K-ELECTRIC LIMITED

KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority Karachi
Tel:32637133, 111-537-211, 32647014 Fax:99205165
Email:rizwan.dalia@ke.com.pk Website:ke.com.pk

Post-ID: 139007
November 6, 2019, 15:29:53

The General Manager
Pakistan Stock Exchange Limited
Stock Exchange Building
Stock Exchange Road
Karachi

Subject: **Material Information**

Dear Sir,

In accordance with Section 96 of the Securities Act, 2015 and Clause 5.6.1(a) of PSX Regulations, we hereby convey the following information:

K-Electric Limited Analyst Briefing Session is being held today at PSX the Presentation is now being attached. You may please inform the TRE Certificate Holders of the Exchange accordingly.

Yours Sincerely,

K-Electric Limited Investor Presentation

November 2019

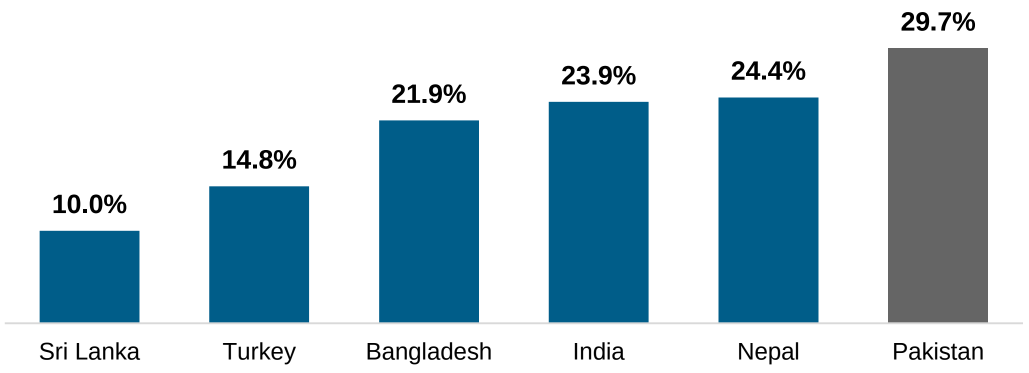
- Market Overview
  - **Pakistan Power Sector**
  - Strategic Importance of Karachi
  - Reforms Underway
- KE’s Brief History & Overview
- Operational & Financial Performance
- Multi-Year Tariff
- Future Plans
- Key Challenges
- The Journey Continues

Pakistan Power Sector – State of the Industry

Over 10,000 MW of power generation has been added in the last 5 years, however, overall energy planning remained fragmented across the energy value chain, with little focus on reducing losses and upgrading Transmission and Distribution capacity

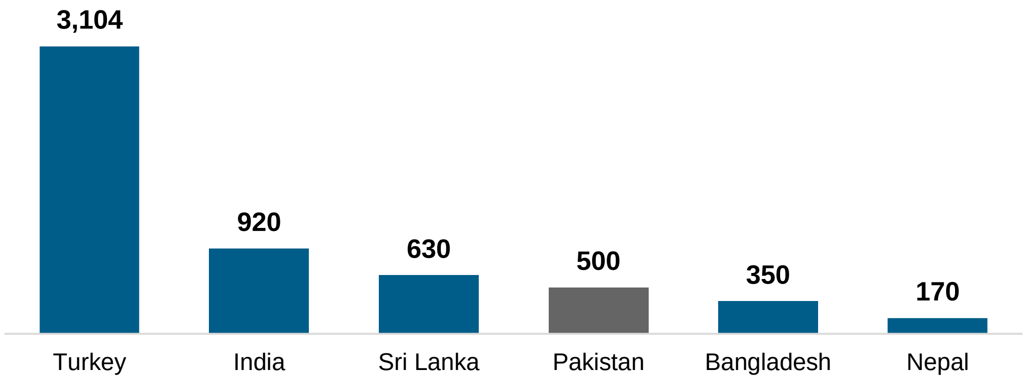
AT&C Loss Comparison

***High AT&C Losses* – need for technological and process improvements**



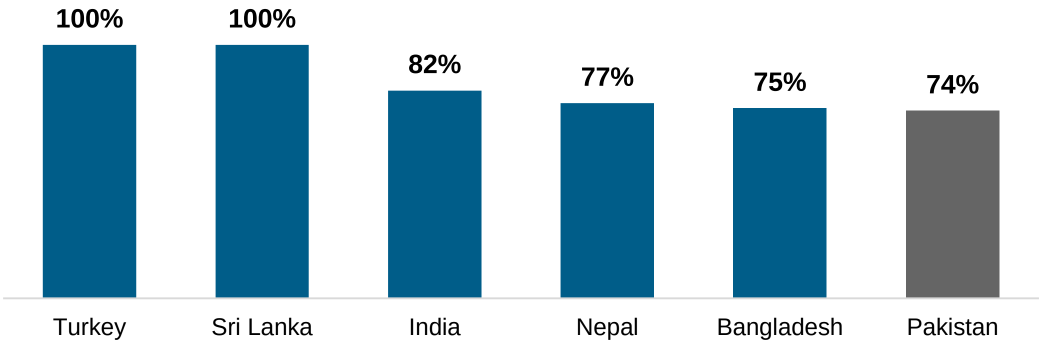
Per Capita Consumption (kWh)

***Low per capita consumption* – potential for future growth through investments in T&D business**



Electrification Rate

***26% of the country's population does not have access to grid electricity* – signaling lack of investment in T&D segment, despite capacity additions in Generation**



Need for continued investments

Potential for **USD 80 Billion of future investments** to bring operational improvements along with sector reforms – out of these **at least 50% are required in Transmission and Distribution upgrades**

> *"… Pakistani power sector including generation, transmission and up-gradation has over USD 80 Billion investment opportunities and foreign direct investment was pouring as multiple companies have shown their interest to invest"*
>
> ***Omar Ayub, Minister for Energy, Government of Pakistan***

Source: NEPRA State of Industry Report, Power Division Pakistan, World Bank, Ministry of Power & Renewable Energy (Srilanka), Institute of Energy Economics, Nepal Electricity Authority, International Energy Agency (IEA), News Reports

Strategic Importance of Karachi

The city of Karachi is essential to Pakistan's economy and drives much of the country's economic growth. As the city's sole electricity provider, KE is of strategic importance to the municipality and the country

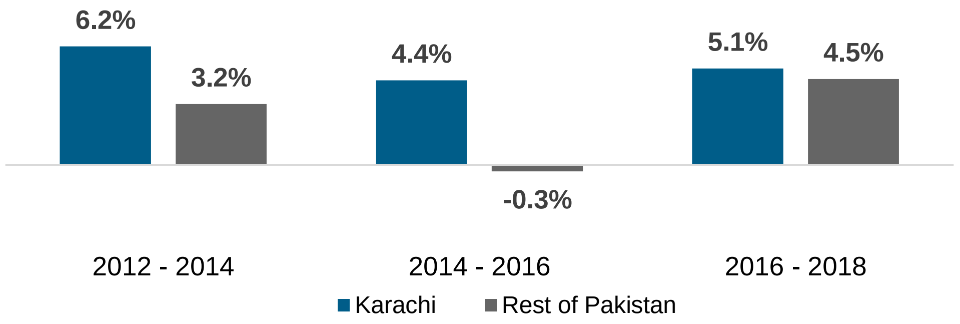
Karachi's Importance to Pakistan

- Karachi is the commercial hub and gateway of Pakistan – accounts for c. 20% of the country's GDP
- Home to Pakistan Stock Exchange, making it the financial centre of Pakistan
- c. 40% of large-scale manufacturing employment is in Karachi
- Population is expected to grow at a CAGR of c. 2.5% in the next 5 years
- Following government initiatives among others would lead to further increase in industrial and commercial activity, resulting in increased power demand
  - Setting up of Special Economic Zone (SEZ) in Dhabeji region
  - Development of National Industrial Park near Port Qasim, Karachi

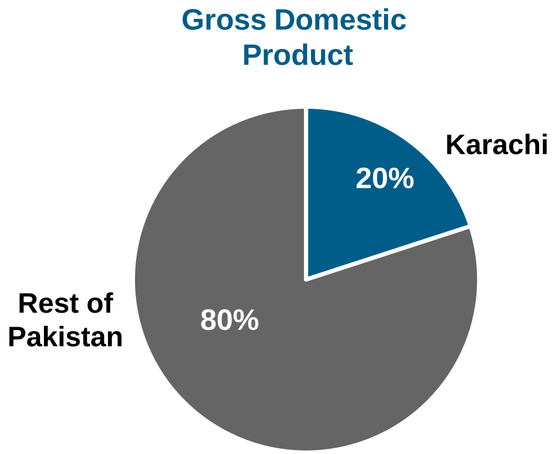
Rest of Pakistan vs. Karachi – Growth in Peak Demand[1] (MW)

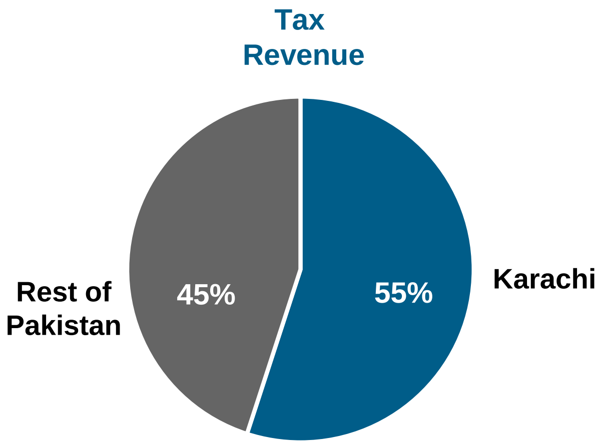
Growth in power demand in Karachi has remained higher than rest of the country

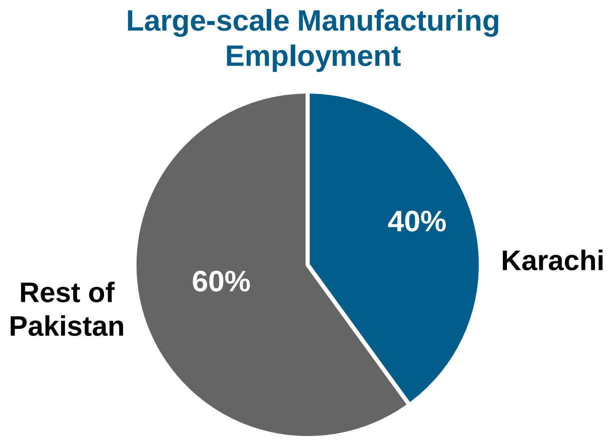
Growth in Peak Demand CAGR (FY 12 – 18)	
Karachi	5.2%
Rest of Pakistan	2.4%



Karachi's Contribution to Pakistan's Economy







Source: Asian Development Bank & United Nations population estimates and projections of major Urban Agglomerations, World Bank, News Reports, NEPRA State of Industry Report
1. Peak demand for PEPCO area in 2019 is not available

Pakistan Power Sector – Reforms Underway

Policy reforms are underway to address key power sector issues including circular debt and other structural weaknesses – improvement of ecosystem and system performance will definitely fuel economic growth led by domestic and export-led businesses

Challenges	Measures	Positive Outlook
Circular Debt		**GoP's target to erase circular debt by end of 2020**
Significant increase in Capacity Payments		**Addition of low-cost generation**
Tariff Subsidies		**Privatization of state-owned DISCOs**
High Losses & Weak Governance of ex-WAPDA Entities		**Improved governance, financial sustainability of the sector and better service levels**

Sustainable Capacity

- Shift to low cost sources (coal, hydel, renewables, etc)
- Targeted fuel mix by 2040: Hydel (40%), Renewables (16%) and Local Coal (25%)
- Attract investment in on-grid and off-grid renewables for greater access
- Integrated planning to improve demand forecasting which will help avoid capacity payments for idle capacity

Structural Changes

- Planned privatization of state-owned distribution companies
- Regulatory changes including action against power theft
- Gradual phasing out of subsidies through increase in consumer-end tariff
- Competitive bidding
- Opening up of markets allowing wider access to distribution companies

Source: World Economic Forum, News Reports

Business Overview

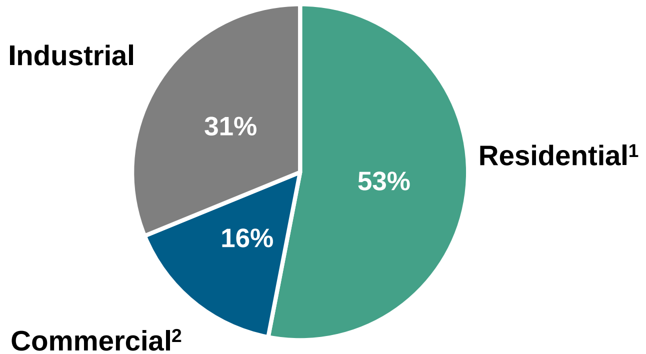
As the only vertically integrated power supply company in Pakistan, KE has a robust network to ensure sustainable and reliable power supply to Karachi and its adjoining areas

Presence Across the Entire Power Value Chain

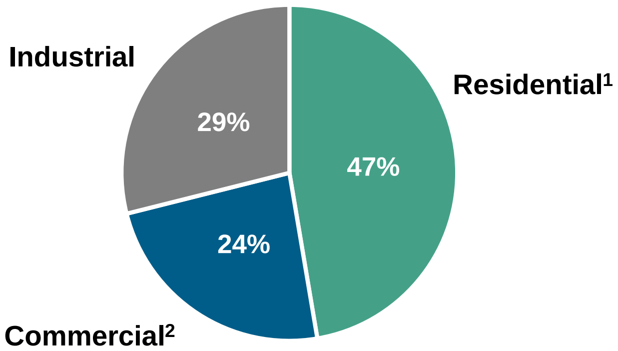
Generation	Transmission	Distribution
Own Generation Power Purchases	Grid Stations	End User
5 plants with installed capacity of **2,267 MW** and 1,300+ MW of arrangement with external sources	**6,078 MVAs** transmission capacity through **68 grid stations**, **160 Power Trafos** & over **1,283 km of EHT lines**	**7,702 MVAs** distribution capacity through **1,807 feeders** & **28,000+ PMTs and substations**

A Diversified Customer Base

Customer Breakdown (Units Billed)

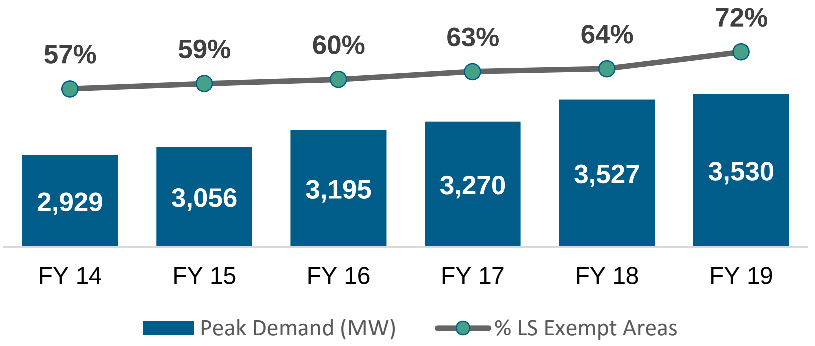


Customer Breakdown (Amount Billed)



Growing Power Demand and Reduction in Load-shed

Capacity additions, loss reduction initiatives and process improvements have enabled KE to exempt over 70% of the service territory from load-shed



1. Residential includes Domestic, Agriculture, Street light and General Services
2. Commercial includes Bulk Supply consumers

Note: Public sector consumers account for c. 9% of annual units billed

Brief History & Overview

Incorporated in 1913, KE is the only power utility company having presence across the entire energy value chain, and has a customer base of more than 2.8 Million

From KESC to KE[1]

1913	KESC Incorporated
1949	1st Company to list on KSE
1952	Nationalization of KESC
2005	Privatization
2009	Turnaround Commences
2012	Profits after 17 years
2019	Continued Focus on Sustainability & Growth

KE in 2009

USD 1,084 Million FY09 Revenue	USD (87) Million FY09 EBITDA	1,685 MW Generation Capacity
35.9% T&D losses	c. 2.0 Million Customers	52 Grid Stations

Severe lack of Investment and old & dilapidated Infrastructure resulting in frequent outages and unannounced load-shed

Cash Burn of USD (180) Million in FY 09

KE in 2019[2]

USD 1,975 Million FY 18 Revenue	USD 295 Million FY 18 EBITDA	2,267 MW Generation Capacity
19.1% T&D losses	> 2.8 Million Customers	68 Grid Stations

Over USD 2.4 Billion invested across the value chain since 2009

Profitable after 17 years in FY 12 – *IFC and ADB converted their long-term financing of USD 50Mn into equity*

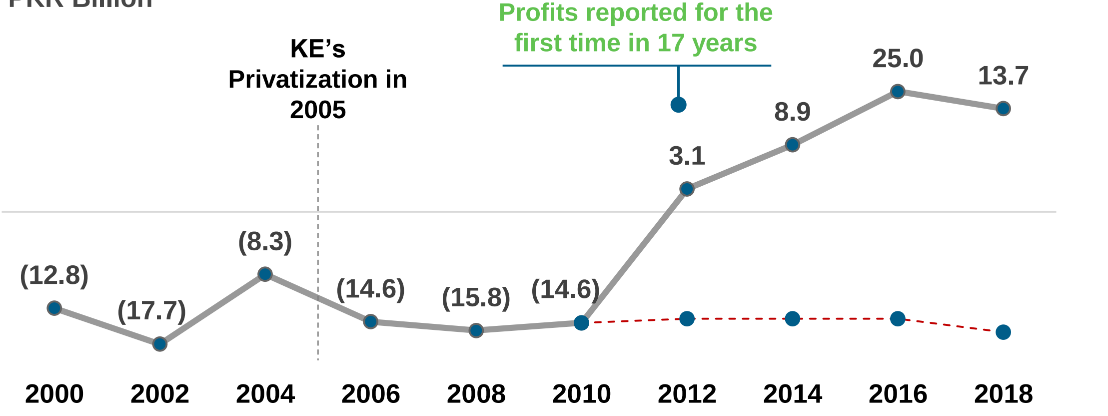
1. Rebranded to KE in 2014
2. KE's financials for FY 19 are in the process of finalization

KE's Turnaround – A Success Story

Privatized in 2005, KE's turnaround success presents a classic example of targeted and well-timed investments transforming a cash-bleed, loss making entity into a profit-making utility driven by significant investments and operational improvements

KE's Turnaround from a troubled loss-making entity

Profit / (Loss) Before Taxation[1]
PKR Billion

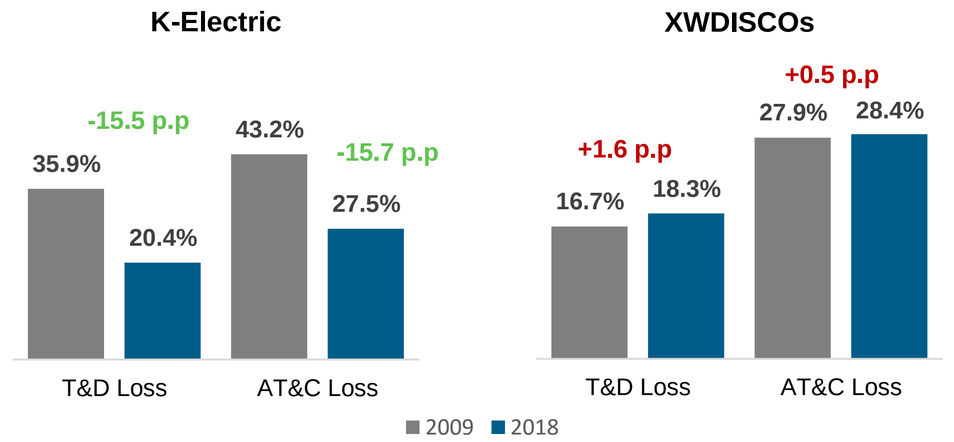


KE's Privatization & Turnaround – Setting a precedent for the Power Sector

- To keep KE's operations afloat, **annual average operational subsidy of c. PKR 9.5 Billion** had to be provided by GoP during FY 2003 to FY 2005, which was not required post privatization – losses borne by KE's private investors
- **Evident from the performance of XWDISCOs**, had KE not been privatized, the company would have continued on a loss-making trajectory, **burdening the GoP in the form of operational subsidy – KE's improvement in AT&C losses of 15.7% points (Annual impact of c. PKR 50 Billion[2])**
- XWDISCOs reported a cumulative loss of **c. PKR 207 Billion** from 2013 to 2016 – **Eight out of ten state-owned distribution companies reported losses in FY 16** and are heavily dependent upon GoP support

Operational Improvements outperforming state-owned DISCOs

Significant Loss Reduction by KE, whereas losses of XWDISCOs have increased



- In view of the above significant improvements shown by KE post privatization, **NEPRA has also recommended the GoP to consider privatization of XWDISCOs, encouraging private investments**
- This would **improve the governance and efficiency of XWDISCOs**, make them **financially self-sufficient**, thus **reduce the burden on national exchequer and enable the sector to be financially sustainable**

Source: State Bank of Pakistan, NEPRA State of Industry Report
1. Excluding operational subsidy provided by GoP
2. Computed as (FY 19 sentout x 15.7% x Average Tariff of PKR 18.2/kWh)

Operational Performance since 2009

Through investments of over USD 2.4 Billion across the value chain during FY 09 to FY 19[1], KE's management focused on enhancing fleet efficiency, reducing T&D losses and improving operational processes to unlock value

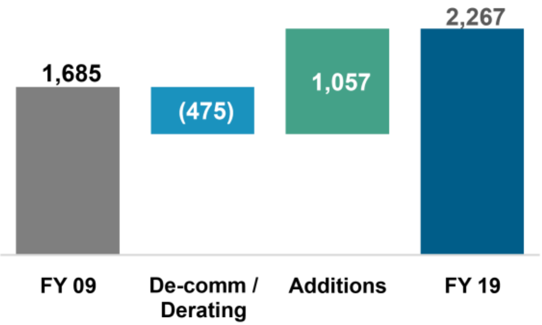
Investments across the value chain since 2009

GENERATION

c. USD 1,100 MILLION[1]

- Induction of **4 modern and highly efficient generation plants**
- **Addition of 1,057 MW** of generation capacity
- **Fleet efficiency** improved from **30% in FY 09 to 37% in FY 19**

Capacity Addition (MW)



TRANSMISSION

c. USD 615 MILLION[1]

- Focus on transmission capacity additions and infrastructure rehabilitation
- Addition of **16 new grid stations**
- **Transmission capacity enhanced by 42%**
- **c. 404 km of old circuit length rehabilitated** and over **98 km of EHT lines** added
- Significant reduction in transmission loss – 2.8% points from over 4% in September 2008 to 1.2% in FY 19
- **64% reduction** in trafo / grid equipment tripping

DISTRIBUTION

c. USD 690 MILLION[1]

- **Reduction in T&D losses by 16.8% points**
- **Capacity enhancement by over 3,000 MVAs (c. 64%)**
- **7,500+ PMTs** have been **converted onto Aerial Bundled Cabling** (ABC)
- Setting up of Integrated Business Centers – a one-stop solution for customers
- Focus on customer centricity – getting closer to customers through Call-Centres and e-solutions
- Process improvements including implementation of SAP-ISU billing

>70%
of Karachi load-shed free vs. 23% in 2009

100%
Industrial zone load-shed exemption

19.1%
T&D losses – improvement of 16.8% points since 2009

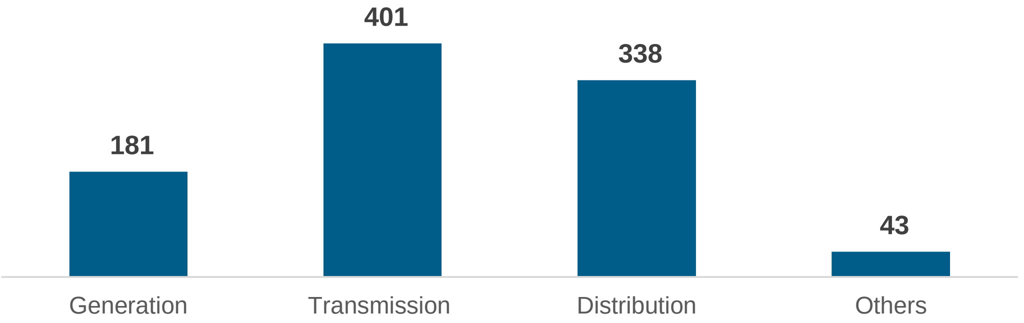
1. Includes Capex numbers for FY 19 which are provisional and unaudited. Further, Distribution includes Others.

Investments made across the Value Chain in last 3 years

Over the last three years, various initiatives were undertaken across the energy value chain to enhance capacity, improve reliability of the network along with targeted loss reduction

Capex FY 17 – FY 19[1] (USD Million)

Over USD 960 Million invested across the value chain in the last 3 years



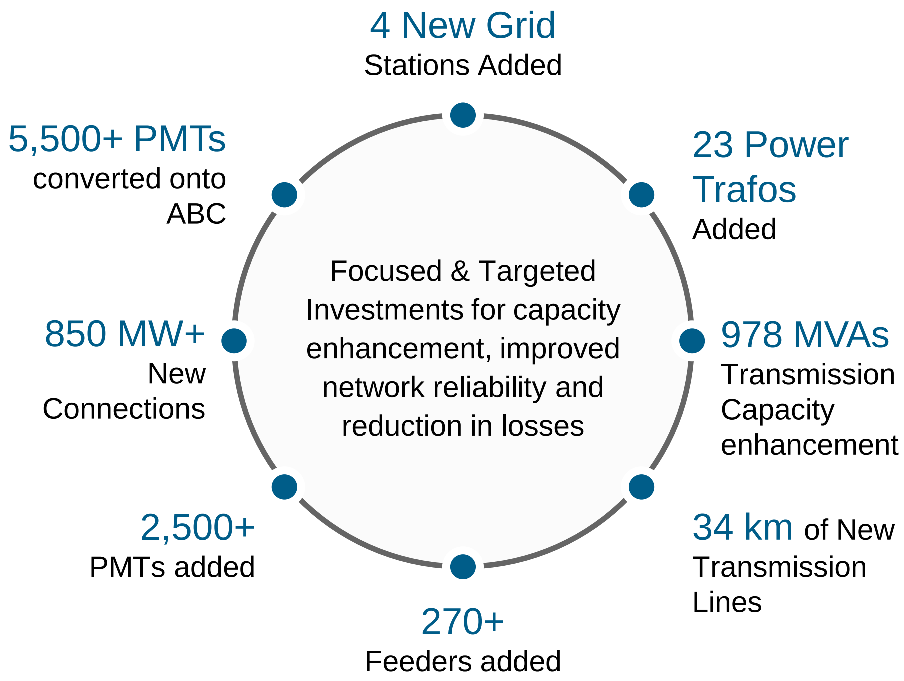
Operational Improvements

- Overhaul and rehabilitation works resulted in **increase in average Gross Dependable Capacity (GDC) by c. 70 MW** as compared to FY 16
- Significant progress was made on KE's **over USD 450 Million TP – 1000** project to overcome transmission constraints and facilitate sent-out growth
- **T&D losses reduced by over 3% points** from FY 16 levels along with **c. 4% points improvement in overall recovery levels**
- **Recovery drives / campaigns** to engage defaulters such as *'Current Bill ka Waada'*
- **Technological advancements** including AMI Infrastructure, launch of KE Live App

Capacity Addition & System Improvements in last 3 years

<u>Power Supply added to KE's System in last 3 Years</u>

National Grid	Oursun	SNPC	FPCL
(150 MW)	**(50 MW)**	**(101 MW)**	**(52 MW)**
June, 2019	Nov, 2018	Jan, 2018	May, 2017

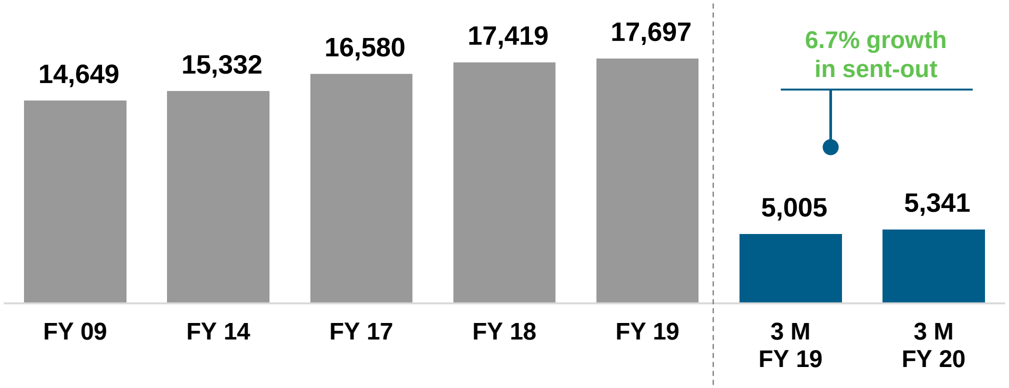


1. Capex numbers for FY 19 are provisional and unaudited

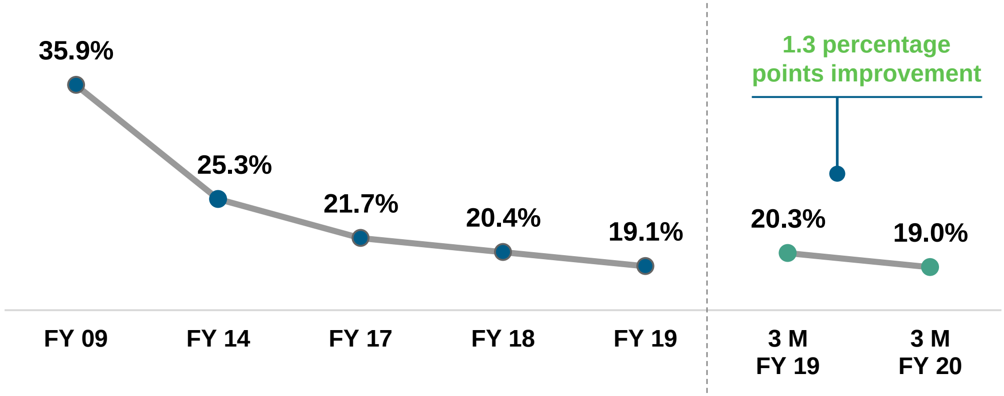
Operational Performance – Generation, Transmission & Distribution

Driven by focused investments, the company has continued to improve on the operational parameters – strong operational performance in the first quarter of FY 20 to further the operational improvements of previous years

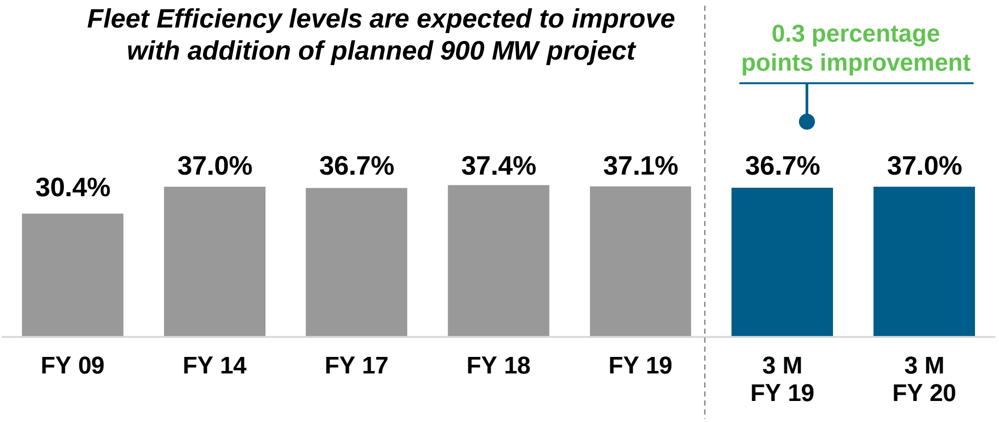
Sent-out (GWh)



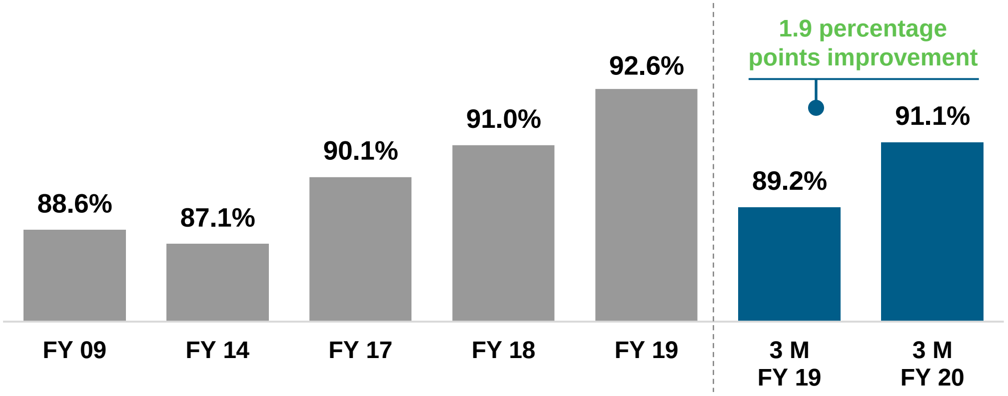
Rolling Average T&D Losses (%)



Generation Fleet Efficiency (%)



Recovery Ratio (%)



1. FY 19 and 3M FY 20 numbers are provisional and unaudited

Financial Performance

Despite change in tariff, the company continued to perform on the operational front which translated into improved financial performance in FY 18

Financial Highlights

Change in Tariff Level & Structure

- As compared to FY 16, FY 17 profitability has been impacted due to change to KE's tariff structure and level
- Under the new tariff structure, KE is incentivized to improve profitability by beating yearly performance benchmarks as well as reduction in O&M expenses and increase in units sold
- In addition, KE has filed its appeal for consideration at Appellate Tribunal on key MYT issues. The Appellate Tribunal is yet to be constituted

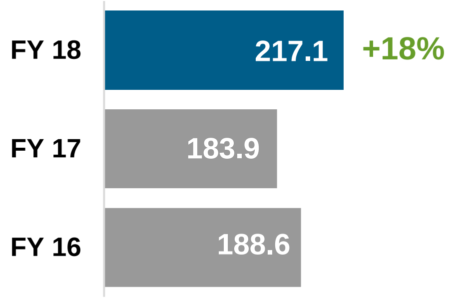
Continuous Investments and Improved Operational Performance in FY 18

- Driven by operational improvements including sent-out and T&D losses, FY 18 marked improvements in financial performance as compared to FY 17

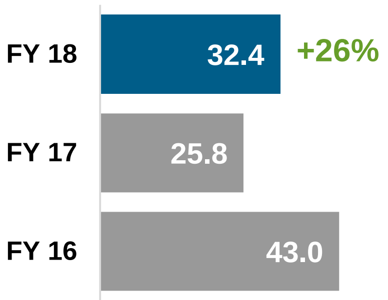
Sustained Financial Outlook

- Continued and sustained operational improvements in future through investments in all core functions will translate into improved financial results

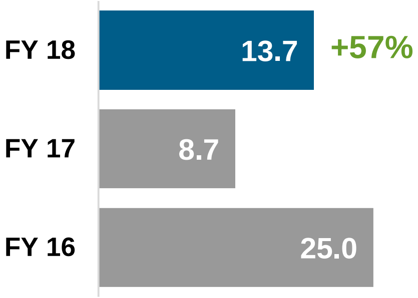
Revenue
PKR Billion



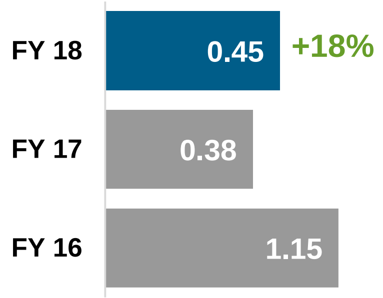
EBITDA
PKR Billion



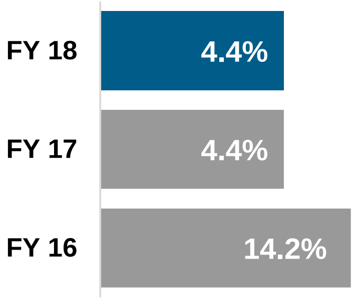
Profit Before Taxation
PKR Billion



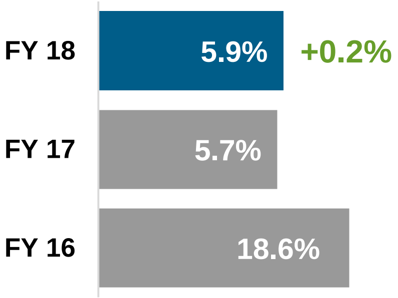
Earnings Per Share
PKR



Return on PPE[1]
%



Return on Equity[2]
%



Note: PPE – Property, Plant and Equipment
1. RoPPE adjusted for surplus and incremental depreciation (FY 18: 9.1%, FY 17: 9.8%)
2. RoE adjusted for surplus and incremental depreciation (FY 18: 12.1% , FY 17: 12.2%)

Key Financing Initiatives

Investors have shown continued trust and confidence in the company's fundamentals, enabling KE to make the planned investments on accelerated basis and further the positive trajectory of operational improvements

Key Financing Initiatives

Financing of upto PKR 25 Billion from a syndicate of local banks for partially funding TP – 1000 project and certain ongoing Distribution projects

- This was part of 18 months ICP program comprising of 3 six-monthly issues. Last ICP issued in September 2019
- Another ICP program for 3 six-monthly issues has been signed with Faysal Bank with the 1st ICP issued in Aug 2019 amounting to PKR 8 Billion

USD 50 Million GuarantCo supported loan facility for upgradation of Transmission and Distribution infrastructure – will enable KE to capitalize upon the growth potential

VIS Credit Rating Company Limited

"VIS Credit Rating Company Limited (VIS) has assigned preliminary rating of AA+ (Double A Plus) to K-Electric Limited's (KE) proposed Rs. 25 Billion Sukuk. KE's long-term entity and Sukuk rating (Rs. 22 Billion Sukuk) have been reaffirmed at AA (Double A) and AA+ (Double A Plus), respectively. The Company's short-term ratings have been upgraded from A-1 (Single A One) to 'A-1+' (Single A-One Plus)….Rating assigned to KE's outstanding Islamic Commercial Paper (ICP-A) has also been upgraded to 'A-1+' (A-One Plus)"

Press Release, VIS Credit Rating Company Limited, October 14, 2019

KE Sukuk – PKR 25 Billion

KE intends to issue a rated, secured and listed Sukuk of up to PKR 25 Billion (inclusive of Green Shoe Option of PKR 5 Billion)

Salient features of the proposed PKR 25 Billion Sukuk

Purpose

- To fund the routine Capex and incremental Opex requirements, primarily due to increase in cost of fuel – temporarily funded by PKR 20 Billion bridge financing

Expected Timelines

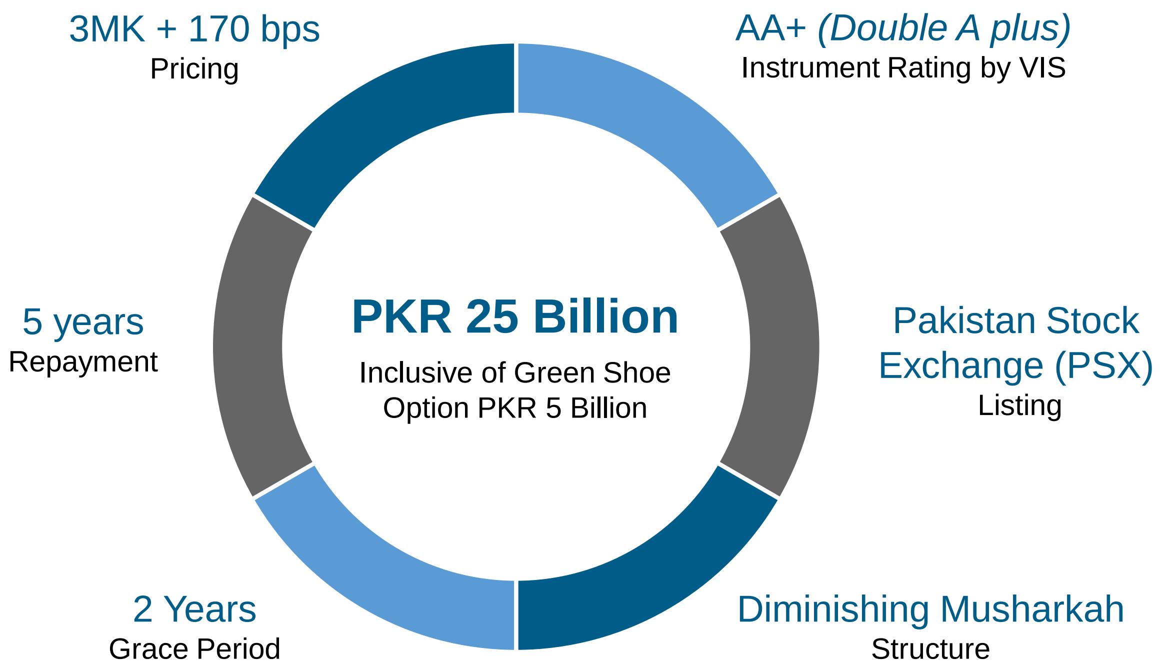
- Pre-IPO: November 2019
- IPO: April 2020

Security

- Strong collateral comprising of a hypothecation charge over generation assets pool; and
- Attractive payment security in the form of lien over Master Collection Account (MCA) for payments of rentals and redemption amount

Shariah Board

- Renowned scholars form part of a 5 member Shariah board



> *…Company Secretary Muhammad Rizwan Dalia reported to the Pakistan Stock Exchange (PSX) "the board of directors of the company, at a meeting held on February 8 (Friday),…approved the issue of KE-rated and listed Sukuk of up to PKR 25 Bn, including a green shoe option of up to PKR 5 Bn.."*
>
> ***Express Tribune, 09 February, 2019***

Structuring Agents

HBL HABIB BANK حبیب بینک

NBP National Bank of Pakistan نیشنل بینک آف پاکستان

Determined MYT

As compared to KE's Previous MYT, the Determined MYT presents a different, de-risked, Return on RAB structure with additional upsides for KE to unlock value and further its improvement trajectory

Opportunities to Unlock Value under the Determined MYT

As highlighted below, the Determined MYT presents several opportunities for KE to capitalize upon as key projects come online. KE also remains confident of a positive outcome to its Appellate Tribunal case on key MYT issues including application of notional Debt to Equity ratio by NEPRA while calculating the allowed returns

- **Return on RAB structure** – allows for a long-term, de-risked, construct as KE's RAB will continue to increase as key projects come online – this structure is also in line with tariff structure provided to other power sector entities in Pakistan
- **Dollarized returns** across the value chain have been allowed
- **Operational Efficiencies –** outperforming NEPRA benchmarks for T&D loss, sent-out growth and beating NEPRA projected O&M costs
- **Removal of "-X" Factor from O&M Indexation for Generation** – similar to IPPs
- **Allowance of Actual write-offs –** improved recovery which combined with allowed write-offs will minimize KE's recovery gap
- **Mid-Term Review Mechanism in Tariff –** to re-assess certain assumptions including investments, exchange rates and working capital
- **Investment Flexibility** – investments in new generation projects *(other than BQPS – III)*, subject to NEPRA's approval
- **Tax / WWF / WPPF** allowed as pass-through items

There are numerous opportunities to unlock value and allow for future improvements under the Determined MYT

Initiatives across the Energy Value Chain

Planned initiatives would result in investments of c. USD 3 Billion in all core functions in the next four years – would enable KE to unlock key value drivers under the MYT along with benefitting consumers and the economy at large

Investments across the Value Chain

Generation

- Capacity addition of **c. 3,000 MW** – key projects include:
  - **900 MW** RLNG Plant – the project would significantly improve KE's overall fleet efficiency
  - **700 MW** Coal IPP (equity project)
  - c. 1,000 MW through external IPPs including 300 MW of renewables[1]
- Planned projects would also diversify KE's fuel mix

Transmission

- Capacity enhancement and improved network reliability through two key projects
- TP – 1000: **addition of 1,000 MVAs**
  - To date, 4 grid stations and 22 power trafos have been added under TP – 1000 project
- TP – 2: to further improve system / network reliability and facilitate sent-out growth

Distribution

- Capacity enhancement through addition of c. **300 feeders** and **over 5,000 transformers**
- Conversion of **15,000 PMTs** onto ABC by 2023 – **significant reduction in losses**
- Targeted recovery drives / campaigns to engage defaulting consumers and **improve recovery levels**
- Simplified New Connection process – expected to add **over 1,400 MW** of new connections in the next four years
- Safety enhancement initiatives

Investments of around USD 3 Billion in the next four years enabling KE to capitalize upon growth potential and provide consumer value

- **Improved Network Reliability**
- **Reduction in Load-shed**
- **Process Automation and Improved Service Levels**
- **Enhanced Network Safety**
- **Industrial Connections fueling economic growth**

1. Includes IPPs which are currently under planning / approval

Potential for Further Value Improvement through a Strategic Investor

In addition to KE's robust investment plan of c. USD 3 Billion across the energy value chain, an aggressive, strategic investor, Capex plan would further improve Karachi's power infrastructure

Strategic Investment – Potential Impact

- An aggressive investment plan, would be an opportunity for Karachi's power sector to reach new levels of excellence
- A strategic investor with **technical expertise** would, among other operational improvements, leverage its strengths to bring **technological advancements across the power value chain**, benefiting the consumers and economy at large
- Shanghai Electric Power (SEP) signed a Definitive Agreement to acquire 66.4% stake in the company in October 2016, subject to receipt of government and regulatory approvals and has presented such a plan to the GoP
- SEP is one of the largest electric power companies in Shanghai and is committed to developing the power sector worldwide through operations in over 20 countries outside of China
- SEP is a subsidiary of the State Power Investment Corporation of China (SPIC), one of China's big 4 generation companies with installed capacity of over 142,700 MW and also has operations in over 43 countries globally
- SPIC is an active participant in the development of Pakistan's power sector and is a key CPEC investor involved in a wide variety of projects

"… SEP will leverage its own strengths as a strategic investor and further realise K-Electric's potential to provide better services to the people of Pakistan and the Government of Pakistan."

Wang Yundan, Chairman SEP

An aggressive investment plan along with KE's planned initiatives would result in greater positive impact for KE's customers and Karachi, while also facilitating economic growth in Karachi and Pakistan

Key Challenges – Receivables from Government Entities and Departments

Delays in release of payments from relevant authorities and growing receivables from government entities impacts the working capital position of the company for which continuous engagement with relevant stakeholders is being done

Receivables & Payables – Government Entities / Departments (September 2019)

Receivables from Government Entities	PKR Billion
Tariff Differential Claims[1]	149.2
KWSB *"Strategic Customer"*	32.4
Government of Sindh (GoS)	18.9
Other Federal & Provincial Entities	13.7
Total Receivables	**214.2**

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Payables to Government Entities	PKR Billion
NTDC / CPPA – G	97.3
SSGC	13.7
Other Federal & Provincial Entities	5.5
Total Payables	**116.5**

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Net Receivable to KE

c. PKR 98 Billion

KE seeks a fair and equitable resolution to the issue of receivables and payables

- KE is in continuous engagement with relevant stakeholders for a fair and expedient resolution to the issue of receivables and payables, including any mark-up
- Delays in release of TDC and energy dues of strategic customers including KWSB by GoP resulted in consequential delays in payments to NTDC / CPPA – G and SSGC
- Monthly payments are being received against KWSB dues since January 2016. Further, execution of a Power Supply Agreement with GoS guarantee around KWSB dues is in advanced stages
- Power Purchase Agreement with NTDC provides for a set-off mechanism through which KE's payables to NTDC / CPPA – G are to be off-set with TDC receivables – KE has net TDC receivables of c. PKR 52 Billion from the GoP
- GoP is considering revision in consumer-end tariff which would reduce accumulation in subsidy claims
- On the disputed mark-up, GoP is a party on both sides (receivables & payables) – establishes mutuality of obligations and accordingly, settlement of outstanding dues, including any mark-up, shall be done on net basis

1. Includes pending tariff variations

Other Challenges

The management is confident of the strategies put in place to mitigate other key challenges as highlighted below

Challenges	Description	Mitigating Strategy
Demand-Supply Gap	• Delayed finalization of MYT has resulted in consequential delays in execution of planned generation projects	• Planned 900 MW and 700 MW projects being pursued on fast track basis • Engagement with GoP for additional supply from the National Grid to manage the growing power demand
City Infrastructure and External Factors impacting Provision of Safe Power Supply	• Encroachments and illegal settlements hinders access to certain areas • Theft of earthing / grounding equipment • Tampering with KE's network by TV cable / internet cable operators poses a safety hazard • Right of Way ("RoW") issues impact timely execution of projects	• Continuous engagement with local administration / authorities on kunda removal drives / tampering with network / Right of Way issues • Revalidation of grounding / earthing of HT / LT poles and change in specification of earthing / grounding material to avoid theft
Consistency in Government / Regulatory Policies	• Consistency in regulatory landscape and government policies to ensure that interest of all stakeholders is balanced	• Engagement at Government level and with the regulator to ensure certainty in regulatory and policy matters, enabling a pro-investment environment

The Journey Continues

Capitalizing on the ongoing projects and with the continued investments, KE would continue to strive, improving the lives of people of Karachi and bringing economic prosperity in the country

Potential Impact

Capacity Additions

- Swift capacity additions and ability to provide new connections, particularly to industrial consumers on the back of increased T&D capacity

Growth & Productivity

- Operational improvements to translate into greater economic activity and industrial growth – direct impact on national GDP

Operational Efficiency

- System reliability and process improvements
- Reduced load-shed
- Improved service levels

Socio-Economic Improvements

- Reliability and sustainability in power supply to have a direct impact on Human Development Index

Dollarized Returns

- Accelerated Capex and dollarized returns across the value chain

Enhanced Safety

- Public Accident Prevention Plan and grounding of HT / LT network – enhancing overall safety levels

Aligned with the mission of brightening lives by building the capacity to deliver uninterrupted, safe and affordable power to Karachiites, KE will continue to make investments across the value chain, enabling the company to improve operationally whilst progressing on the value creation curve through innovation and technological advancements

Thank You

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