online Transaction Services and/or for failure or delay in the provision of such services to Investor-Account Holders and all Investor-Account Holders,who subscribe to CDCaccess by using a mode of communication shall be deemed to have indemnified CDC held them harmless from and against any losses, damages, costs and expenses incurred or suffered by them as a consequence of use of CDCaccess, the Information Services, Online Transaction Services or any other value added services. Additionally, CDC shall not be held responsible for and does not undertake liability for any damages or injury, including but not limited to those caused by any failure of performance, error, omission, interruption, deletion, defect, delay in operation or transmission, computer virus, communication line failure, theft or destruction and/ or unauthorized access to, alteration of, or use of Information Services or Online Transaction Services in CDCaccess by any individual or corporate person. All Investor-Account Holders hereby warrant and agree that their access of CDCaccess via the internet/web by use of a User-ID login, is using an advanced electronic signature and upon issuance of such User-ID login to Investor-AccountHolders, they hereby waive any right to raise any objection to the compliance of the User-ID login with the criteria of an advance electronic signature. All Investor-Account Holders shall by their conduct of accessing or, as the case may be, using a mode of communication for CDCaccess a grees to all the terms and conditions and terms of use as shall appear on the CDC website at www.cdcaccess.com.pk from time to time (these "Terms and Conditions") which shall be deemed to have been read and agreed to by the Investor-Account Holders before using or availing.

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED TERMS AND CONDITIONS FOR INVESTOR ACCOUNTS

I/We hereby unconditionally and irrevocably agree to be bound by and to comply with the following Terms and Conditions (and any other terms and conditions which may be notified from time to time by the Central Depository Company of Pakistan Limited with the permission of Securities and Exchange Commission of Pakistan modifying or substituting all or any of the following Terms and Conditions) in connection with the operation of the Investor Account I/We are now opening or which I/We may hereafter open with CDC.

CHAPTER 12A: TERMS AND CONDITIONS FOR INVESTOR ACCOUNTS

12A.1 Binding effect of the Terms and Conditions

Terms and Conditions for Investor Accounts set out in this Chapter shall govern the Investor Accounts and be binding on the Investor- Accountholders and, to the extent applicable, on the CDS Elements.

12A.2 Definitions

12A.2.1 In this Chapter, the following terms shall have the meaning assigned thereagainst:

a.	Investor Account Opening Form:	means the standard application form prescribed by CDC for opening of Investor Accounts with CDC
b.	Account Closing Request Form:	means the standard form prescribed by CDC for making of application by the Investor-Accountholder to CDC for closing of the Investor Account.
c.	Book-entry Securities:	means the Book-entry Securities as defined in the Act.
ca.	Cancellation of Settlement Instruction:	in relation to the DSS. means any request made by an Investor- Accountholder in accordance with these Regulations in respect of cancellation of any Settlement Instruction earlier made by such Investor-Accountholder.
d.	Commission:	means the Securities and Exchange Commission of Pakistan.
e.	Delivery-in:	means the transfer to the Investor Account of Book-entry Securities in accordance with the Terms and Conditions and the Operating Procedures.
f.	Delivery-out:	means the transfer of Book-entry Securities from the Investor Account in accordance with the Terms and Conditions and the Operating Procedures.
fac.	Direct Settlement Service or DSS:	means the service offered by the CDC to Investor-Accountholders in connection with settlement of trades executed by the Investor- Accountholders. as per the terms and conditions for use of such service as prescribed by the CDC from time to time in the DSS Subscription Form.
fad.	DSS Subscription Form:	means the standard application form prescribed by CDC for subscnbing to DSS.
fa.	Due Date:	in relation to payment of charges by the Investor-Accountholder under Regulation 12A.10.1 for the services availed, means the last Business Day of every month.
faa.	Earmarking:	in relation to any Securities held in an Investor Account and/or cash balances available with CDC in respect of such Investor- Accountholder. means the instruction for blocking of such Securities and/or cash balances by CDC in accordance with the Procedures in respect of any Settlement Instruction given by an Investor-Accountholder under these Regulations such that the Investor-Accountholder shall cease to handle such Securities or, as the case may be, the cash balances.
fb.	Overdue Investor Account:	means an Investor Account against which a negative cash balance appears for a continuous period of one year.
fba.	IDS:	in relation to the DSS. shall have the same meaning as ascribed thereto in the Procedures of the Clearing Company.
g.	Investor Account:	means the account opened by an Investor-Accountholder with CDC in connection with custody and other transactions of Book-entry Securities in terms of the Terms and Conditions.
h.	Investor-Account Holder	means any Individual who, or other entity which, is allowed by CDC at its discretion to open and maintain an Investor Account with CDC without having direct access to CDS.
i.	Operating Procedures:	means the procedures made by the Board from time to time for the day to day operation of CDC in connection with Investor Accounts and for giving effect to the Terms and Conditions.
j.	Pledge:	means creation of a pledge over Book-entry Securities in an Investor Account by the Investor-Accountholder in favour of any Eligible Pledgee as provided in the Act and. to the extent applicable. Chapter 11 of the Regulations, subject to the Terms and Conditions and the Operating Procedures.
k.	Pledged Book-entry Securities:	means the Book-entry Securities which are pledged in favour of any Eligible Pledgee under Regulation 12A.7 below.
l.	Pledge Call:	means the deduction of Pledged Book-entry Securities from a Pledged Position in an Investor Account and transfer of such Pledged Book-entry Securities to a House Account, a Sub- Account or an Investor-Account of the Eligible Pledgee Transmitting the Pledge Call Instructions to the CDC pursuant to Regulation 12A.7.8.
m.	Pledge Call Instructions:	means the instructions Transmitted by an Eligible Pledgee to CDC, in the manner prescribed by these Regulations, for moving the Pledged Book-entry Securities from the Plodged Position to a House Account, a Sub-Account or an Investor-Account of the Eligible Pledgee Transmitting the Pledge Call Instructions.
n.	Pledge Position:	shall have the meaning set out in Regulation 12A.7.5.
o.	Pledge Release Instructions:	means the instructions issued by the Eligible Pledgee to CDC. through CDS, for unblocking the Pledged Securities for the purpose of releasing the same from the Pledge.
oa.	Securities Deposit Form	means the standard instruction form prescribed by CDC for submission by the Investor-Accountholder in quadruplicate to CDC for the purpose of deposit of Registered-Form Eligible Securities in CDS.
p.	Securities Pledge Form:	means the standard instruction form prescribed by CDC for submission by the Investor-Accountholder to CDC for blocking any Book-entry Securities in the Investor Account for the purpose of creating a Pledge.
q.	Securities Withdrawal Form:	means the standard application form prescribed by CDC for submission by the Investor-Accountholder to CDC for Withdrawal.
qa.	Settlement Instruction:	in relation to the DSS. means a request submitted by an Investor- Accountholder to CDC in accordance with the Procedures for the purpose of settlement of any trade in Securities made by such Investor- Account Holder.
qa.	Transaction Order:	means the standard application form prescribed by CDC for submission by the Investor- Accountholder to CDC for the purpose of Delivery-out of any Book-entry Securities.
s.	Transaction Reversal Form:	means the standard instruction form prescribed by CDC for submission by the Investor-Accountholder to CDC for transferring from the Investor Account any Book-entry Securities Delivered-tn the Investor Account erroneously or without authority.
t.	Withdrawal:	means withdrawal of Book-entry Securities by the Investor-Account Holder from CDC.

12A.2.2 Other capitalized terms used in this Chapter 12A and defined in the Act or in Regulation 2.11, as the case may be, shall have the same meaning as given to such terms in the Act or in Regulation 2.11, as the case may be.

12A.2.3 Unless the context otherwise requires, the words importing the singular shall include the plural, and vice versa, and words importing the masculine gender shall include the feminine gender, and words importing persons shall include bodies corporate.

12A.3 Opening of an Investor Account

12A.3.1 The Investor-Accountholder shall complete, sign and submit the Investor Account Opening Form to CDC for opening of the Investor Account. The Investor Account Opening Form shall be accompanied with such documents as are listed therein. CDC shall have the right not to accept, without assigning any reasons whatsoever, any request for opening of the Investor Account.

12A.3.2 Fees and other charges as are prescribed by CDC, and approved by the Commission, from time to time for opening of the Investor Account shall be paid to CDC together with the Investor Account Opening Form.

12A.3.3 CDC shall have the right to close the Investor Account if the details, particulars and other information set out in the Investor Account Opening Form relating to such Investor Account are found to be incorrect. Provided, however, that before closing the Investor Account for the said reason, CDC shall give a reasonable opportunity to the Investor-Accountholder to explain his position.

12A.4 Delivery-in

The Investor Account shall be credited with any Book-entry Securities that are:
(a) transferred by an Account Holder, subject to these Regulations;
(aa) deposited pursuant to Regulations 12A.4A to 12A.4C below;
(b) ransferred from any other Investor Account (where permissible under these Regulations) or a Temporary Account;
(c) received by CDC from an Issuer for the account of the Investor-Accountholder.
(d) Delivered by way of a Balance Order Delivery Transaction Transmitted by the Clearing Company in respect of any Settlement Instruction in accordance with the NCCPL Regulations, subject to these Regulations and the Procedures.

12A.4A Deposit of Registered-Form Eligible Securities in CDS to be credited to Investor Accounts

12A.4A.1 CDC may process any request made by an Investor-Accountholder for deposit in CDS, in accordance with the Procedures, any Registered-Form Eligible Securities the Registrable Transfer Documents in respect of which are held by such Investor-Account Holder.

12A.4A.2 Notwithstanding anything contained in the Regulations, in processing any request for the deposit into CDS of any Registered-Form Eligible Securities under Regulation 12A.4A.1, CDC shall be authorised to sign as transferee all transfer deeds or other instruments of transfer pertaining to such Eligible Securities to be transferred in the name of the CDC for the purpose of deposit in CDS.

12A.4A.3 The Investor-Accountholder shall be responsible to pay any stamp duty payable on the transfer of any Registered-Form Eligible Securities in the name of CDC for the purpose of deposit of such Securities in CDS.

12A.4B Duties of Investor-Accountholders in connection with deposit of Registered-Form Eligible Securities into CDS

12A.4B.1 The Investor-Accountholder requesting deposit into CDS of any Registered-Form Eligible Securities shall:
(a) Validly complete the Securities Deposit Form;
(b) use separate Securities Deposit Form for each class of Eligible Securities to be processed for deposit into CDS;
(c) submit within Designated Time to CDC the Securities Deposit Form in quadruplicate together with the Registrable Transfer Documents, provided that where a Book Closure Period has been publicised by any Issuer of any Eligible Securities pursuant to Regulation 12.1.1, CDC may refuse to accept any Securities Deposit Form in respect of such Securities submitted to CDC later then five Business Days before the Book Closure Date; and
(d) pay to CDC the fees and other charges prescribed by CDC from time to time in respect of deposit of Registered-Form Eligible Securities into CDS for Investor-Accountholders.

12A.4C Application of Chapter 8 in connection with deposit of Registered-Form Eligible Securities into CDS

12A.4C.1 Subject to Regulations 12A.4A and 12A.4B above, the provisions of Chapter 8 dealing with deposit of Registered-Form Eligible Securities in CDS shall mutatis mutandis apply to the deposit of Registered-Form Eligible Securities in CDS to the credit of Investor Accounts. For the said purpose, the terms “Depositing Account Holder”, “Depositor” and “Target Holding” appearing in Chapter 8 shall be deemed to have been substituted by the terms “CDC”, “Investor Accountholder” and “Investor Account” respectively.

12A.4D Application of Chapter 9 in connection with Delivery of Book-entry Securities under Balance Order Settlement

12A.4D.1 Where CDC is admitted as a Clearing Member by the Clearing Company for the purpose of DSS, the provisions of Chapter 9 dealing with Delivery of Book-entry Securities under Balance Order Settlement shall mutatis mutandis apply to the Delivery of Book-entry Securities under Balance Order Settlement from or to the Investor Accounts. For the said purpose, the terms “Source Holding” and “Target Holding” appearing in Chapter 9 shall be deemed to have been substituted by the terms “Investor Account” or, where applicable, the Temporary Account”, respectively.

12A.5 Restriction on Delivery-in and Reversal of Erroneous Transfers

12A.5.1 Any Registered-Form Eligible Securities which have not already been deposited in CDS, in accordance with the Regulations, will not be permitted to be Delivered-in the Investor Accounts.

12A.5.2 Notwithstanding anything contained in the Terms and Conditions and the Regulations, in the case of erroneous or unauthorized transfer of Book-entry Securities to:
(a) an Investor Account, CDC shall reverse such transfer by transferring such Book-entry Securities from the said Investor Account if instructed in writing by the Investor-Accountholder maintaining such Investor Account in CDC, or
(b) any other account maintained with CDC under the Regulations, the CDC Element controlling such account shall forthwith reverse such transfer, through CDS, upon receiving CDC's request for this purpose.

12A.6 Delivery-out

12A.6.1 An Investor Account shall be debited with any Book-entry Securities that are:
(a) transferred to a Holding under the control of an Account Holder;
(b) transferred to any other Investor Account (where permissible under the Regulations).
(c) Delivered by way of a Balance Order Delivery Transaction Transmitted by the Clearing Company in respect of any Settlement Instruction in accordance with the NCCPL Regulations, subject to these Regulations and the Procedures.

12A.6.2 For the purpose of Delivery-out of any Book-entry Securities from an Investor Account pertaining to sub-clauses (a) & (b) of Regulation

12A.6.1, the Investor-Accountholder shall submit the Transaction Order to CDC and pay the amount of CDC's charges as in force at that time to allow CDC to recover its charges from any amount the Investor-Accountholder has paid in advance to CDC. Incomplete or unsigned Transaction Orders or any Transaction Orders covering any Book-entry Securities which are in excess of the credit balance in the Investor Account will not be accepted or acted upon. CDC will, subject to aforesaid, transfer the Book-entry Securities specified in the Transaction Order from the Investor Account in accordance with the instructions contained in such Transaction Order.

12A.6A Direct Settlement Service and related matters

12A.6A.1 An Investor-Accountholder may apply to the CDC for subscribing to the DSS by providing a duly filled and signed DSS Subscription Form along with fees and charges in accordance with the Schedule of Fees for Investor Accounts and other documents as prescribed by CDC.

12A.6A.2 CDC may admit an Investor-Accountholder for the purpose of DSS who applies for subscription to such service in accordance with these Regulations. Provided that, CDC shall have the right not to accept, without assigning any reasons such whatsoever, any request from an Investor-Account Holder for subscription to the DSS.

12A.6A.3 The terms and conditions relating to DSS have the effect of a contract between the CDC and the Investor-Accountholders who have been admitted by CDC for the purpose of DSS for the time being, under which each such Investor-Accountholder covenants with the CDC to observe the terms and conditions relating to DSS and to perform the obligations which such terms and conditions purport to impose on the Investor-Account Holder, in the manner provided by such terms and conditions.

12A.6A.4 An Investor-Accountholder who has subscribed to the DSS may submit a Settlement Instruction to CDC within the Designated Time in accordance with the Procedures. Provided that where any Settlement Instruction made by an Investor-Accountholder pertains to purchase of Securities, such Investor-Accountholder shall, in accordance with the Procedures, deposit in the designated bank account of CDC in advance, the following amounts: (i) the amount payable by the Investor- Accountholder in respect of such Settlement Instructions; (ii) applicable fees and charges payable in accordance with these Regulations; and (iii) any taxes, duties and levies that may be payable in respect of such Settlement Instruction.

12A.6A.5 Where any Settlement Instruction made by an Investor-Accountholder pertains to sale of Securities, CDC shall make payment to the relevant Investor-Accountholder in accordance with the Procedures.

12A.6A.6 An Investor-Accountholder may, within the Designated Time, submit a request to CDC for Cancellation of Settlement Instruction (earlier submitted by the Investor-Accountholder to CDC) in accordance with the Procedures.

12A.6A.7 If CDC receives any Settlement Instruction from an Investor-Accountholder that is submitted within the Designated Time, CDC shall, subject to Regulation 12A.6A.8:
(a) match the details contained in the Settlement Instruction with the details contained in the IDS instruction pertaining to such Settlement Instruction; and
(a) Earmark the Securities held in the Investor Account or, as the case may be, cash balances available with CDC in respect of such Investor-Account Holder.
in accordance with the Procedures.

12A.6A.8 CDC shall reject the IDS instruction if:
(a) no Settlement Instruction has been received by CDC in connection with such IDS instruction within the Designated Time;
(b) the details contained in the Settlement Instruction do not match with the details contained in the IDS instruction pertaining to such Settlement Instruction;
(c) there is no sufficient Securities and/or, cash balances available with CDC in respect of such Investor-Accountholder in connection with such IDS instruction;
(d) there is no sufficient cash balances to recover the fees and charges (including the fees and charges of the Clearing Company) as applicable in connection with such IDS Instruction unless CDC is otherwise satisfied on a case to case basis that such fees and charges will be recovered;
(e) CDC has received any order, directive or instruction from a court, the Commission or any other competent authority requiring blocking of the Investor Account or, as the case may be, the Freezing of Securities or blocking of cash balances available with CDC in respect of which such IDS instruction pertains; or
(f) CDC has, within the Designated Time, received Cancellation of Settlement Instruction from the Investor- Account Holder in respect of which such IDS instruction pertains."

12A.7 Pledge of Book Entry Securities

12A.7.1 The Investor-Accountholder may pledge any or all Book-entry Securities entered in his Investor Account in favour of an Eligible Pledgee by either giving instructions to CDC on the Securities Pledge Form or by transmitting an electronic instruction to CDC in accordance with the Procedures.

12A.7.2 CDC will scrutinize the Securities Pledge Form or, as the case may be, the electronic instruction, received from the Investor-Accountholder and shall verify that sufficient number of Book-entry Securities are available in the Investor Account for creation of the Pledge requested in such Securities Pledge Form or, as the case may be, the electronic instruction. If sufficient number of Book-entry Securities is available in the Investor Account, CDC shall block, through CDS, the number of Book-entry Securities ("Pledged Book-entry Securities") as are specified in the Securities Pledge Form or, as the case may be, the electronic instruction.

12A.7.3 Upon the blocking of the number of Book-entry Securities specified in the Securities Pledge Form or as the case maybe, the electronic instruction, notice of such blocking shall be available, through CDS, to the Eligible Pledgee named in the Securities Pledge Form or as the case may be, the electronic instruction. The Pledge shall take effect upon such notification to the Eligible Pledgee.

12A.7.4 Upon creation of a Pledge, the Investor-Accountholder shall cease to have the right to make Withdrawal or transfer or to otherwise handle the Pledged Book-entry Securities.

12A.7.5 Upon the creation of a Pledge, CDC shall deduct the number of the Pledged Book-entry Securities from the available balance of Book-entry Securities in the Investor Account and shall enter such Pledged Book-entry Securities in a special position within the Investor Account ("Pledge Position") in favour of the Eligible Pledgee, in accordance with the Operating Procedures.

12A.7.6 No request for Pledge shall be entertained if there are insufficient number of Book-entry Securities in the available balance of the Investor-Accountholder in the Investor Account or if the amount of CDC's charges for creation of Pledge, if any, are not paid to CDC.

12A.7.7 A Pledge shall be released and Pledged Book-entry Securities unblocked upon receipt by CDC, through CDS, of the Pledge Release Instructions. Upon the unblocking of any Book-entry Securities, as stated above, such Book- entry Securities shall be moved back to the normal position of Book-entry Securities in the Investor Account from the Pledge Position.

12A.7.8 A Pledge Call may be made by an Eligible Pledgee by Transmitting a Pledge Call Instructions to the CDC, through CDS. Upon receipt of the Pledge Call Instructions under this Regulation 12A.7.8, the Pledged Book-entry Securities covered by such Pledge Call Instructions shall be transferred, through CDS, from the Pledged Position to a House Account, a Sub-Account or an Investor-Account of the Eligible Pledgee Transmitting the Pledge Call Instructions.

12A.8 Withdrawal of Securities

The Investor-Accountholder may request Withdrawal from CDC of any Book-entry Securities in his Investor Account by signing and submitting to CDC a Securities Withdrawal Form, in quadruplicate, together with the amount of CDC's charges for Withdrawal as in force at that time. After verification of the available balance and scrutinizing the Securities Withdrawal Form submitted, CDC shall, subject to receipt of its charges, permit Withdrawal by forwarding two copies of the Securities Withdrawal Form to the concerned Issuer, or its registrar, for issuance of definitive certificates in respect of the Book-entry Securities withdrawn from CDS. The Issuer shall thereupon register, in the name of the Investor-Account Holder, Registered Form securities corresponding to the number of Book-entry Securities withdrawn by the Investor-Accountholder from CDC and prepare definitive certificates in respect of such securities. The Investor-Accountholder will be entitled to receive such definitive certificates from the Issuer, or its Registrar, upon presenting to the Issuer or its Registrar, a copy of the Securities Withdrawal Form endorsed by CDC as the Investor- Account Holder's copy. CDC shall not be liable for failure or delay on the part of the Issuer and/or its registrar in issuing definitive certificates to the Investor-Accountholder.

12A.9 Corporate Actions

The provisions of Chapter 12 shall be mutatis mutandis applicable in connection with all corporate actions affecting the Book-entry Securities in the Investor Account as if the Investor-Accountholder was the "Holder" and the credit balance of the Book-entry Securities in the Investor Account was the "Holding" as described in Chapter 12.

12A.10 Charges

12A.10.1 Subject to Regulation 12A.10.2, the Investor-Accountholder shall pay to CDC the charges from time to time notified by CDC, as approved by the Commission, for CDC's services under the Terms and Conditions including, where applicable, the terms and conditions for DSS. Such charges shall be paid by the Investor-Account Holder regularly and punctually but not later than the Due Date in every case. These charges may be revised by CDC from time to time with the prior approval of the Commission.

12A.10.2 CDC shall have a paramount lien on the Book-entry Securities (other than any Book-entry Securities which are in a Pledged-Position) in the Investor Accounts:
(a) for the recovery of any charges which have not been paid by the Investor- Accountholders for the consecutive two years after the Due Date; and
(b) for the recovery of any fees or charges in respect of any Settlement Instruction(s) for which no consideration has been received by CDC from the Investor-Accountholders and which have been credited in to their Investor Accounts pursuant to any Settlement Instruction(s) given by such Investor Accountholders.

12A.10.3 Subject to serving by CDC of three prior written notices on the Investor-Accountholder in accordance with the Procedures requiring him to clear the outstanding charges within seven Business Days of receipt of each such notice, CDC shall have the right to dispose of the necessary number of Book-entry Securities entered in the Investor Account of the Investor-Accountholder in accordance with the Procedures and apply the net proceeds thereof towards the adjustment of such outstanding charges.

12A.10.4 Where the CDC exercises its right under Regulation 12A.10.3, CDC shall close the relevant Investor Account in accordance with the Procedures.

12A.10.5 Without prejudice to any other remedies available to CDC, CDC will be entitled to deduct any outstanding fees and charges (including any applicable taxes, duties and levies) from the amounts payable by CDC to the Investor-Accountholder and CDC’s obligations to make payment will always be subject to the aforesaid right of CDC.

12A.11 Regulations

The Regulations contained in the other Chapters shall mutatis mutandis apply to the Investor Account and shall, subject to the Terms and Conditions, govern the rights and obligations of CDC and the Investor-Accountholder, as if the Investor-Accountholder was the holder of a sub-account in CDC in terms of the Act. PROVIDED, however, if any such Regulations are inconsistent with or are otherwise irrelevant under the Terms and Conditions, such Regulations shall not be applicable.

12A.12 No Liability of CDC

12A.12.1 Neither CDC nor any of its directors, officers, employees or agents shall be liable for any loss or damage that may be suffered or sustained by the Investor-Accountholder in opening and maintaining the Investor Account, except in the case of negligence or wrongful acts.

12A.12.2 Neither CDC nor its directors, officers, employees or agents shall be liable for any loss or damage that may be suffered or sustained by the Investor-Accountholder due to any negligence, inaction, fraud or failure to fulfill any legal obligation by any CDS Element or any Investor-Account Holder.

12A.12.2A Neither CDC nor its directors, officers, employees or agents shall be liable for any losses, damages, costs or expenses suffered or incurred by an Investor-Accountholder due to rejection and /or non-affirmation of IDS instruction by CDC in respect of any Settlement Instructions because of any mismatch between the Settlement Instructions and the IDS instructions or any other reason attributable to the concerned TRE certificate holder in connection with such Settlement Instructions.

12A.12.3 Neither CDC nor any of its directors, employees or agents shall, if acting in good faith and without having committed any negligent or wrongful act, be liable for any loss, destruction or misdelivery of any Book-entry Securities, or for any action taken or omitted or purported to be taken or omitted, in good faith, by any of them under or in connection with the Terms and Conditions, or if they are prevented or delayed by law or any circumstances beyond their control in performing CDC's obligations under the Terms and Conditions.

12A.12.4 Neither CDC nor any of its officers, employees or agents shall, apart from any wrongful act, omission, negligence or fraud, be liable for any loss or damage that may be suffered, incurred or sustained by the Investor-Accountholder as a result of any computer or machinery break-down or malfunction, or as a result of the closure, malfunction, break-down, repair, servicing, mechanical or other defect of the computer and allied equipment of CDC.

12A.12.5 CDC may at any time suspend, add to or modify the CDS. CDC may also at any time, without any notice to the Investor-Accountholder suspend the operation of the Investor Account and CDC's services under the Terms and Conditions if CDC deems it necessary to do so for reason of security, for maintenance work, for force majeure, for any other reason beyond the reasonable control of CDC, or for compliance with any law, rule, regulation or directive of any lawful authority.

12A.12.6 CDC shall be free of any and all liabilities for any loss of the Book-entry Securities in the Investor Account due to any Governmental act, orders, decrees, regulations, political disputes, laws, tax, embargo, moratorium, exchange control restrictions, expropriation, war, hostilities, civil disobedience, or any other cause beyond the control of CDC.

12A.13 Investor-Account Holder's Warranties and Liabilities

12A.13.1 The Investor-Accountholder represents and warrants to CDC that the registration details and other information set out in the Investor Account Opening Form or in any other document, form, instruction or communication submitted by the Investor-Accountholder to CDC in terms of the Terms and Conditions shall be true and correct. The Investor-Accountholder shall indemnify CDC for any losses, damages, costs or expenses that may be suffered, incurred or sustained by CDC as a result of any inaccuracy or mis-statement contained in the Investor Account Opening Form or any other document, form, instruction or communication, as referred to above, submitted by the Investor-Accountholder to CDC.

12A.13.1A The Investor-Accountholder represents and warrants to CDC that:
(a) the Settlement Instruction submitted by the Investor-Accountholder to CDC is true and correct;
(b) CDC is fully authorized and empowered to act on such Settlement Instructions by way of affirmation of the IDS instructions resulting in Delivery of either cash and /or Securities to the Clearing Company in settlement of such Settlement Instructions; and
(c) he will not hold CDC responsible and/or liable for any losses, damages, costs or expenses that he may suffer or incur

due to rejection and /or non-affirmation of any IDS instruction by CDC or due to any other reason attributable to the concerned TRE certificate holder in respect of such Settlement Instructions.

12A.13.2 The Investor-Accountholder shall, during the subsistence of the Investor Account, comply with all applicable laws, rules and regulations, including the Terms and Conditions, these Regulations and the rules and regulations of Stock Exchanges and the Clearing Company and, where applicable, the terms and conditions relating to DSS.

12A.13.3 The Investor-Accountholder shall keep all information pertaining to CDC's affairs which may come to his knowledge in strict confidence.

12A.13.4 In case the Investor Account is a joint account, the liability of the joint Investor-Accountholders of such Investor Account shall be joint and several.

12A.13A Overdue Investor Account

12A.13A.1 Where an Investor Account becomes an Overdue Investor Account, CDC shall withdraw Delivery-in facility and crediting of any Book-entry Securities under these Regulations (hereinafter in this Chapter referred to as the "Services") in respect of such Overdue Investor Account, provided that such crediting of Book-entry Securities is not made pursuant to Chapters 8AA, 8C, 8D, sub-clauses (e) to (h) of clause (i) of Regulation 8F.1 and Regulation 12.4.6 into such Overdue Investor Account.

12A.13A.2 CDC shall restore the Services in respect of an Investor Account which has ceased to be an Overdue Investor Account by reason of payment of CDC's charges by the Investor Account Holder.

12A.14 Suspension and Closing of Investor Account

12A.14.1 CDC may close the Investor Account at any time by giving twenty (20) Business Days' prior written notice to theInvestor-Accountholder. The Investor-Accountholder may make representation against such notice within ten (10) days of receipt of the notice. The Board's decision on such representation shall be final and binding.

12A.14.2 Notwithstanding any other provisions of this Chapter, CDC shall have the right, subject to prior notice to the Investor-ccountholder, to suspend the Investor Account at any time with such condition as to the closure of Investor Account if the Investor-Accountholder commits a breach of any of the Terms and Conditions contained herein or if he violates any applicable laws, rules or regulations and such breach or violation, if capable of being rectified, is not rectified within the period of the written notice of CDC.

12A. 14.3 If an Investor Account is suspended, the CDC shall withdraw all the facilities in respect of such Investor Account, provided that, subject to payment of CDC's charges and of any costs, expenses, penalties and/or damages incurred or suffered by CDC as a consequence of the circumstances which led to the suspension of the Investor Account, CDC shall allow Delivery-out and Withdrawal of Securities in respect of such Investor Account in accordance with the Terms and Conditions and then close such Investor Account.

12A.14.4 If the CDC is satisfied that the circumstances that gave rise to the imposition of suspension under Regulation 12A.14.2 no longer exist, the CDC shall remove the suspension under notice to the concerned Investor-Accountholder.

12A.14.5 CDC may close the Investor Account where the Investor Account remains suspended for consecutive 30 days in accordance with the Procedures.

12A.14.6 Subject to Regulation 12A.14.7, an Investor-Accountholder may at any time close his Investor Account by submitting an Account Closing Request Form to CDC. Upon receiving such a form, CDC shall close the Investor Account so soon as practicably possible, subject to the payment to CDC of CDC's charges for closing of Investor Accounts and of all other charges and amounts due from the Investor-Accountholder to CDC and subject to the condition that no corporate action is pending at that point of time in connection with any Book-entry Securities in the Investor Account. Subject to aforesaid, CDC shall allow the Investor-Accountholder, prior to the closure of the Investor Account, to with draw or transfer all Book-entry Securities entered in his Investor Account.

12A.14.7 An Investor Account will not be allowed to be closed if:
(a) any Book-entry Securities entered therein are in Pledge Position; or
(b) there is any pending settlement outstanding in respect of any Settlement Instructions executed from such Investor Account.

12A.15 Joint Accounts

12A.15.1 If the Investor Account is in the name of two or more persons, the balance to the credit of such Investor Account shall belong to the Investor-Accountholders or the surviving Investor-Accountholder(s) as joint tenants.

12A.15.2 A joint Investor Account shall be allowed by CDC to be operated strictly in accordance with the instructions as regards operation of such Investor Account contained in the Investor Account Opening Form.

12A.15.3 In the case of the death of a joint Investor-Accountholder, the survivor or survivors, as the case may be, shall constitute the Investor-Account Holders hereunder and, subject to the law, may be allowed by CDC, at its discretion, to continue to maintain and operate the Investor Account.

12A.15.4 Whether or not the death of any or all of the Investor-Accountholders shall have intervened, CDC may continue to act from time to time in reliance upon any signing authority conveyed to CDC until CDC shall have received notice in writing from or on behalf of any of them that such signing authority has been terminated or revoked by operation of law or otherwise.

12A.15.5 CDC is authorised to treat all the joint Investor-Accountholders as being alive unless a death certificate issued by a competent public functionary, or evidence satisfactory to CDC, has been provided to CDC.

12A.15.6 If prior to acting on instructions received from one signatory, where the joint Investor Account is operated with single signing authority, CDC received contradictory instructions from another signatory, CDC shall immediately thereafter only act on the mandate of all the joint Investor-Accountholders or their authorized signatories.

12A.16 Miscellaneous

12A.16.1 The Investor-Accountholder irrevocably submits to the non-exclusive jurisdiction of the Courts of Pakistan and consents to the service of process on him by post or in any other manner permitted by law.

12A.16.2 CDC's failure or delay to exercise or enforce any of its rights against the Investor-Accountholder shall not operate as waiver of such rights nor shall it prejudice or affect CDC's rights subsequently to act strictly in accordance with the Terms and Conditions.

12A.16.3 All costs and expenses, including legal costs, on attorney client basis, incurred by CDC in connection with the enforcement of any of its rights under the Terms and Conditions or to resolve any dispute relating to the Book-entry Securities Delivered-in or Delivered-out of the Investor Account shall be payable by the Investor-Accountholder to CDC on a full indemnity basis.

12A.16.4 The illegality, invalidity or enforceability of any provisions contained in this Chapter shall not affect the legality, validity or enforceability of the other provisions of this Chapter.

12A.16.5 Any or all applications, requests or other documents (including Settlement Instructions and electronic instructions for Pledging of Securities) (hereinafter in this Regulation 12A.16.5 is collectively referred to as the "Request") to be submitted to CDC by the Investor-Accountholder or by any other person under these Terms and Conditions or the terms and conditions for DSS shall be submitted only on a Business Day within the Designated Time as notified by CDC for this purpose from time to time. Any Request made by the Investor-Accountholder or by any other person for a particular transaction after the Designated Time shall be deemed to have been made on the immediately succeeding Business Day.

12A.17 Notice

Notice or document may be sent by CDC to an Investor-Accountholder and by an Investor-Accountholder to CDC in accordance with Regulation 2.6.4. Notwithstanding the above, where the Investor Account is a joint Investor Account, sending of a notice or document to the joint Investor-Accountholder named first in the Investor Account Opening Form shall be deemed to have been sent to all the joint Investor-Accountholders.

12A.18 Amendment to the Terms and Conditions

12A.18.1 CDC shall have the right at any time to amend, modify or substitute the Terms and Conditions with the prior permission of the Commission. Any such amendment, modification or substitution shall be binding on the Investor-Accountholders.

12A.18.2 Notwithstanding anything to the contrary contained in this Chapter 12A, if the Commission makes any changes, or orders the making of any changes, in the Terms and Conditions, the Terms and Conditions, as amended by or in accordance with the order of the Commission, shall become applicable to the Investor Accounts, the Investor-Account Holders, the Issuers, the Eligible Pledgees and, to the extent applicable, to the CDS Elements from the date such amended Terms and Conditions come into operation.

TERMS AND CONDITIONS FOR ONLINE TRANSACTION SERVICES:

1. **DEFINITIONS**
In these Terms and Conditions, if not already defined above, the following words and phrases have the meaning set opposite them or as otherwise defined in the CDC Regulations:
(a) "CDC Regulations" means the Central Depository Company of Pakistan Limited Regulations which are in force from time to time.
(b) "Personal Information" refers to the information about the Investor-Account Holder that is stored on the records of CDC and may be retrieved in intelligible form.
(c) "Procedures" has the meaning given to it in the CDC Regulations.
(d) "Terms and Conditions" means these terms and conditions for CDC Access and any other terms and conditions which may be notified from time to time by CDC modifying or substituting all or any of these terms and conditions.
(e) "Website" means the website made available by CDC to Investor-Account Holders for the purposes of CDC Access and accessible through the internet via www.cdcaccess.com.pk.
2. CDC shall only execute Online Transaction Orders in accordance with these Terms and Conditions (and the Investor-Account Holder's compliance with the same), the CDC Regulations, Procedures and any applicable user manual of the CDC (on both inter or intra account transfer basis) which shall include, but not be limited to:
(a) Online Transaction Orders will be processed as soon as possible (which can be within the same or next Business Day) following the submission of the Online Transaction Order and in any event, subject to the Investor-Account Holder providing CDC with:
(i) an Online Transaction Order before [.] on a Business Day. If the Investor-Account Holder provides CDC with the Online Transaction Order after this time or not on a Business Day, the Investor-Account Holder agrees that the Online Transaction Order was received by CDC on the following Business Day;
(ii) a correctly completed and filled in Online Transaction Order, including all mandatory information required, as is prescribed by CDC in the Procedures or the user manual from time to time;
(iii) the Investor-Account Holder having sufficient number of Securities in the Investor Account in available position that are to be transferred; and
(iv) the Investor-Account Holder not having any outstanding dues payable to CDC with respect to any fees, charges etc plus the Investor-Account Holder having sufficient cash balance to pay the applicable CDC fees and charges, for the purposes of any Online Transaction Order submitted by an Investor-Account Holder.
3. In the event of any dispute relating to the date and time of receipt of the Online Transaction Order, CDC's records shall be conclusive evidence and the Investor-Account Holder agrees that CDC's decision on the same shall be final and binding on both CDC and the Investor-Account Holder.
4. In the event the above is not complied with, the Investor-Account Holder will not hold CDC liable for any damages resulting from (i) a failure to execute an Online Transaction Order; and/or (ii) CDC's actions in rejecting an Online Transaction Order, in each case for any reason and at CDC's full discretion.
5. **Disclosure of Personal Information:** The Investor-Account Holder agrees that CDC may hold and process Personal Information on computer or otherwise in connection with CDC Access as well as for statistical analysis. The Investor-Account Holder also agrees that CDC may disclose Personal Information as permitted under Section 21 of the Central Depositories Act, 1997 (as may be amended, supplemented or replaced), and such other disclosures as may be reasonably necessary for compliance with any other laws or regulatory requirements.
6. **Proprietary Rights:** The Investor-Account Holder acknowledges that CDC Access is the legal property of CDC. The permission given by CDC to access CDC Access will not convey any proprietary or ownership rights in CDC Access to any party. The Investor-Account Holder shall not attempt to modify, translate, disassemble, decompile or reverse engineer CDC Access.
7. **Safeguards:** The Investor-Account Holder shall keep the user ID and/or password for CDC Access safe and shall not disclose or let any unauthorized person have access to such user ID and/or password or leave them unattended at any time. The Investor-Account Holder shall be fully responsible for the use of user ID and/or password by any person, and any Online Transaction Services submitted, issued or executed upon the use of such user ID and/or password shall be binding on the Investor-Account Holder.
8. **Payment of Fees and Charges:** The Investor-Account Holder agrees to pay to CDC the fees and charges as prescribed by CDC from time to time in respect of Online Transaction Services or CDC Access generally. The Investor-Account Holder also authorizes CDC to deduct any such outstanding fees and charges from the cash balance of the Investor Account at source including any applicable levies, taxes etc. on behalf of any institution or governmental department or authority. The Investor-Account Holder further agrees and acknowledges that CDC shall have, among other rights, a paramount lien on the Securities in the Investor Accounts in accordance with the CDC Regulations.
9. **Change of Terms and Conditions:** CDC has absolute discretion to amend or supplement any of these Terms and Conditions at any time and will endeavor to provide prior notice wherever feasible for such changes. CDC may introduce new services within CDC Access from time to time. The existence and availability of the new services will be notified to the Investor-Account Holder as and when they become available either by email and/or through courier/registered post. The changed Terms and Conditions applicable to the new features in CDC Access shall be communicated to the Investor-Account Holder. By using such new services, the Investor-Account Holder agrees to be bound by the revised Terms and Conditions as may be applicable.
10. **Non-Transferability:** The right of use of CDC Access is not transferable by the Investor-Account Holder under any circumstances and shall be used by him only.
11. **Termination of Online Transaction Services:** The Investor-Account Holder may request for termination of Online Transaction Services any time by giving a written notice of at least three (3) business days to CDC. CDC may withdraw Online Transaction Services anytime provided the Investor-Account Holder is given a prior notice of at least seven (7) business days. The closure of the Investor Account will automatically terminate Online Transaction Services. CDC maysuspend or terminate Online Transaction Services without prior notice if the Investor-Account Holder has breached any of the Terms and Conditions or CDC learns of the death, bankruptcy or lack of legal capacity of the Investor-Account Holder.
12. **Waiver:** CDC's failure to exercise or delay in exercising any right, power or privilege under these Terms and Conditions shall not operate as a waiver; nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof.
13. **Severability:** The invalidity or unenforceability of any provisions of these Terms and Conditions shall not affect the validity or enforceability of any other provision of these Terms and Conditions, which shall remain in full force and effect.
14. **Force Majeure:** CDC shall not be liable for any failure of or delay in the performance of these Terms and Conditions for the period that such failure or delay is due to causes beyond its reasonable control, including but not limited to acts of God, war, strikes or labor disputes, embargoes, government orders or any other force majeure event.
15. **Notices:** CDC and the Investor-Account Holder may give notices in the manner prescribed in the CDC Regulations.
16. **Governing Law:** These Terms and Conditions and/or the use of the services provided through Online Transaction Services shall be governed by the laws of Pakistan. The Investor-Account Holder and CDC agree to submit to the exclusive jurisdiction of the Courts of Karachi as regards any claims or matters arising under these Terms and Conditions.

I/We confirm having read the above Terms and Conditions which are acceptable to me/us and I/we undertake to abide by them.

NAME (Account Title)	**SIGNATURE**		**DATE**	
NAME (Joint Holder-1)	**SIGNATURE**		**DATE**	
NAME (Joint Holder-2)	**SIGNATURE**		**DATE**	
NAME (Joint Holder-3)	**SIGNATURE**		**DATE**	

(Note: Incase of non-resident Pakstani or Foreigner, signature must be as per NICOP or Passport respectively, as the case may be)e)

WITNESSES:

1. NAME	**SIGNATURE**	**CNIC/*NICOP/**PASSPORT NO.**
2. NAME	**SIGNATURE**	**CNIC/*NICOP/**PASSPORT NO.**

*(Incase of Non-Resident Pakistani) **(Incase of Foreign National)

FOR THE USE OF CDC PERSONNEL ONLY

TARIFF VERIFIED BY	**SIGNATURE & STAMP**		**DATE**	
ACCOUNT STATUS ☐ **APPROVED** ☐ **REJECTED**	**SIGNATURE** (Authorized Signatory)		**DATE**	
INVESTOR ACCOUNT NO. ISSUED				
ACCOUNT SAVED BY **ACCOUNT POSTED BY**	**SIGNATURE**		**DATE**	

General Guidelines to open IAS A/c with CDC
Applicable to Individuals

1. Original IAS Account Opening Form (AOF) should be duly filled and signed. The title account holder and all joint account holders need to sign all pages of AOF if downloaded from the CDC website or photocopied.

2. Name of Account Holder / Nominee / Attorney/ Authorized signatory provided in AOF must be as per CNIC/ NICOP/ Passport.

3. All account holders in an account must be of same residential and Zakat status.

4. To get exemption from compulsory deduction of zakat, please submit:
   - True certified (Notarized) copy of Zakat Declaration (CZ-50) to be made on stamp paper of Rs.20/- by resident / non-resident (non repatriable) Pakistanis as per the prescribed format* for all joint holders.
   - Request on plain paper by non-Muslims. (NOTE: Levy of Zakat is not applicable on non- resident(Repatriable) Pakistanis and foreigners).

5. Contact person in an Account can only be any joint account holder or an authorized attorney.

6. For nomination in IAS Account, affidavit on prescribed format* and original stamp paper of Rs.20 duly attested by Notary Public is required alongwith a copy of valid CNIC/ NICOP/ Passport/ Form-B(incase of minor). (NOTE: In Joint account, nomination is not allowed).

7. Once an IAS account is opened, any addition / deletion / updation of joint holder is not allowed.

8. Any person authorized by all the joint account holders can operate the account on their behalf. However, a power of attorney on non-judicial stamp paper of Rs. 200 duly signed on all pages by all the joint account holders and notarized alongwith a covering letter on the prescribed format* will be required. (NOTE: Only one attorney is allowed in an Investor Account)

9. AOF 'Part G' is required to be verified by a bank manager where Title Holder is maintaining his/her bank account. Correction, if any, in this portion will be acceptable with the sign and stamp on it by the respective bank manager. The verification is not applicable incase the title holder is a non-resident Pakistani or a foreigner and the required documents are available duly attested by the consulate office of Pakistan or notary Public of the respective Country.

10. IAS account cannot be opened for the person desiring to affix thumb impression on AOF and signature card instead of signatures.

11. Incase of simple/immature/shaky signatures, indemnity bond on non-judicial stamp paper of Rs. 100 duly signed by the respective IAS account holder(s) and attested by Notary Public will be required.

12. Name, CNIC/NICOP/Passport No. and Signatures of two witnesses will be required on the last page of the form.

Formats are enclosed with the account opening package and also Available at Customer Support counters and CDC Corporate website www.cdcpakistan.com

13. For minors, following details are required for opening an account:

Minor

a True attested copy of guardianship certificate, from issuing court in case of legally appointed guardian
b. Certificate of registration from NADRA (From “B”)/NICOP/Passport.
c. Contact details such as address, phone, cell number, e-mail etc.
d. Undertaking cum declaration as per given format.
e. Father’s name

Guardian

a. All registration details in CDS and AOF will be entered pertaining to guardian except for the account title.
b. The account title should be “<Name of minor> (Minor) through <Name of Guardian> (Guardian)” (Note: All documents of non-resident Pakistanis and foreigners must be attested from the nearest consulate office of Pakistan).

14. Incase of repatrible Accounts, all the documents required by State Bank of Pakistan shall be submitted directly by the IAS Account Holder(s) to respective issuers or R/TA.

At the time of submitting the CDC Investor Account Opening Form

1. Physical presence of all persons desiring to open an IAS account (Title / Joint holders) alongwith original CNICs is mandatory at the time of submitting the Account Opening Form (AOF). (This requirement is not applicable to non-resident Pakistanis, and foreigners applying from abroad)
2. Copies of valid CNICs (For resident Pakistanis) / NICOP (For non-resident Pakistanis) / Passport (For foreigners) having photograph of all the joint account holders are required.
(NOTE: Expired CNIC/NICOP/Passport is not acceptable)

Submitted copies of CNIC/NICOP are verified from NADRA’s online verification system ‘VERISYS’. Incase of any discrepancy or remarks found in VERISYS, client has to resolve it with NADRA before the account can be opened.

3. Original Signature Card has to be signed (by all the joint account holders) in the presence of designated IAS staff.
(This requirement is not applicable to non-resident Pakistanis, and foreigners applying from abroad)

4. Any correction/overwritting on Account Opening Form must be signed by all account holders. Use of correction fluid is not acceptable on AOF.

5. Annual fee of Rs. 750 through Cash/ Cheque/ Payorder/ Demand Draft will be required at the time of account opening.

Note: In case of foreigner / non-resident Pakistani all the required documents must be attested by consulate office of Pakistan or notary Public of the respective Country.

After opening of IAS account with CDC, you may also avail the benefits of CDC&ccess a value-added service that enables you to access your account information through multiple channels with complete access mobility. The CDCS^ccess portfolio comprises of:

- CDCaccess M a round-the-clock Interactive Voice Response System supported by a state- of-the-art call center & dedicated staff, enabling you to listen to your account information over the phone.

- CDCaccess Web which allows you to access your account information, anytime, anywhere through www.cd-caccess.com.pk

- CDCaccess SMS & eAlerts provides you updated information about activities in your Investor Account through alerts on your local cell number and email address.

For further details or queries, you may call our Customer Support Services on our toll free number 0800-CDCPL (23275) or email us at info@cdcpak.com