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 Shirkat ul Milk Sukuk (KE AZM SUKUK 1, KE AZM SUKUK 2, and KE AZM SUKUK 3) of total amount up to PKR 6,000 million Inclusive of Green Shoe Option of PKR 500 million (as per table given below)

K-ELECTRIC
Energy That Moves Life

K-Electric Limited

(formerly Karachi Electric Supply Company Limited)

Floating Rate Instruments

Tenor and Rate of Return

S. No.	Type	Tenor	Amount Offered	Green Shoe Amount	Total (incl. Green Shoe)	Floating Return per annum
			In PKR Millions			
1.	**KE AZM SUKUK 1**	13 Months	750	0	750	**1M KIBOR + 100 bps**
2.	**KE AZM SUKUK 2**	36 Months (3 Years)	3,500	250	3,750	**3M KIBOR + 225 bps**
3.	**KE AZM SUKUK 3**	60 Months (5 Years)	1,250	250	1,500	**3M KIBOR + 275 bps**
		Total	**5,500**	**500**	**6,000**	

Instrument Rating - "A+" (A plus) for each Sukuk 1, Sukuk 2 and Sukuk 3
By
JCR-VIS Credit Rating Agency limited ("JCR-VIS") and Islamic International Credit Rating Agency, Bahrain ("IIRA")

Entity Rating - "A+/A-2" (A plus/A Two)
By
JCR-VIS Credit Rating Agency limited ("JCR-VIS")

Exclusive Financial Advisor

HBL

Sharia Structuring Advisor

HBL ISLAMIC BANKING

Approved by the following Sharia Advisory Board*	
Prof. Mufti Muneeb ur Rehman	Dr. Zubair 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 Net Banking 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 February 24, 2014 and will close at 12:00 midnight on May 23, 2014, unless full subscription is received before the end of Subscription Period

Public Subscription (for all three types of Sukuk) between FEBRUARY 24, 2014 – MAY 23, 2014 (Both Days Inclusive)

During Banking Hours

Date of Publication of this Prospectus is February 17, 2014

For further queries, you may contact:

HBL
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

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

GLOSSARY

1M KIBOR	One-month Karachi Interbank Offered Rate
3M KIBOR	Three-month Karachi Interbank Offered Rate
BoD	Board of Directors
bps	Basis points. Hundred basis points equal 1 per cent
BQPS – II	Bin Qasim Power Station II
CAGR	Compounded Annual Growth Rate
CDS	Central Depository System
CDC	Central Depository Company of Pakistan Limited
CEO	Chief Executive Officer
Company or the Issuer	K-Electric Limited (formerly Karachi Electric Supply Company Limited)
CPPs	Captive Power Plants
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
Date of Investment	The date when investor's subscription money is received by any of the KE's Bankers to the Issue
DSP	Distribution Service Provider
ECC	Economic Coordination Committee
Early Purchase Option or Early Redemption Option	The option to redeem, in full or in part, before the final redemption, the outstanding face value of the Sukuk, which may be exercised by the Sukuk holders as per the conditions outlined in Section 3.15.2
Early Re-Purchase Option/Call Option	The option to redeem, in full or in part, before the final redemption, the outstanding face value of the Sukuk by the Company
FO	Furnace Oil
FSA	Fuel Supply Agreement
HHV	Higher Heating Value
GoP	Government of Pakistan
IBC	Integrated Business Centre
Interim Period	The period from the Date of Investment till the Issue Date
IPO	Initial Public Offering
IPPs	Independent Power Plants

IIRA	Islamic International Rating Agency, Bahrain
Interim Profit	Amount of profit paid for the Interim Period
Investment Agent	Pak Brunei Investment Company Limited
ISE	Islamabad Stock Exchange Limited
Issue Date	June 24, 2014 which will be the first day after the Interim Profit payment
Issue	Issue of Sukuk through this Prospectus
MW	Mega Watt
Musharaka Assets	Please refer to definition of "Sukuk Assets" as defined below
KANUPP	Karachi Nuclear Power Plant
KE	K-Electric Limited
KESC	Karachi Electric Supply Company Limited, now known as K-Electric Limited
KIBOR	Karachi Interbank Offered Rate
KOEL	Karachi Organic Energy (Private) Limited
KSE	Karachi Stock Exchange Limited
KV	Kilo Volt
LSE	Lahore Stock Exchange Limited
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.	Pakistan Rupees
PSO	Pakistan State Oil Company Limited
SCADA	Supervisory Control and Data Acquisition
SCRA	Special Convertible Rupee Account
SECP	Securities & Exchange Commission of Pakistan
Sharia Advisory Board to the Issue	1. Prof. Mufti Muneeb ur Rehman 2. Dr. Zubair Usmani 3. Mufti Irshad Ahmad Aijaz 4. Mufti Muhammad Yahya Asim

Sharia Structuring Advisor	Habib Bank Limited – Islamic Banking
SSGC	Sui Southern Gas Company Limited
Stock Exchanges	Karachi Stock Exchange Limited Lahore Stock Exchange Limited Islamabad Stock Exchange Limited
Sukuk Assets	A pool of identified assets (grid stations) of which 75% would be owned by Sukuk holders and 25% would be owned by KE. For further details, refer to para 7.1
Sukuk	Sukuk includes all three types of Sukuk i.e., KE AZM Sukuk 1, KE AZM Sukuk 2 and KE AZM Sukuk 3
Sukuk 1	KE AZM Sukuk 1
Sukuk 2	KE AZM Sukuk 2
Sukuk 3	KE AZM Sukuk 3
T&D	Transmission and Distribution
Transaction Documents	These include: 1. Amendment Deed to the Declaration of Turst for Sukuk 1, Sukuk 2 and Sukuk 3 2. Amendment Agreement to the Underwriting Agreement 3. Agency Agreement (Investment Agent) for Sukuk 1, Sukuk 2 and Sukuk 3 4. Asset Purchase Agreement for Sukuk 1, Sukuk 2 and Sukuk 3 5. Agreement to enter into Musharaka for Sukuk 1, Sukuk 2 and Sukuk 3 6. Rental Payment Agreement for Sukuk 1, Sukuk 2 and Sukuk 3 7. Service Agency Agreement for Sukuk 1, Sukuk 2 and Sukuk 3 8. Declaration of Trust for Sukuk 1, Sukuk 2 and Sukuk 3 9. Purchase Undertaking (Early Redemption, Final Redemption and Termination) 10. Letter of Lien and Set Off for Sukuk 1, Sukuk 2 and Sukuk 3 11. Letter of Hypothecation
Trust Deeds or Declarations of Trust	Declaration of Trust for Sukuk 1 dated December 26, 2013 between the Issuer and the Trustee Declaration of Trust for Sukuk 2 dated December 26, 2013 between the Issuer and the Trustee Declaration of Trust for Sukuk 3 dated December 26, 2013 between the Issuer and the Trustee
Trustee	Pak Brunei Investment Company Limited
WHT	Withholding Tax

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SUMMARY OF THE ISSUE

Issuer	K-Electric Limited ("KE" or the "Company"), formerly Karachi Electric Supply Company Limited
Purpose of the Issue	The proceeds of the Issue will be utilised to finance the permanent working capital requirements of KE (for details, refer to para 3.12)
Instrument	Sukuk
Total Sukuk Issue Amount	Up to PKR 6,000 million (inclusive of a Green Shoe Option of up to PKR 500 million) as per table given below

Tenor and amount offered

PKR Million	Sukuk 1	Sukuk 2	Sukuk 3	Total
Tenor	13 Months	36 Months (3 Years)	60 Months (5 Years)	
Amount	750	3,500	1,250	**5,500**
Green Shoe Amount	NIL	250	250	**500**
Total Amount (incl. Green Shoe)	**750**	**3,750**	**1,500**	**6,000**

Profit Rate

Tenor	Rate
13 Months	1M KIBOR + 100 bps per annum
34 Months (3 Years)	3M KIBOR + 225 bps per annum
60 Months (5 Years)	3M KIBOR + 275 bps per annum

Profit payment frequency

Tenor	Frequency
13 Months	Monthly
36 Months (3 Years)	Quarterly
60 Months (5 Years)	Quarterly

Profit Accrual	From the Date of Investment
Minimum Investment Amount	PKR 10,000/-
Denomination of Sukuk	PKR 5,000/-
Subscription Period	Three (3) months for all the three types of Sukuk

Issue Schedule

Date of opening of Subscription Period	FEBRUARY 24, 2014
Date of closing of Subscription Period	MAY 23, 2014
Date for payment of the Interim Profit	JUNE 23, 2014
Issue Date	JUNE 24, 2014
Profit Payments Date	Please refer to para 3.15
Principal Repayment/ Redemption Date	Please refer to para 3.15
Maturity Date	Please refer to para 3.15

Allotment basis	First come, first served basis
Holding of Sukuk	Sukuk may be held either in physical form or in book entry (scripless) form through CDS of CDC.

Early Purchase Option (Early Redemption)	The Sukuk holders may ask the Company for Early Purchase Option after December 26, 2014, subject to the conditions outlined in para 3.15.2
Security	Sukuk 1, Sukuk 2, and Sukuk 3 have been secured by way of exclusive hypothecation charge on Sukuk Assets of up to PKR 8,000 million, as valued on June 15, 2013. (For details, refer to para 7.1)
Bankers to the Issue	1. AlBaraka Bank (Pakistan) Ltd 2. Allied Bank Ltd 3. Bank Alfalah Ltd 4. Bank Al Habib Ltd 5. Bank Islami Pakistan Ltd 6. Burj Bank Ltd 7. Dubai Islamic Bank (Pakistan) Ltd 8. Faysal Bank Ltd 9. Habib Bank Ltd 10. Habib Metropolitan Bank Ltd 11. KASB Bank Ltd 12. MCB Bank Ltd 13. Meezan Bank Ltd 14. NIB Bank Ltd 15. Samba Bank Ltd 16. Standard Chartered Bank (Pakistan) Ltd 17. Summit Bank Ltd 18. United Bank Ltd
Registrar & Transfer Agent	THK Associates (Pvt.) Limited
Exclusive Financial Advisor	Habib Bank Limited
Entity Rating	"A+/A-2" (A plus/A Two) by JCR-VIS Credit Rating Agency Limited (For details, refer to para 6.6)
Instrument Rating	"A+" (A plus) for each Sukuk 1, Sukuk 2 and Sukuk 3 by JCR-VIS Credit Rating Agency Limited and Islamic International Rating Agency, Bahrain (For details, refer to para 6.6)
Risk Factors	For details, refer to para 5.8
Listing	Karachi Stock Exchange Limited ("**KSE**"), Lahore Stock Exchange Limited ("**LSE**"), Islamabad Stock Exchange Limited ("**ISE**")
Pre-IPO	None
Underwriting	Up to PKR 5,500 million of the Total Sukuk Issue Amount

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 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, the Securities and Exchange Commission of Pakistan ("SECP") does not take any responsibility for the financial soundness of the 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 with regards to them by Company in this Prospectus.

SECP has not evaluated quality of the issue or the sharia 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 PROSPECTUS BY KARACHI STOCK EXCHANGE LIMITED, LAHORE STOCK EXCHANGE LIMITED AND ISLAMABAD STOCK EXCHANGE LIMITED

The Prospectus for the issue of rated, listed and secured Sukuk has been cleared by KSE, LSE and ISE (collectively refrerred to as the "**Stock Exchanges**") in accordance with the requirements of their Listing Regulations.

DISCLAIMER

- The publication of this prospectus does not represent solicitation by the Stock Exchanges.
- The contents of this prospectus do not constitute an invitation to invest in Sukuk or subscribe for any securities or other financial instrument by the Stock Exchanges, 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 Exchanges.
- It is clarified that information in this prospectus should not be construed as advice on any particular matter by the Stock Exchanges and must not be treated as a substitute for specific advice.
- The Stock Exchanges disclaim 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 Exchanges neither take responsibility for the correctness of the contents of this prospectus nor the ability of the Company to fulfil 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 SHARIA ADVISORY BOARD TO THE ISSUE

The Sharia Advisory Board to the Issue has provided an opinion (Fatwa) dated December 23, 2013 on the Sukuk structure and Transaction Documents. Please refer to para 2.5 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-AQ-581 dated November 22, 2013 from KPMG Taseer Hadi & Co. consenting to the issue of the Prospectus, which contains in Part V 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 Advisors 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 Sharia Advisory Board to the Issue dated December 23, 2013

1.5 CONSENT FROM THE SHARIA ADVISORY BOARD TO THE ISSUE

The Sharia Advisory Board to the Issue has provided consent to include and publish their names in the Prospectus.

1.6 LISTING ON THE STOCK EXCHANGES

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

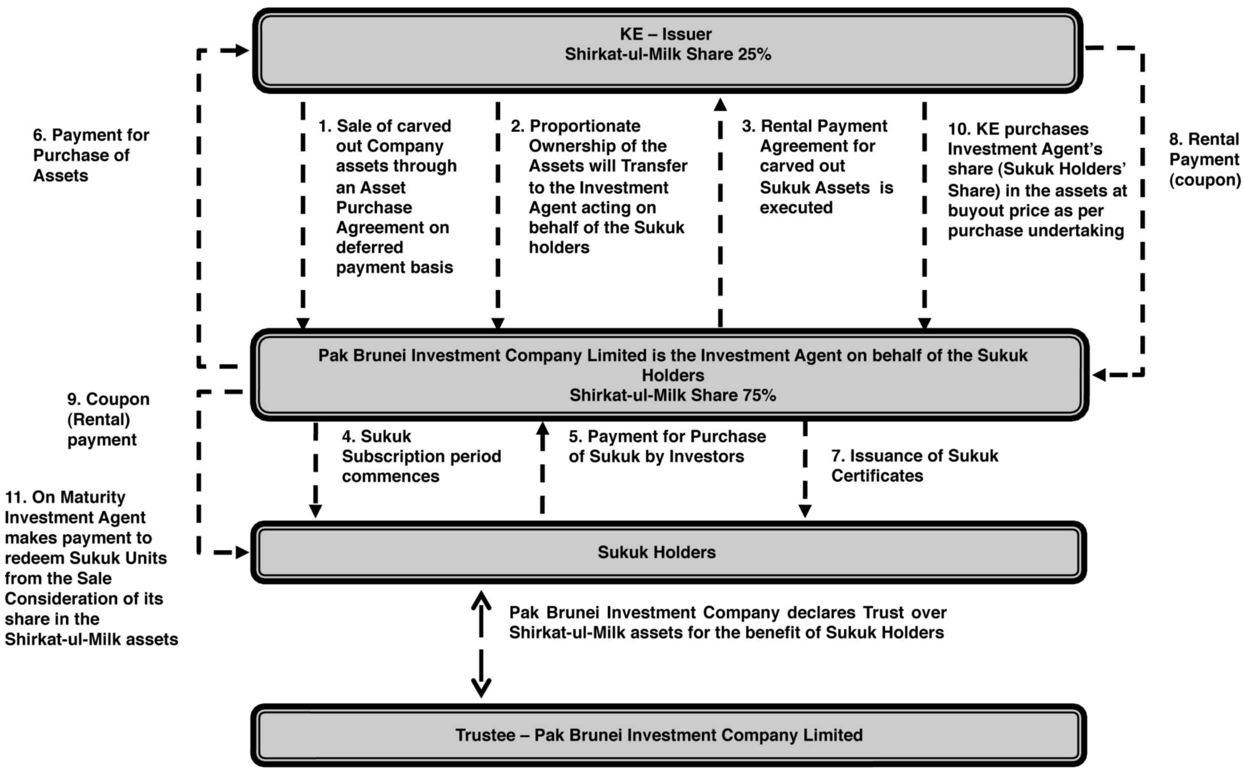
If, for any reason, the application for listing is not accepted by KSE, LSE or ISE, the Company undertakes to publish immediately in the press a notice to that effect and thereafter to refund the subscription money with profit at the rate of 1M KIBOR plus 100 bps p.a., 3M KIBOR plus 225 bps p.a., and 3M KIBOR plus 275 bps p.a.(depending on investment in Sukuk 1, Sukuk 2, and Sukuk 3) and if any such money is not refunded within eight days after the Company becomes liable to refund it, the 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.

PART II

2. SUKUK STRUCTURE

2.1 SHIRKAT-UL-MILK SUKUK STRUCTURE

KE Shirkat-ul-Milk Sukuk Structure



Musharaka or Shirkat-ul-Milk means the Musharaka/Shirkat-ul-Milk agreed to be established by the Co-Owner i.e., KE and the Investment Agent whereby each party has undivided joint ownership of the Musharaka Assets pursuant to a Musharaka agreement. Such Musharaka is a participatory arrangement between the Issuer and the Sukuk holders whereby the Issuer and the Sukuk holders have jointly participated in Sukuk Assets through payment of their respective shares in the Sukuk Assets, for the purpose of creating a Shirkat-ul-Milk (joint ownership) in the Sukuk Assets, as per the terms of the Musharaka Agreement. Such Musharaka strictly refers to only joint ownership in assets and does not include Shirkat-ul-Aqd (profit and loss arrangement).

2.2 SHIRKAT-UL-MILK SUKUK PROCESS FLOW

1. KE has identified specific Sukuk Assets having an aggregate value of at least PKR 8,000 million, of which PKR 6,000 million Sukuk Assets (75% of the total Sukuk Assets) have been sold to the Investment Agent, acting on behalf of the Sukuk Holders, on deferred payment basis.

2. The Asset Purchase Agreement has been executed to record purchase of proportionate ownership of Sukuk Assets by the Investment Agent. This is a credit sale and the deferred price would be settled through amounts received during period of Sukuk subscription pursuant to which Sukuk Holders (through Investment Agent) become joint owner of the assets and hold 75% proportionate share in the Sukuk Assets. After conclusion of Sukuk subscription KE will remain with 25% proportionate share in the ownership of Sukuk Assets.

3. Investment Agent has subsequently leased the purchased proportionate ownership of the Sukuk Assets to KE and entered into a Rental Payment Agreement.

4. Sukuk Holders, during the Subscription Period, will subscribe to the Issue thereby making payment to the Investment Agent for payment of price of their share in the Sukuk Assets which were purchased by Investment Agent on credit.

5. The Investment Agent will utilise the funds of the Sukuk Holders to make payment to KE for purchase consideration of Sukuk Assets.

6. Investment Agent will Issue Sukuk to the Sukuk Holders evidencing their claim on the rental payments to be made by KE to the Investment Agent.

7. KE will make periodic rental payments (profits) to Investment Agent for onward distribution to the Sukuk holders.

8. Investment Agent will distribute profits (rental payments) to the Sukuk Holders.

9. At the time of termination of Rental Payment Agreement, KE will purchase the Sukuk Holders share (through Investment Agent) in the Sukuk Assets, at a buyout price.

10. The Investment Agent will utilise the sale consideration of the Sukuk Assets towards redemption of Sukuk.

2.3 SHARIA ADVISORY BOARD TO THE ISSUE

An independent "Sharia Advisory Board to the Issue" has been formed by the Company solely for the purpose of the Issue. The Sharia Advisory Board to the Issue comprises following eminent Sharia scholars:

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

2.4 PROFILE OF MEMBERS OF THE SHARIA ADVISORY BOARD TO THE ISSUE

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

Prof. Mufti Muneeb ur Rehman has a Masters degree in Islamic Studies. Besides having a Bachelor's degree in Law and Education, he also received education in the Arabic language. He has a vast experience of more than 45 years of teaching various subjects on Islam 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 conducted several International Seminars and Conferences.

Dr. Zubair Usmani is the Sharia Advisor of MCB Islamic Banking. He completed his Doctorate in Islamic Finance from University of Karachi and is also the Fazil Khassus (specialist of Islamic Fiqh and Fatwa) from Jamia Dar-ul-Uloom Karachi. He is also a research scholar and teacher.

Mufti Zubair Usmani has been the member of Transformation Commission Sub-committee, State Bank of Pakistan; Islamization of Economic Committee Chamber of Commerce, Karachi; Implementation of Supreme Court Judgement on Riba Committee, Committee on Accounting Standards for Interest Free Mode of Financing & Investments of Institute of Chartered Accountants of Pakistan and governing body Al-Markaz-ul-Islami, Dhaka, Bangladesh.

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

He holds Masters Degree in International Relations and also Masters Degree in Arabic and Islamic studies respectively. He completed his specialisation in Islamic Fiqh and Fatwa (Islamic Jurisprudence) from the well renowned Jamia-Dar-ul Uloom Karachi (1988-91). This was further reinforced by his specialisation as Alimiyyah (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. Mufti Asim 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 Sharia Advisor to the Bank Islami and Member of its Sharia Supervisory Board.

He is the Chairman Sharia Supervisory Board of Bank Islami Ltd. He holds Shahadat-ul-Almia (Masters in Arabic and Islamic Studies) and Takhassus fi-al-Iftaa (Specialization in Islamic Jurisprudence and Fatwa). He also earned an MBA (Finance) degree from Iqra University, Karachi and is currently pursuing his M Phil/PhD in Islamic banking and finance.

He is a Member Sharia Advisory Board of Securities & Exchange Commission of Pakistan (SECP), Sharia Advisor to Fortune Islamic Financial Services, Sharia Advisor of Allied Rental Modaraba, Member Sharia Committee of Barakah Properties, Australia and Honorary Chairman Sharia Supervisory Board of Wasil Foundation (Micro finance).

He regularly participates in training programmes, seminars and conferences on Islamic Economics and Finance on different forums and he 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 SHARIA ADVISORY BOARD TO THE ISSUE FATWA

The Sharia Advisory Board to the Issue has reviewed and approved the aforementioned Shirkat-ul-Milk Sukuk structure and Transaction Documents, dated December 23, 2013 as provided on the next page:

بسم الله الرحمن الرحيم

Shariah Opinion (Fatwa) on KESC Retail Sukuk

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

The structure of Karachi Electric Supply Company Limited (KESC) Retail Sukuk 1, Sukuk 2 and Sukuk 3 (Sukuk) has been presented to us by HBL Product Development team. After discussion and review of the structure we understand the transaction as follows:

1. KESC would like to issue the retail Sukuk based on Shirkat-ul-Milk for three tenures buckets;
    a. Sukuk 1 for 13 months;
    b. Sukuk 2 for 36 months ; and
    c. Sukuk 3 for 60 months.
2. This Shirkat-ul-Milk Sukuk will be a joint ownership arrangement between KESC and the Sukuk holders whereby KESC and Sukuk holders will jointly hold pool of specific assets (which will be called Musharaka Assets) for the purpose of creating a 'Shirkat-ul-Milk' (joint ownership) as per the terms of Agreements of this transaction;
3. Musharaka in this arrangement will strictly refer to a joint ownership in specified pool of assets and does not mean and include Shirkat-ul-Aqd which is a business partnership with profit and loss sharing arrangement;
4. KESC will not redeem the Sukuk before completion of one year from execution of the Asset Purchase Agreement; and
5. The Sukuk will be listed on local Stock exchanges and will be trade-able in secondary markets.

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; and
8. Security Documents.

Karachi Electric Supply Co. Ltd. ★ Retail Sukuk ★
APPROVED BY Shariah Advisory Board

Monday, December 23, 2013 Safar 19, 1435

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 prudential requirements should be ensured before its formal launch.

و صلّى الله على نبيّنا محمّد و بارك و سلّم

والله اعلم بالصواب

Munib ur. Rehman

Mufti Muhammad Yahya Asim

Karachi Electric Supply Co. Ltd.
APPROVED
BY
Shariah Advisory Board
Retail Sukuk

Mufti Muneeb Ur Rehman

Mufti Dr Zubair Usmani

Mufti Irshad Ahmad Aijaz

Monday, December 23, 2013 Safar 19, 1435

PART III

3. SUKUK AND RELATED MATTERS

3.1 ISSUE OF LISTED SUKUK TO THE GENERAL PUBLIC

The Total Sukuk Issue Amount consists of PKR 6,000 million (inclusive of green shoe option of PKR 500 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 tenors of thirteen (13) months, three (3) years and five (5) years in the following manner:

	Sukuk 1	Sukuk 2	Sukuk 3	Total
Tenor	13 months	36 months (3 Years)	60 months (5 Years)	
	PKR Million			
Amount	750	3,500	1,250	**5,500**
Green Shoe Amount	NIL	250	250	**500**
Total (incl. Green Shoe Amount)	**750**	**3,750**	**1,500**	**6,000**

This is the first listed Sukuk Issue in Pakistan. The Sukuk will be offered to the general public under the brand name of **"AZM"**, 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/-.** The Sukuk is structured to be redeemed as per para 3.15. The redemption value of the Sukuk shall be specified on the Sukuk itself. For more details, please refer to para 3.15.

There is no pre-IPO placement; the entire amount is available for subscription by the public including both individual and institutional investors for three (3) months from the date of commencement of public subscription. However, if the target amount i.e., PKR 6,000 million (inclusive of the green shoe option of PKR 500 million) is subscribed before the end of subscription date, subscription period will be closed immediately. Since there is no minimum subscription requirement, any amount subscribed up to the target amount of PKR 6,000 million (inclusive of the green shoe option of PKR 500 million) will be listed on KSE, LSE and ISE.

Profit Rate

Profit on the Sukuk will be paid on a monthly basis in case of Sukuk 1 and on quarterly basis in case of Sukuk 2 & Sukuk 3 at floating rates of 1M KIBOR plus 100 bps p.a. (Sukuk 1), 3M KIBOR plus 225 bps p.a. (Sukuk 2) and 3M KIBOR plus 275 bps p.a. (Sukuk 3) in the following manner:

Sukuk	Tenor	Profit Payment Frequency	Profit Rate
Sukuk 1	13 months	Months	1M KIBOR plus 100 bps p.a.
Sukuk 2	36 months (3 Years)	Quarterly	3M KIBOR plus 225 bps p.a.
Sukuk 3	60 months (5 Years)	Quarterly	3M KIBOR plus 275 bps p.a.

Profit Rate Comparison

Sukuk	Tenor	Profit Rates[1]	Benchmark	Comparision Rate
Sukuk 1	13 months	11.29%	12-month T-Bill	8.97% on July 24, 2013
Sukuk 2	36 months (3 Years)	12.39%	3-year PIB	12.09% on December 19, 2013
Sukuk 3	60 months (5 Years)	12.89%	5-year PIB	12.56% on November 21, 2013

[1] Calculated at 1M KIBOR of 10.29% and 3M KIBOR of 10.14% prevailing on February 11, 2014 (Source: www.sbp.org.pk)

The Profit Rates on all Sukuk 1, Sukuk 2, and Sukuk 3 are higher than the latest offering of the 12-month T-Bill (8.97%) on July 24, 2013[2] , 3-year Pakistan Investment Bond (PIB) that offered 11.96% on December 19, 2013[3] and 5-year PIB that offered 12.49% on December 19, 2013[4] . Apart from being tradable on Stock Exchanges, the Sukuk can also be redeemed directly to the Company anytime (see para 3.15.2).

Since these Sukuk are floating rate instruments linked to 1M KIBOR for Sukuk 1, and 3M KIBOR for Sukuk 2 and Sukuk 3, therefore, resetting of KIBOR will be on monthly basis for Sukuk 1, and quarterly for Sukuk 2 and Sukuk 3.

3.2 SECURITY OF SUKUK

The Sukuk Issue has been secured by way of exclusive hypothecation charge on Sukuk Assets.

For further details, please refer to Part VII.

3.3 OPENING AND CLOSING OF SUBSCRIPTION LIST

THE SUBSCRIPTION LIST WILL OPEN FOR 3 MONTHS FOR SUKUK 1, SUKUK 2, AND SUKUK 3 AT THE COMMENCEMENT OF BANKING HOURS ON FEBRUARY 24, 2014 AND CLOSE AT THE END OF BANKING HOURS ON MAY 23, 2014 (BOTH DAYS INCLUSIVE).

3.4 INVESTOR ELIGIBILITY

Investors which 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 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 authorized 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.

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[2] http://www.sbp.org.pk/ecodata/tb.pdf
[3] http://www.sbp.org.pk/ecodata/Pakinvestbonds.pdf
[4] http://www.sbp.org.pk/ecodata/Pakinvestbonds.pdf

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, 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 6,000 million is subscribed i.e., PKR 750 million for Sukuk 1, PKR 3,750 million (inclusive of the Green Shoe option of PKR 250 million) for Sukuk 2 and PKR 1,500 million (inclusive of the greenshoe option of PKR 250 million) for Sukuk 3. **In case Bankers to the Issue on any given day accept subscriptions which result in the target amount under each Sukuk 1, Sukuk 2 and Sukuk 3 being exceeded, then all applications in excess of the target amount will be returned to the applicants along with profit at the rate of 1M KIBOR plus 100 bps, 3M KIBOR plus 225 bps, and 3M KIBOR plus 275 bps (depending on investment in Sukuk 1, Sukuk 2 or Sukuk 3 respectively) per annum for the number of days for which such applicants are deprived of their money plus a further three (3) days profit at the same rates. 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. The applications not marked with date and time of receipt shall be accommodated after all the applications, properly marked with date and time, have been accommodated.**

e) Allotment of Sukuk shall be subject to scrutiny of applications for subscription.

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 but the proceeds of the issue will be utilised for meeting the permanent working capital requirements of K-Electric Limited.

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 exercised 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 the 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 Sukuk 1, Declaration of Trust for Sukuk 2 and Declaration of Trust for Sukuk 3, each dated December 26, 2013 ("**Trust Deeds**" / "**Declarations of Trust**") executed between the Company and the Trustee for the Sukuk Issue.

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 also 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.

If the Company defaults on complying with the requirements of the Listing Regulations, it will pay to KSE, LSE and ISE each a penalty of PKR 5,000/- per day for the period during which the default continues. The Stock Exchanges 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.

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 THAT IS STILL OUTSTANDING

The Company has issued retail Term Finance Certificates ("**TFCs**") in 2012, details of which are as follows:

Date of Issue	August 13, 2012
Term	13 months (TFC 1), 3 years (TFC 2), 5 years (TFC 3)
Participants	Institutions and general public
Rates of Return	<u>Term</u> — <u>Fixed Rate</u> 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 1 Fully redeemed on Sep. 12, 2013 TFC 2 PKR 1,899,300 redeemed as at Dec. 31, 2013 TFC 3 PKR 500,000/- redeemed as at Dec. 31, 2013

3.12 PRINCIPAL PURPOSE FOR THE USE OF SUBSCRIPTION MONEY

The proposed facility will be utilised to fund the permanent working capital requirements of the Company, including but not limited to fuel supply payments, purchase of power and Operating and Maintenance expenses.

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, the Sukuk holders 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 3 days prior to the profit payment for Sukuk 1 and for a period of 7 days for each Sukuk 2 and Sukuk 3.

The Company will give a minimum of 14 days notice to the Exchanges prior to the Book Closure for Profit payments. Investors can redeem Sukuk earlier than maturity by exercising Early Purchase/Redemption Option (see para 3.15.2) or the Sukuk will redeem as per schedule detailed in para 3.15.1.

3.15.1 Sukuk held till Maturity

For Sukuk held until maturity, the Sukuk holders will not need to physically go to the counters of any specific bank in order to have the Sukuk redeemed.

All payments will be made either through crossed cheque, pay order or direct bank deposit on the basis of option exercised by the applicant in the Sukuk Subscription Application. In case of payment by cheque or pay order, the said cheque or pay order will be dispatched to the mailing address of the registered holder of the Sukuk.

The terms of redemption of each Sukuk are as follows:

	SUKUK 1	SUKUK 2	SUKUK 3
Tenor	13 months	36 months (3 years)	60 months (5 years)
Profit Rate	1M KIBOR plus 100 bps p.a.	3M KIBOR plus 225 bps p.a.	3M KIBOR plus 275 bps p.a.
Profit Payment	Monthly	Quarterly	Quarterly
	PKR million		
Principal Repayment (inclusive of Green Shoe option)	750	3,750	1,500

The redemption schedule for Sukuk of an aggregate face value of PKR 10,000/- based on 1M KIBOR (10.29% as at February 11, 2014) plus 100 bps per annum for Sukuk-1 (thirteen (13) months Investment) is set out in the table below: (only for calculation purpose).

Sukuk 1 Amounts in PKR

Months	Sukuk Redemption	Indicative Profit (11.99%)	Zakat (2.50%)	Withholding Tax (10%)	Total Payment	Principal Outstanding
0	-	376.33	-	37.63	338.70	10,000
1	-	94.08	-	9.14	84.68	10,000
2	-	94.08	-	9.14	84.68	10,000
3	-	94.08	-	9.14	84.68	10,000
4	-	94.08	-	9.14	84.68	10,000
5		94.08	-	9.14	84.68	10,000
6	-	94.08	-	9.14	84.68	10,000
7	-	94.08	-	9.14	84.68	10,000
8	-	94.08	-	9.14	84.68	10,000
9	-	94.08	-	9.14	84.68	10,000
10	-	94.08	-	9.14	84.68	10,000
11	-	94.08	-	9.14	84.68	10,000
12	-	94.08	-	9.14	84.68	10,000
13	10,000.00	94.08	250.00	9.14	9,834.68	-
	10,000.00	1,599.42	250.00	159.94	11,189.48	

The redemption schedule for Sukuk of an aggregate face value of PKR 10,000/- based on 3M KIBOR (10.14% as at February 11, 2014) plus 225 bps per annum for Sukuk 2 (3 years investment) is set out in the table below: (only for calculation purpose).

Sukuk 2 Amounts in PKR

Months	Sukuk Redemption	Indicative Profit (12.39%)	Zakat (2.50%)	Withholding Tax (10%)	Total Payment	Sukuk Outstanding
0	-	413.00	-	41.30	371.70	10,000
3	-	309.75	-	30.98	278.78	10,000
6	-	309.75	-	30.98	278.78	10,000
9	-	309.75	-	30.98	278.78	10,000
12	-	309.75	-	30.98	278.78	10,000
15	-	309.75	-	30.98	278.78	10,000
18	-	309.75	-	30.98	278.78	10,000
21	-	309.75	-	30.98	278.78	10,000
24	-	309.75	-	30.98	278.78	10,000
27	-	309.75	-	30.98	278.78	10,000
30	-	309.75	-	30.98	278.78	10,000
33	-	309.75	-	30.98	278.78	10,000
36	10,000.00	309.75	250.00	30.98	10,028.78	-
	10,000.00	4,130.00	250.00	413.00	13,467.00	

The redemption schedule for Sukuk of an aggregate face value of PKR 10,000/- based on 3M KIBOR (10.14% as at February 11, 2014) plus 275 bps per annum for Sukuk 3 (5 years investment) is set out in the table below: (only for calculation purpose).

Sukuk 3

Amounts in PKR

Months	Sukuk Redemption	Indicative Profit (12.90%)	Zakat (2.5%)	Withholding Tax (10%)	Total Payment	Principal Outstanding
0	-	429.67	-	42.97	386.70	10,000
3	-	322.25	-	32.23	290.03	10,000
6	-	322.25	-	32.23	290.03	10,000
9	-	322.25	-	32.23	290.03	10,000
12	-	322.25	-	32.23	290.03	10,000
15	-	322.25	-	32.23	290.03	10,000
18	-	322.25	-	32.23	290.03	10,000
21	-	322.25	-	32.23	290.03	10,000
24	-	322.25	-	32.23	290.03	10,000
27	-	322.25	-	32.23	290.03	10,000
30	-	322.25	-	32.23	290.03	10,000
33	-	322.25	-	32.23	290.03	10,000
36	-	322.25	-	32.23	290.03	10,000
39	-	322.25	-	32.23	290.03	10,000
42	-	322.25	-	32.23	290.03	10,000
45	-	322.25	-	32.23	290.03	10,000
48	-	322.25	-	32.23	290.03	10,000
51	-	322.25	-	32.23	290.03	10,000
54	-	322.25	-	32.23	290.03	10,000
57	-	322.25	-	32.23	290.03	10,000
60	10,000.00	322.25	250.00	32.23	10,040.03	-
	10,000.00	6,874.67	250.00	687.47	15,937.20	

Notes:

- The above redemption schedules include Interim Profit payments of PKR 376.33 for Sukuk 1, PKR 413.00 for Sukuk 2, and PKR 429.67 for Sukuk 3, respectively, for the period from the opening date of subscription until the Issue Date.
- The above redemption schedules include deduction of Zakat and Withholding Tax. For applicability of these, please refer to para 3.18 and 3.20 below respectively.
- The above redemption may be subject to Income Tax. For its applicability, please refer to para 3.19.

3.15.2 Early Purchase Option (Early Redemption Option)

All Sukuk holders have the option to pre-maturely redeem the outstanding Sukuk after completion of twelve (12) months from the date of Asset Purchase Agreement, which is December 26, 2013 at the following discounted rates on face value:

SCHEDULE OF DISCOUNT RATES ON FACE VALUE	**Tenor**		
Early Purchase	**13 Months**	**36 Months**	**60 Months**
After December 26, 2014 till completion of one year from Issue Date	2.75%	3.50%	4.25%
After one year but before completion of two years from the Issue Date		3.00%	3.75%
After two years but before completion of three years from the Issue Date		2.50%	3.25%
After three years but before completion of four years from the Issue Date			2.75%
After four years but before completion of five years from the Issue Date			2.25%

The investor will be required to provide written notice of 15 days and **in case of partial Early Purchase Option/Early**

Redemption Option the amount to be redeemed should either be PKR 5,000/- or in multiples thereof.

The outstanding amount (Outstanding Sukuk Amount) equal to PKR 5,000/- may be redeemed in full only. Profit will be paid until the date the Company receives the redemption notice.

In case of Sukuk held in physical form, Sukuk holders can exercise the Early Purchase Option/Early Redemption Option by submitting **Redemption Notice** directly to the Company or to the branches of Habib Bank Limited.

In case of Sukuk held in CDS, Sukuk holders can exercise the Early Purchase Option/Early Redemption Option as per the Central Depository Company of Pakistan Limited Regulations.

Sukuk applied for redemption will not be tradable in the secondary market. In case of physical certificates, the investor will have to surrender the certificates along with the Redemption Notice. Sukuk held in CDS will be cancelled when the Redemption Notice is received by the Company.

By way of an example, the redemption schedule for Sukuk 2 (3 years) of an aggregate face value of PKR 10,000/- based on profit rate of 3M KIBOR (10.14% as at February 11, 2014) plus 225 bps per annum and redeemed at the end of 24th month from the Issue Date is set out in the table below: (only for calculation purpose).

Amounts in PKR

Months	Sukuk Redemption	Indicative Profit (12.34%)	Zakat (2.50%)	Withholding Tax (10%)	Total Payment	Principal Outstanding
0	-	413.00		41.30	371.70	10,000
3	-	309.75	-	30.98	278.78	10,000
6	-	309.75	-	30.98	278.78	10,000
9	-	309.75	-	30.98	278.78	10,000
12	-	309.75	-	30.98	278.78	10,000
15	-	309.75	-	30.98	278.78	10,000
18	-	309.75	-	30.98	278.78	10,000
21	-	309.75	-	30.98	278.78	10,000
24	9,750.00	309.75	243.75	30.98	9,785.03	-
	9,750.00	2,891.00	243.75	289.10	12,108.15	

Notes:
- The KIBOR at the time of redemption may vary.
- The above redemption schedule includes Interim Profit payment of PKR 413.00 for Sukuk 2, for the period from the opening date of subscription until the Issue Date.
- The above redemption schedule includes deduction of Zakat and Withholding Tax. For applicability of these, please refer to para 3.18 and 3.20 below, respectively.
- The above redemption may be subject to Income Tax. For its applicability, please refer to para 3.19.
- **The above redemption schedule includes deduction of a service charge of 2.50% of the Outstanding Sukuk Amount of the Sukuk.**
- Profit will be paid to the Sukuk holder till the date the Company receives the redemption notice and will be computed on 365 day year basis.

PLEASE NOTE THAT THE ISSUER HAS NO EARLY RE-PURCHASE OPTION/CALL OPTION

The Company has sufficient discretionary cash flows (from business operations and short-term lines with financial institutions) to service and repay upon any unexpected Early Redemption Option notice of up to PKR 6,000 million at any point during the tenor of each Sukuk 1, Sukuk 2, and Sukuk 3 subject to a notice period of 15 days as described above.

3.16 Profit Payments

Profit will be paid at a floating rate of profit at the rate of 1M KIBOR plus 100 bps, 3M KIBOR plus 225 bps, and 3M KIBOR plus 275 bps per annum, depending on investment in Sukuk 1, Sukuk 2 or Sukuk 3 respectively 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 monthly for Sukuk 1 and quarterly for Sukuk 2 and Sukuk 3 in arrears on the outstanding Sukuk amount. The following table illustrates profit payment for the Interim Period and for the Sukuk 1, Sukuk 2 and Sukuk 3 commencing from the Issue Date in the manner below:

Sukuk 1			
Profit Payment	**Profit Period**		**Profit Payment Date**
	From	**To**	
Interim Period	Date of Investment until the Issue Date		June 23, 2014
First	June 24, 2014	July 23, 2014	July 23, 2014
Second	July 24, 2014	August 23, 2014	August 23, 2014
Third	August 24, 2014	September 23, 2014	September 23, 2014
Fourth	September 24, 2014	October 23, 2014	October 23, 2014
Fifth	October 24, 2014	November 23, 2014	November 23, 2014
Sixth	November 24, 2014	December 23, 2014	December 23, 2014
Seventh	December 24, 2014	January 23, 2015	January 23, 2015
Eighth	January 24, 2015	February 23, 2015	February 23, 2015
Ninth	February 24, 2015	March 23, 2015	March 23, 2015
Tenth	March 24, 2015	April 23, 2015	April 23, 2015
Eleventh	April 24, 2015	May 23, 2015	May 23, 2015
Twelfth	May 24, 2015	June 23, 2015	June 23, 2015
Thirteenth & Final	June 24, 2015	July 23, 2015	July 23, 2015

Sukuk 2			
Profit Payment	**Profit Period**		**Profit Payment Date**
	From	**To**	
Interim Period	Date of Investment until the Issue Date		June 23, 2014
First	June 24, 2014	September 23, 2014	September 23, 2014
Second	September 24, 2014	December 23, 2014	December 23, 2014
Third	December 24, 2014	March 23, 2015	March 23, 2015
Fourth	March 24, 2015	June 23, 2015	June 23, 2015
Fifth	June 24, 2015	September 23, 2015	September 23, 2015
Sixth	September 24, 2015	December 23, 2015	December 23, 2015
Seventh	December 24, 2015	March 23, 2016	March 23, 2016
Eighth	March 24, 2016	June 23, 2016	June 23, 2016
Ninth	June 24, 2016	September 23, 2016	September 23, 2016
Tenth	September 24, 2016	December 23, 2016	December 23, 2016
Eleventh	December 24, 2016	March 23, 2017	March 23, 2017
Twelfth & Final	March 24, 2017	June 23, 2017	June 23, 2017

Sukuk 3			
Profit Payment	**Profit Period**		**Profit Payment Date**
	From	**To**	
Interim Period	Date of Investment until the Issue Date		June 23, 2014
First	June 24, 2014	September 23, 2014	September 23, 2014
Second	September 24, 2014	December 23, 2014	December 23, 2014
Third	December 24, 2014	March 23, 2015	March 23, 2015
Fourth	March 24, 2015	June 23, 2015	June 23, 2015
Fifth	June 24, 2015	September 23, 2015	September 23, 2015
Sixth	September 24, 2015	December 23, 2015	December 23, 2015
Seventh	December 24, 2015	March 23, 2016	March 23, 2016
Eighth	March 24, 2016	June 23, 2016	June 23, 2016
Ninth	June 24, 2016	September 23, 2016	September 23, 2016
Tenth	September 24, 2016	December 23, 2016	December 23, 2016
Eleventh	December 24, 2016	March 23, 2017	March 23, 2017
Twelfth	March 24, 2017	June 23, 2017	June 23, 2017
Thirteenth	June 24, 2017	September 23, 2017	September 23, 2017
Fourteenth	September 24, 2017	December 23, 2017	December 23, 2017
Fifteenth	December 24, 2017	March 23, 2018	March 23, 2018
Sixteenth	March 24, 2018	June 23, 2018	June 23, 2018
Seventeenth	June 24, 2018	September 23, 2018	September 23, 2018
Eighteenth	September 24, 2018	December 23, 2018	December 23, 2018
Nineteenth	December 24, 2018	March 23, 2019	March 23, 2019
Twentieth & Final	March 24, 2019	June 23, 2019	June 23, 2019

3.17 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 three Sukuk and good credit rating i.e., of all three Sukuk, KE is expected to have adequate funds to meet its financial obligations arising from the issue of Sukuk.

3.18 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 Exchanges 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.

3.19 INCOME TAX

Any income derived from the Sukuk shall be subject to income tax as per the Income Tax Ordinance, 2001. According to this Ordinance, the tax shall be deducted @ 10% of the gross amount of profit paid as per the First Schedule, Part 3, Division 1, Para (a), and shall be deemed to be the final discharge of tax liability on the profit arising to a tax payer other than a company, under subsection 3 of Section 151 of the Income Tax Ordinance, 2001.

3.20 DEDUCTION OF WITHHOLDING TAX

KE is required to withhold tax, currently at the rate of 10%, (or the then prevailing rate), from profit payments to all investors as per 2nd Schedule Part IV (Clause 59) of Income Tax Ordinance, 2001 amended by Finance Act 2013 dated June 29, 2013.

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/PURCHASE OF SUKUK

Pursuant to the provisions of Section 233A of the Income Tax Ordinance, 2001, the following charges are applicable on sale/purchase 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 utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

The balance of deferred tax liability as at June 30, 2013 is PKR 13,589 million.

Break-up is as follows:	Amounts in ‘000s
Revaluation at the beginning of the year	**14,589,659**
Incremental depreciation charged during the year	**(1,000,760)**
Deferred Tax Liability (as per audited accounts for the year ended June 30, 2013)	**13,588,899**

PART IV

4. UNDERWRITING, COMMISSION, BROKERAGE, AND OTHER EXPENSES TO THE ISSUE

4.1 UNDERWRITING

HBL has underwritten the Issue for up to PKR 5,500 million (or 1,100,000 Sukuk), exclusive of the Green Shoe option.

HBL shall underwrite up to PKR 5,500 million of the Total Sukuk Issue Amount within (10) business days of the closing of the Subscription Period, as per the terms of the Underwriting Agreement. The underwriter has been paid an underwriting commission at the rate of 1.25% of the amount of Issue underwritten by HBL. No take-up commission will be paid to HBL on the value of Sukuk to be subscribed by HBL by virtue of HBL's underwriting commitment.

THE UNDERWRITER HAS NOT ENTERED INTO ANY BUY BACK/RE-PURCHASE AGREEMENT WITH THE ISSUER OR ANY OTHER PERSON IN RESPECT OF THIS PUBLIC ISSUE.

ALSO, NEITHER THE ISSUER NOR ANY OF ITS ASSOCIATES HAVE ENTERED INTO ANY BUY BACK/RE-PURCHASE AGREEMENT WITH THE UNDERWRITER OR ITS ASSOCIATES. THE ISSUER AND ITS ASSOCIATES SHALL NOT BUY BACK/RE-PURCHASE SUKUK FROM THE UNDERWRITER AND ITS ASSOCIATES.

4.2 COMMISSION TO THE BANKERS TO THE ISSUE

An overall commission at an average rate of 2.00% 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.

4.3 BROKERAGE

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

4.4 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 251,437,500/-.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 **		163,000,000
Brokerage to the members of the Stock Exchanges *	0.25%	15,000,000
Stamp Duty – Sindh	0.05%	3,000,000
Rating Fee – Initial		1,500,000
Initial Listing Fee of the Karachi Stock Exchange Limited		1,375,000
Initial Listing Fee of the Lahore Stock Exchange Limited		600,000
Initial Listing Fee of the Islamabad Stock Exchange Limited		300,000
Processing Fee of the Securities & Exchange Commission of Pakistan		200,000
Annual Listing Fee of the Karachi Stock Exchange Limited		150,000
Annual Listing Fee of the Lahore Stock Exchange Limited		120,000
Annual Listing Fee of the Islamabad Stock Exchange Limited		75,000
CDC Fee		67,500
Trustee Fee		8,050,000
Registrar Fee		1,500,000
Printing & Publication Expenses of Prospectus		2,500,000
Marketing		50,000,000
Legal Expenses		2,000,000
Out of Pocket Expenses		2,000,000
Total		**251,437,500**

*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 163,000,000 is the expected maximum that will be expensed by KE in this category.

PART V

5. HISTORY AND PROSPECTS

5.1 BACKGROUND AND HISTORY[5]

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

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, as amended, to its licensed areas. The Company was privatised 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 September 2008, 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 US and Europe has invested USD 361 million in the Company's capital as of June 30, 2013. 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 02, 2013, the shareholding structure of the Company is as follows:

Shareholding Breakup as of December 02, 2013		
Shareholding Break-up	**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	23,694,023	0.09%
Directors, CEO & their Spouse and Minor Children	500	0.00%
Public Sector Companies and Corporations	725,977	0.00%
Banks, Development Financial Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	7,845,457	0.03%
General Public - Local	238,960,321	0.87%
International Finance Corporation	637,680,714	2.31%
Asian Development Bank	698,071,428	2.53%
Others	171,121,458	0.62%
	27,615,194,246	**100.00%**

The Company has a customer base of roughly 2.5 million customers with the consumer break-up as of 30th June, 2013 as follows:

Consumer Type	No. of Consumers	% age
Residential	1,800,000	72.80
Commercial	600,000	24.30
Industrial	60,000	2.40
Public Sector	13,000	0.50
Total	**2,473,000**	**100**

Residential consumers remain main customers of the Company, contributing almost 40% of total energy sales of the Company.

[5] Source: KE

The peak demand and supply situation is as follows:

Annual Maximum Peak Demand /Supply in MW		
Year	**Supply**	**Demand**
2010~2011	2,101	2,565
2011~2012	2,482	2,596
2012~2013	2,549	2,778

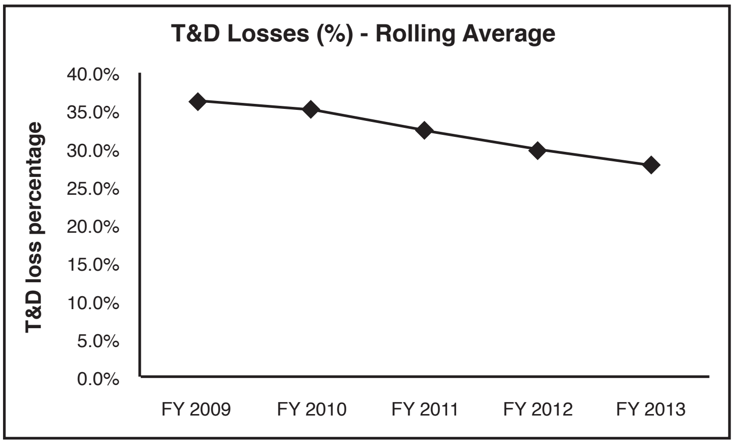
Units generated/purchased during last three years is provided below:

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

KE has an installed generation capacity of 2,341 MW which includes 1,010 MW capacity enhancements undertaken by the Company over the past 5 years thereby registering a 49% increase in generation capacity. In addition to its own generation capacity, the Company has executed long-term power purchase agreements with IPPs for 365 MW and with WAPDA for 650 MW for purchase of electricity.

On the transmission and distribution front, the Company has increased its power transmission network to 62 grid stations and 128 power transformers as of June 30, 2013 along with an aggregate 11 KV distribution capacity of 4,973 MVA. KE's T&D losses reached an 18-year record low of 27.8% as of June 2013, while transmission losses for 2012-2013 were 1.5%.

The reduction in T&D losses of KE between FY 2009 and FY 2013 has been graphed below:



KE is listed on all the three stock exchanges of Pakistan: the KSE, the LSE and the ISE and has a total market capitalisation of PKR 175,909 million[6] as on February 11, 2014.

[6]Based on closing rate on Febuary 11, 2014 of PKR 6.37/- per share and total shares outstanding as of December 02, 2013.
Source: www.kse.com.pk and KE Annual Accounts.

The following is financial snapshot of the Company:

(PKR in '000)	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	FY ending June 30, 2008	FY ending June 30, 2007
Revenue	188,998,648	162,815,629	130,721,180	103,936,515	85,224,084	67,091,483	59,306,883
Profit/(Loss) After Tax	6,728,637	2,620,339	(9,393,534)	(14,641,216)	(15,484,942)	(16,071,907)	(12,175,978)
Shareholder's Equity	28,885,013	15,363,305	(2,449,288)	(525,112)	(566,832)	6,919,464	21,682,323
Shareholder's Equity including surplus on revaluation of assets	54,121,540	42,458,388	26,503,617	31,300,905	(82,279)	6,919,464	23,160,516
Total Assets	279,233,089	272,576,179	236,352,699	207,629,498	131,935,799	92,975,591	77,321,039
Total Liabilities	225,111,549	230,117,791	209,849,082	176,328,593	132,018,078	86,056,127	54,160,523
Total Paid Up Capital	96,261,551	92,957,949	80,335,490	74,966,045	52,068,169	52,068,169	50,594,063
Break-up value per share including surplus on revaluation	1.96	1.59	1.15	1.46	(0.54)	0.46	1.50
Date of Market Price Per Share	28-Jun-13	29-Jun-12	30-Jun-11	30-Jun-10	30-Jun-09	30-Jun-08	30-Jun-07
Market Price Per Share (PKR)	6.22	3.24	2.15	2.23	2.65	5.47	6.75

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 as amended to date and NEPRA Act 1997, to its licensed areas.

5.3 GENERATION EXPANSION AND REHABILITATION

The new management has shown its resolve to turn the Company around and reduce 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 1,010 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 from 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 of 37% 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 a remarkable gross efficiency of 42% HHV as compared to the old Korangi Thermal Plant which was operating at 27% efficiency.

560 MW Combined Cycle Power Plant Project at Bin Qasim

The 560 MW Combined Cycle Power Plant is KE's flagship project. 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. Its gross efficiency is 45.5% HHV.
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 achieved by major overhauling of the three units and maintenance of remaining three units at BQPS-I

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:

- Formation of an SPV under the name K-Energy (Pvt.) Ltd. by BEEGIL (the investors), to whom KE shall lease its existing units no. 3 and 4 of Bin Qasim Power Station 1 under a long-term lease agreement for which the shareholders approval has already been obtained by convening an EGM on 23rd of August 2013. The K-Energy shall function as an Independent Power Producer which shall sell power to KE and a Power Purchase Agreement is currently under negotiation.
- Moreover, Receipt of EPC bids from six (6) leading Chinese EPC contractors. Technical negotiations with the shortlisted EPC Contractor have been concluded and commercial negotiations are at final stages while engagement.
- Engagement of the regulator by KE and K-Energy for obtaining various approvals including generation license and initial tariff.
- EIA report is at final stages for submission to the Sindh Environmental Protection Agency which ensures that the Project will be equipped to meet National Environment Quality Standards.

Karachi Biogas

- A project company Karachi Organic Energy Limited has been incorporated to establish a Biogas Power Plant at Landhi Cattle Colony which will utilise cattle manure and organic food waste as the feedstock to produce 22 MW of electricity in two phases (11 MW each). KE, AMAN Foundation, IFC and GE are the prospective shareholders of this company. The status of this project is as under:
- Pre-feasibility study completed by Biogas Technology provider (Himark Biogas, Canada) for a 22 MW plant and engaged.
- Engaged Orient Engineering Services as the EPC lead and Himark Biogas as the technology provider for the plant.
- The International Finance Corporation (IFC), a member of World Bank Group, signed a joint development agreement to co-develop this waste to energy project.
- Subsequent to an MoU signed with Karachi Metropolitan Corporation (KMC) at the Governor House, KMC will provide land in the vicinity of Landhi Cattle Colony for the establishment of the Project and will also assist in the supply of feedstock for the power plant.
- Consultants have been selected for the ancillary studies for feedstock logistics, EIA and geotechnical assessment.

Thar Coal Project

- Being one of the largest lignite reserves, Thar Coal is of strategic importance to Pakistan's energy sector. KE has signed Joint Development Agreement with Oracle Coalfields for a 300 MW power plant at Thar Block II; pre-feasibility study of the power plant has been completed.
- KE and Sindh Engro Coal Mining Company have been pursuing the development of a 600 MW mine-mouth based power plant at Thar Block II.

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 to its portfolio.

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 GT 1 and 2 to combined cycle 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.

S and K Phase 2

KE has signed an EPC contract for conversion of 2 open cycle engine-plants at SITE and Korangi to combined cycle. This will increase the complex efficiency from 37% to 42% and the output of the plant will increase by 10MW each. The contract was signed with DESCON on June 14, 2013.

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 Ten New Grid Stations and Transmission lines

Since September 2008, the new management has pushed through with commissioning of ten new grid stations and 249 new 11 KVA feeders since April 2009 with Net addition in transformation capacity to 635 MWA inclusive of 22 new 11 KV feeders installed in 2012-2013. The 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. One mobile grid at KDA having transformation capacity of 15/20 MVA in FY 12-13

In the same duration, 19 new High Tension Transmission circuits have been added to the system while 62 km of new transmission lines have been installed while 189 km circuit length rehabilitated since April 2009. 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 the 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 1.5% in June 2013.

Similarly, the benefits of effective maintenance practices can be seen in terms of improvement of the system reliability. There has been a 47% reduction in faults of Grid transformers and 27% 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 the art system allows efficient monitoring and control of transmission network from the central location and also helps in analysing the faults.

5.5 DISTRIBUTION

KE is one of the few power utilities 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 four regions further sub-divided into distribution centres serving 2.5 million consumers in Karachi – Pakistan's financial capital, commercial hub and industrial centre. 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.

KE is the only privately held vertically integrated power utility in Pakistan managing the Generation, Transmission & Distribution of electricity in its licensed area which covers approximately 6,500 square km including the city of Karachi.

Strategic Initiatives

Smart Grid initiatives

- To establish KE as a commercially feasible, best in class utility, serving as a role model for utilities in the country and the region.
- Project aims to reduce Aggregate Technical & Commercial (AT&C) losses through improved energy monitoring (impact on the economic viability of the company) and through a Distribution Network Management System to improve operations and reduce network outage response time (operational efficiency and improved customer service).
- The initial phase involves remotely managed smart meters at customers' premises and transformers, along with the IT systems to manage the information. The ability to accurately monitor energy flows (allowing for loss identification, remote billing, and remote disconnection) and the network health will result in reduced energy losses, improved recoveries and increased productivity along with better network service.

Aerial Bundled Cabling (ABC)

- 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. ABC being rolled out on High Loss Transformers to control theft – pilot project has yielded encouraging returns.
- ABC has been successfully rolled out on 47 Pole-Mounted Transformers (PMTs) namely in areas of Gulshan, Garden and North Nazimabad. Losses have been significantly reduced on these PMTs.

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 DC/RC gangs, disconnection of several high loss PMTs, and prevention of mob attacks against disconnection and successful negotiation with consumers on payment of outstanding dues. All IBCs including DSPs have been successfully migrated to SAP IS-U.

Mobile Meter Reading

- To improve the meter reading process and replace the existing process with a more efficient and faster process.
- To digitally record meter readings, which would be transmitted wirelessly from field for quick processing so as to eliminate time wastage and human interference. Pictures of faulty meters shall be uploaded through customized mobile programme.

Call Centre - Expansion & Value Added Services

- Call Centre expansion 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 channels of communication. Bill related queries through billing portal to raise queries and complaints through email.

- 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 Connections

In the period July 2012-June2013, KE provided 10,579 new connections equivalent to a total of 154MW in terms of load, of which 4,598 connections were for below 50KW load and 5,981 connections for above 50KW.

Networks Expansion

KE has undergone expansion and augmentation of its Distribution System. The Company has installed 22 new 11 KV feeders during FY13 to balance the load on existing 11 KV High Tension (HT) network, and currently stands at 1,340 11 KV feeders. Various preventive maintenance projects are underway as well as initiatives to reduce fault localization time and improve fault responses time. There has been a significant reduction in HT Main Cable faults occurrence and rectification time.

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 '000s)	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	115,570,714	103,361,691	68,758,873	65,903,117	48,918,076
Current Liabilities	160,660,421	146,328,523	120,670,011	93,497,024	60,261,038
Fixed Assets	163,662,375	169,218,282	167,514,030	141,432,310	82,193,852
Total Assets	279,233,089	272,576,179	236,352,699	207,629,498	131,935,799
Total Equity[7]	54,121,540	42,458,388	26,503,617	31,300,905	(82,279)
Total Liability	225,111,549	230,117,791	209,849,082	176,328,592	132,018,078
Long-Term Debt	24,901,343	43,183,473	47,157,037	39,289,102	45,030,126
KEY RATIOS					
Current Ratio (x)	0.72	0.71	0.57	0.70	0.81
LTD/Assets (x)	0.09	0.16	0.20	0.19	0.34
LTD/Equity (x)	0.46	1.02	1.78	1.26	(547.29)

Source: KE Annual Accounts

Total Assets of the Company have increased with CAGR of 20.61% in last 5 years and currently are at PKR 279.233 billion (as of June 30, 2013).

During the last 5 years, the fixed assets of the Company have increased with CAGR of 18.79% and are at PKR 163.662 billion (as of June 30, 2013).

As at June 30, 2013, Total Equity of the Company is PKR 54.122 billion inclusive of surplus on revaluation of the assets.

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

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

Income Statement Overview					
(PKR in '000s)	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	188,998,648	162,815,629	130,721,180	103,936,515	85,224,084
Expenditures	171,133,878	152,544,653	135,648,103	111,850,367	95,055,293
Operating Profit/(Loss)	17,864,770	10,270,976	(4,926,923)	(7,913,852)	(9,861,013)
Profit/(Loss) After Tax	6,728,637	2,620,339	(9,393,534)	(14,641,216)	(15,484,942)
Financial Cost	13,960,441	7,702,419	5,127,376	6,823,638	5,589,991
Gross Profit Margin (%)	15.25	10.00	0.19	(3.90)	(7.78)
Operating Margin (%)	9.45	6.31	(3.77)	(7.61)	(11.57)
Net Profit Margin (%)	3.56	1.61	(7.19)	(14.09)	(18.17)

Source: KE Annual Accounts

KE posted an after tax profit of PKR 6.729 billion during FY 13 compared to PKR 2.620 billion in FY 12, backed by management's efforts to turnaround a company that had been incurring losses since 1995-1996. However, accumulated losses stood at PKR 74.268 billion in FY 13, down from PKR 82.855 billion in FY 12.

KE recorded total revenue of PKR 188.999 billion during FY 13 compared to PKR 162.816 billion during FY 12, registering a 16.08% 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 13, sale of energy units (net) stood at around PKR 112.166 billion, contributing 59.35% towards total sales, while power tariff adjustment on account of increase in fuel process and power purchase cost stood at PKR 76.615 billion. Overall, increase in revenue was a combination of increase in units billed and reduction in T&D losses during FY 13.

KE's total expenditure stood at PKR 78.372 billion during FY 13, compared to PKR 74.658 billion in FY12. Total expenditure of the Company comprises purchase of electricity and cost of fuel for generation of power. The cost of fuel increased by 22.05%, during FY 13 mainly due to increased reliance on furnace oil consumption and reduced supply of gas. The fuel mix (Gas:FO) of the Company changed from 78:22 in FY 09 to 62:38 in FY 13.

Consumer services and administrative expenses increased by 26.04% due to prevailing high inflation, annual adjustment in salaries, wages & other benefits.

Overall, the marked increase in revenue and reduction in Transmission & Delivery losses in FY 13 to an 18-year record low of 27.82% (FY 12: 29.70%) resulted in an improvement in profitability of the Company.

5.7 MARKETING AND COMMUNICATION

Realising the need to establish long-term sustainable communication links with multiple stakeholder groups, a full scale marketing and communications department was established in 2008 by the Company. The strategy was based on an honest desire to "build trust" among stakeholder groups through open and clear communication. Rationalising the media apprehensions, building a positive image of the Company internally and externally and creating a more socially responsible aura within and outside the Company were taken as the key focus areas for the department. The department managed to develop a positive image of the Company by proactively engaging with all tiers and forms of media.

KE has a 24/7 dedicated media monitoring cell and response team to liaison with media personnel. The team is focused on multiple layers of relationship management starting from the base level beat reporters up to the most senior level media professionals. Apart from concerted relationship building initiatives, various online and customised tools were introduced in order to ensure open, effective and timely communication to media. The department also contributed to policy making, e.g., successful positioning of electricity theft elimination as KE's "core policy" through their leaders' statements, media advertising, social media and other means of communication.

Proactive and research based strategic advertising campaigns are developed in alignment with organisational objectives.

These are used not only to create mass awareness on critical issues but also to a supportive environment for operational units engaged in anti-theft and recovery drives to public safety tips & energy conservation awareness for our valued consumers. The list includes FIR (name & shame), Anti-theft, Speak up, 30 days campaign and the Recovery campaign. In addition, over 400 press ads enabling KE to enhance its “Brand Equity”, defining KE as a ‘moderate brand’ which 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 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.

While the Company has made significant progress in regaining customers’ trust, as indicated by independent research, KE also stands committed to further strengthening contact with multiple stakeholder groups and encourage the exchange of ideas and thoughts. As KE moves on, the single-minded focus remains on building a strong brand that enjoys customers’ respect, trust and support.

5.8 RISK FACTORS

BUSINESS RISKS

- 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.

Mitigants

The Company has an allocation of 276 MMCFD of gas from the Government of Pakistan. Moreover the Company is in active negotiations with the Sui Southern Gas Supply Company Ltd **(“SSGC”)** for signing of Gas Supply Agreement as per the allocation of ECC.

Most of the generation capacity can be run on alternative fuels like FO which is 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 projects for alternative supply of fuel which includes coal conversion and biogas projects.

- **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 27.82% as of June 30, 2013. **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.

Mitigants

Abraaj Capital being the majority stakeholder, through M/s KES Power Ltd. has taken over KE in the year 2008 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 US and Europe has invested USD 361 million in KE while the GOP has fully subscribed to USD 122.5 million in the Company as of June 30, 2013. Furthermore, IFC/ADB converted USD 50 million of their long-term loan 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. KE reduced their T&D losses to an 18-year low of 27.82% in FY 13 while collections from more than two-thirds of Karachi stand at 94%. 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 47 PMTs. In addition to this, KE has reaped benefits from its supply management (segmented load shedding) under reward and reprimand policy whereby 52% of feeders are under load shed free regime.

The Company has also initiated well planned generation expansion projects whereby 1,010 MW has already been added to the system.

However, the management also has to cope with various external factors which have impacted the Company's performance, such as 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 neutralise the effect of circular debt and with the current increase in consumer 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.

INSTRUMENT RISKS

i. Payment/Default Risk

This risk is associated with the repayment capacity of KE to service the principal (bullet) repayments 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 repaid through a bullet payment at maturity, payment risk is largely weighted on those particular repayment dates.

Mitigants

The Instrument (Sukuk 1, Sukuk 2, and Sukuk 3) has received "A+" (A plus) rating which depicts low probability of default. Also KE has been making regular and timely payments for the TFC issue launched in August 2012. Furthermore, KE has no history of default since inception.

ii. 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.

Mitigants

The Sukuk are to be listed on KSE, LSE and ISE, which will act as provider of liquidity for Sukuk during the life of the instrument by facilitating secondary market trades. Furthermore, Sukuk offers floating rates of return which may enable investors to sell Sukuk in various interest rate scenarios.

In addition to the above, the Sukuk offers an Early Redemption Option to the Sukuk holder pursuant to which Sukuk held may be redeemed, in part or in full at any time after December 26, 2014, subject to conditions set out in para 3.15.2 of the prospectus.

iii. 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.

Mitigants

All Sukuk i.e., Sukuk 1, Sukuk 2 and Sukuk 3 are floating rate instruments 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 the investors.

iv. Price Risk

The Sukuk will be listed on all of the Stock Exchanges of the country and the certificate holders will be able to sell or buy Sukuk through the members of Stock Exchanges. 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.

Mitigants

Sukuk i.e., Sukuk 1, Sukuk 2 and Sukuk 3 are floating rate instruments that offer attractive margins over KIBOR. Price changes of Sukuk will therefore be linked to benchmark profit rates.

v. Changes in Tax Regime

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

vi. Regulatory Risk

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

vii. Exchange Rate Risk

Fluctuations in exchange rates may adversely affect the company as fuel costs for the company would escalate.

Mitigants

Fuel cost charges are a pass through item in the tariff to the customers.

viii. Power Supply Risks

KE has a Power Purchase Agreement with NTDC for supply of 650 MW to KE up to January 2015 after which supply from NTDC is uncertain. This forms an important component of the overall energy mix of KE and its unavailability can have significant effect on the operations of the Company.

Mitigants

Initiatives of the new management have already led to addition of 1,010 MW in KE's self generation capacity, taking the total to 2,341 MW. KE's management is aggressively working on multiple generation enhancement projects including Coal conversion, Karachi Biogas, Thar Coal and Hydro Power Project along with generation capacity and efficiency enhancement projects at SITE and Korangi Complex.

ix. 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 insolvent 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.

Mitigants

KE is the only remaining integrated power utility provider with exclusive licensing rights for Karachi and its adjoining areas spanning 6,500 square kilometres 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.

x. Financial Projection Risk

The Company has prepared financial projections on the basis of various assumptions related to market conditions and are subject to change. Any unforeseen events such as problems arising out of lower than projected generation and sales have not been taken into account. The investors assume the risk that due to the unforeseen events the Company may not be able to maintain consistent growth.

xi. Litigation Risk

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

Mitigants

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, 2013.

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.

PART VI

6. FINANCIAL INFORMATION & CREDIT RATING REPORT

6.1 AUDITORS' CERTIFICATE

Our ref KA-AQ-578

Contact Amir Jamil Abbasi

The Board of Directors
Karachi Electric Supply Company Limited
KESC House 39/B
Phase II, D.H.A.
Karachi

22 November 2013

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 reviewed the audited financial statements of Karachi Electric Supply Company Limited ("the Company") for the five years ended 30 June 2009 to 30 June 2013 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 of the Company for the year ended 30 June 2009 were audited by Ford Rhodes Sidat Hyder & Co., Chartered Accountants (E&Y). E&Y had issued an unqualified audit opinion however, to draw attention of readers had included emphasis of matter paragraphs in their audit reports on the financial statements for the year ended 30 June 2009 highlighted as follows:

(i) Actions that the Company is taking with regard to operational and infrastructure rehabilitation program and financial measures, 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;

(iii) Transmission and distribution losses are approximately 35.85% per cent (2008: 34.12%) of the total electricity generated 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 minimise its overall losses. The amount of theft however remains indeterminate.

The financial statements for the years ended 30 June 2010 to 30 June 2013 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 per cent (30 June 2009: 35.85 per cent) 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 minimise 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 per cent (30 June 2010: 34.89 per cent) 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 minimise its overall losses, and the measures that the Company is taking with respect to operational and infrastructure rehabilitation programme 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 per cent (30 June 2011: 32.20 per cent) 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 programme 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.

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.

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. **Karachi Electric Supply Company Limited**
Summary of Assets, Liabilities and Shareholders' Equity
As at 30 June 2013

1.1 The summary of assets, liabilities and shareholders' equity of the Company as at 30 June 2013 were as follows: (PKR in '000)

Karachi Electric Supply Company Limited
Balance Sheet
As at 30 September 2013

	(Rupees in '000)
ASSETS	
Operating fixed assets	163,011,738
Intangible assets	504,823
	163,516,561
Long-term loans and advances	41,220
Long-term deposits and prepayments	104,594
	163,662,375
CURRENT ASSETS	
Due from the Government	317,750
Stores, spare parts and loose tools	6,630,630
Trade debts	62,843,648
Loans and advances	418,979
Trade deposits and short-term prepayments	2,736,495
Other receivables	38,498,853
Derivative financial assets	2,523,006
Taxation-net	810,957
Cash and bank balances	790,396
	115,570,714
TOTAL ASSETS	279,233,089
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	(74,267,606)
Other reserve	(67,376,538)
TOTAL EQUITY	28,885,013
	(Rupees in '000)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	25,236,527
	54,121,540
LIABILITIES	
NON-CURRENT LIABILITIES	
Long term financing	24,901,343
Long term deposits	5,114,912
Deferred liabilities	5,245,788
Deferred revenue	15,600,186
Deferred tax liability	13,588,899
	64,451,128
CURRENT LIABILITIES	
Current maturity of long term financing	14,965,034
Trade and other payables	96,214,810
Accrued mark-up	5,776,415
Short-term borrowings	37,608,485
Short-term deposits	6,085,699
Provisions	9,978
	160,660,421
TOTAL EQUITY AND LIABILITIES	279,233,089

1.2 Contingent liabilities and commitments

Contingencies and commitments reported in the financial statements as at 30 June 2013 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 PKR 1,432 million during the year ended 30 June 2010 and also has not accrued mark-up amounting to Rs. 6,510 million for the period from 1 April 2010 to 30 June 2013 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 2013 MOF has released PKR 200,149 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 has 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 10.2) 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 2013 amounts to 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 10.2) by Government Entities, have a direct impact on the liquidity of the Company.

During the current year, SSGC has 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.

In addition, Company has 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 KW&SB 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, National Electric Power Regulatory Authority (NEPRA) has issued a corrigendum vide its letter no. NEPRA/TRF-133/KESC-2009/10401-10404 dated 23 November 2012 whereby determination of 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 lifeline consumers). However, 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. 4,786 million from MoW&P for the relevant period ended 30 June 2013.

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 result 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.

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 2010, 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.

The matter of applicability of receiving Rs. 73 per MMBTU is pending with the competent court. The amount of differential of GID Cess of Rs. 73 per MMBTU from 10 October 2012 to 30 June 2013 amounts to Rs. 2,695 million. In case GID Cess is made applicable the same is recoverable through tariff adjustment claim from GoP.

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)
Fatal accident cases	**754,683**
Architect's fee in respect of the Head Office project	**50,868**
Outstanding dues of property tax, water charges, ground rent and occupancy value	**6,182,571**

The Company is party to number of cases in respect of fatal injuries and billing disputes in relation 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)
Guarantees from banks	**49,611**
Contracts with respect to Transmission and Distribution Projects	**1,479,378**
Outstanding Letters of Credit	**1,683,962**
Payment in respect of maintenance of Combined Cycle PP 220 MW	**197,599**
Payment in respect of extension of Combined Cycle Power Plant (220 MW)	**1,187,374**
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.

2. KARACHI ELECTRIC SUPPLY COMPANY LIMITED
Profit and Loss Account
For the years ended 30 June 2009 to 30 June 2013

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011	Year ended 30 June 2010	Year ended 30 June 2009
	(------------------------	------------------------	Rupees in '000	------------------------	------------------------)
Revenue					
Sale of energy – net	112,165,872	92,569,725	85,926,679	74,274,710	58,069,074
Tariff adjustment	76,615,185	70,029,156	44,581,068	29,453,496	26,950,457
Rental of meters and equipment	217,591	216,748	213,433	208,309	204,553
	188,998,648	162,815,629	130,721,180	103,936,515	85,224,084
Expenditure					
Purchase of electricity	(78,371,645)	(74,657,982)	(65,296,292)	(59,881,477)	(44,921,109)
Consumption of fuel and oil	(67,807,844)	(58,596,694)	(50,694,196)	(37,180,851)	(37,450,620)
	(146,179,489)	(133,254,676)	(115,990,488)	(97,062,328)	(82,371,729)
Expenses incurred in generation, transmission and distribution	(13,997,872)	(13,301,239)	(14,481,300)	(10,925,814)	(9,484,695)
Gross Profit/(Loss)	**28,821,287**	**16,259,714**	**249,392**	**(4,051,627)**	**(6,632,340)**
Consumers services and administrative Expenses	(15,400,354)	(12,218,247)	(9,814,339)	(8,378,749)	(5,370,456)
Other operating income	5 ,090,344	7,140,066	4,880,547	4,751,526	2,485,368
Other operating expenses	(646,507)	(910,557)	(242,523)	(235,002)	(343,585)
	(10,956,517)	(5,988,738)	(5,176,315)	(3,862,225)	(3,228,673)
Operating Profit/(Loss)	**17,864,770**	**10,270,976**	**(4,926,923)**	**(7,913,852)**	**(9,861,013)**
Finance cost	(13,960,441)	(7,702,419)	(5,127,376)	(6,823,638)	(5,589,991)
PROFIT/(LOSS) BEFORE TAXATION	**3,904,329**	**2,568,557**	**(10,054,299)**	**(14,737,490)**	**(15,451,004)**
Taxation					
– Current	-	(948,584)	(874,964)	-	(33,938)
– Prior	1,823,548	-	(11,331)	-	-
– Deferred	1,000,760	1,000,366	1,547,060	96,274	-
	2,824,308	**51,782**	**660,765**	**96,274**	**(33,938)**
PROFIT/(LOSS) AFTER TAXATION	**6,728,637**	**2,620,339**	**(9,393,534)**	**(14,641,216)**	**(15,484,942)**
Earnings/(Loss) per share (Rupees per share)	0.26	0.11	(0.44)	(0.74)	(1.18)
Diluted Earnings/(loss) per share (Rupees per share)	0.26	0.11	(0.39)	(0.66)	(0.98)

3. We further report that:

3.1 No dividends were declared and paid by the Company for the years ended 30 June 2009 to 30 June 2013.

3.2 No financial statements have been audited subsequent to the audit of the financial statements for the year ended 30 June 2013.

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 2009 to 30 June 2013:

4.1 Financial Statements for the year ended 30 June 2013

4.1.1 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 programme 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 programme. The programme 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 OesterreichischeKontrol 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.

4.1.2 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.

4.1.3 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.

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.

4.1.4 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 (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.

4.1.5 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 million & 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).

4.1.6 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.

4.2 Financial Statements for the year ended 30 June 2012

4.2.1 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, 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.

4.2.2 *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.

4.2.3 *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.

4.2.4 *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.

4.2.5 *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, 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 whereas 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).

4.3 Financial Statements for the Year ended 30 June 2011

4.3.1 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, 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 Inland 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 Rs. 179.858 million and Rs. 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.

4.4 Financial Statements for the year ended 30 June 2010

4.4.1 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.

4.4.2 *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 evidences 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 & 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.

4.4.3 *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 revenue amounting 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.

4.4.4 *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.

4.5 Financial statements for the year ended 30 June 2009

4.5.1 *Property, Plant and Equipment*

4.5.1.1 *Change in accounting policy*
During the year ended 30 June 2009, the Company changed its accounting policy in respect of leasehold lands, that are freely transferrable, whereby, with effect from the 30 June 2009, these are carried at the revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation/amortization and subsequent accumulated impairment losses, if any, instead of past policy of carrying the same at their cost.

The above change, made to provide a more accurate reflection of the carrying value of the assets of the Company, had been accounted for in accordance with the IAS 16, ‘Property, Plant and Equipment’, as required under IAS 8, 'Accounting Policies, Changes in Accounting Estimate and Errors', requiring such a change to be applied prospectively, instead of applying the same retrospectively. Had there been no revaluation, the cost/written down value of revalued leasehold land in the balance sheet would had been lower by Rs. 322.134 million and surplus on revaluation of fixed asset would have been lower by Rs. 745.466 million.

4.5.1.2 *Changes in accounting estimates*

During the year ended 30 June 2009, the Company revised its accounting estimate regarding the depreciation of plant and machinery, transmission and distribution network and vehicles. The said assets are now being depreciated at the rate of 3.3 to 20 per cent, as against 5 to 20 per cent, 3 to 10 per cent, as against 3 to 10 per cent, and 15 to 20 per cent, as against 15 to 25 per cent, respectively.

The revision would result in more accurate reflection of depreciation charge over the useful lives of the related assets and is in line with the general industry practice. The above change had been accounted for as change in accounting estimate in accordance with IAS – 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in the aforesaid accounting estimate, loss for the year would have been higher by Rs. 924.559 million whereas carrying value of property, plant and equipment of the Company would have been lower by the same amount.

4.5.1.3 *Interest on borrowings*

During the year ended 30 June 2009, a sum of Rs. 1,450.772 million, representing interest on borrowings had been capitalized and included in the project cost of 220 MW Combine Cycle Power Plant at Korangi, 560 MW Combine Cycle Power Plant at Bin Qasim Power Station and 90 MW each Gas Turbine Power Plant at SITE and Korangi, Karachi.

4.5.2 ***Taxation***

Current

In view of operating loss for the year ended 30 June 2009 and withdrawal of minimum income tax under section 113 of Income Tax Ordinance, 2001 vide the Finance Act, 2008 (applicable to tax year 2009), no provision for current income tax has been made in the financial statements for the year ended 30 June 2009.

Prior years

While finalizing assessment for the assessment years 2000-2001 and 2001-2002, the Taxation Officer, charged minimum tax under section 80D of the Ordinance by considering energy sales, meter rent and other income (excluding interest / profit on bank deposits) as turnover. The said treatment was not approved by the Commissioner of Income Tax (Appeals) [CIT(Appeals)], as the CIT(Appeals) through Combined Order No. 26, 27 dated 15 December 2005 directed the Taxation Officer to charge minimum tax by excluding all other incomes from the turnover. Department's appeals before ITAT against the order of CIT (Appeals) were not heard till 30 June 2009.

The Departmental appeal for the assessment year 1995-96 filed before the Honourable High Court against the order of the ITAT were pending for decision till 30 June 2009, 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.

The Taxation Office 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 considered that under Article 12 of the double taxation treaty between Pakistan and UK, such rentals are subject to 12.5% and therefore, no provision was made in the financial statements. An appeal filed before the CIT (Appeals) was pending.

Deferred taxation
Deferred tax asset, amounting to Rs. 22,865 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 2009, the Company's assessed tax losses amounted to Rs. 85,476 million.

Yours faithfully,

-Sd-

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KPMG TaseerHadi& Co.
Chartered Accountants
Karachi

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

Our ref KA-AQ-579
Contact Amir Jamil Abbasi

The Board of Directors
Karachi Electric Supply Company Limited
KESC House, 39/B
Phase II, D.H.A.
Karachi

Dear Sirs,

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

We have checked from the books of account and records of Karachi Electric Supply Company Limited (the Company) that the issued, subscribed and paid-up share capital of the Company as at 30 June 2013 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
-	Redeemable Preference shares of Rs. 3.5 each fully paid, net	-
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**

Our audit report on the financial statements for the year ended 30 June 2013 contains emphasis of matter paragraphs whereby we have drawn attention to;

(i) note 1.2 of the financial statements which describes the measures that the company has taken which have resulted in improved financial performance and declining trend of transmission and distribution losses,

(ii) note 31.1.1 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 ultimately 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,

-Sd-

KPMG TaseerHadi& Co.
Chartered Accountants
Karachi

6.3 AUDITORS' CERTIFICATE FOR BREAK-UP VALUE OF SHARES

Our ref KA-AQ-580
Contact Amir Jamil Abbasi

The Board of Directors
Karachi Electric Supply Company Limited
KESC House, 39/B
Phase II, D.H.A.
Karachi

Dear Sirs,

Auditors' certificate for break-up value of shares
As requested, we confirm that the break-up value of the ordinary shares of Karachi Electric Supply Company Limited (the Company) of Rs. 3.50 each, based on the audited financial statements for the year ended 30 June 2013 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	(74,267,606)
Other reserve	(490,460)
	28,885,013
Surplus on revaluation of property, plant and equipment, net of deferred tax	25,236,527
	54,121,540
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)	1.05
Break-up value per ordinary share of Rs. 3.50 each (including surplus on revaluation of property, plant and equipment)	1.96

Our audit report on the financial statements for the year ended 30 June 2013 contains emphasis of matter paragraphs whereby we have drawn attention to;

(i) note 1.2 of the financial statements which describes the measures that the company has taken which have resulted in improved financial performance and declining trend of transmission and distribution losses,

(ii) note 31.1.1 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 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,

-Sd-

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KPMG TaseerHadi& Co.
Chartered Accountants
Karachi

MANAGEMENT NOTE:

The break-up value of shares of the Company on the basis of un-audited accounts as at September 30, 2013 is given below:

	(Rs. in '000)
Equity (including surplus on revaluation of property, plant and equipment)	55,901,519
Surplus on revaluation of property, plant and equipment net of deferred tax	24,764,741
No. of Shares	27,615,194,245
	(Rupees)
Break Up Value per Share (including surplus on revaluation of property, plant and equipment)	**2.02**
Break Up Value of Share (excluding surplus on revaluation of property, plant and equipment)	**1.13**

6.4 ACCOUNTS AS AT JUNE 30, 2013

Karachi Electric Supply Company Limited
Balance Sheet
As at 30 June 2013

	Note	2013	2012
		(Rupees in ‘000)	
ASSETS			
Operating fixed assets	4	163,011,738	169,031,230
Intangible assets	5	504,823	19,117
		163,516,561	169,050,347
Long-term loans and advances	6	41,220	49,234
Long-term deposits and prepayments	7	104,594	118,701
		163,662,375	169,218,282
CURRENT ASSET			
Due from the Government	8	317,750	317,750
Stores, spare parts and loose tools	9	6 ,630,630	6,104,686
Trade debts	10	62,843,648	49,381,277
Loans and advances	11	418,979	501,007
Trade deposits and short term prepayments	12	2,736,495	2,214,629
Other receivables	13	38,498,853	41,519,735
Derivative financial assets	14	2,523,006	2,135,048
Taxation-net	28	810,957	-
Cash and bank balances	15	790,396	1,183,765
		115,570,714	103,357,897
TOTAL ASSETS		279,233,089	272,576,179
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	16	96,261,551	92,957,949
Reserves			
Capital reserves			
Share premium	17	509,172	509,17
Revenue reserves	18	5,372,356	5,372,356
		1,500,000	-
Accumulated losses		(74,267,606)	(82,854,799)
Other reserve		(490,460)	(621,373)
TOTAL EQUITY		(67,376,538)	(77,594,644)
		28,885,013	15,363,305
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	19	25,236,527	27,095,083
		54,121,540	42,458,388
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term financing	20	24,901,343	43,183,473
Long term deposits	21	5,114,912	4,754,318
Deferred liabilities	22	5,245,788	5,158,406
Deferred revenue	23	15,600,186	16,103,412
Deferred tax liability	19	13,588,899	14,589,659
		64,451,128	83,789,268
CURRENT LIABILITIES			
Current maturity of long term financing	32	14,965,034	14,217,317
Trade and other payables	24	96,214,810	98,892,023
Accrued mark-up	25	5,776,415	3,739,614
Short term borrowings	26	37,608,485	23,420,575
Short term deposits	27	6,085,699	5,387,090
Current tax liability	28	-	661,926
Provisions	29	9,978	9,978
		160,660,421	146,328,523
CONTINGENCIES AND COMMITMENTS	31		
TOTAL EQUITY AND LIABILITIES		279,233,089	272,576,179

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

Nayyer Hussain
Chief Executive Officer

Shan A. Ashary
Director

Karachi Electric Supply Company Limited
Profit and Loss Account
For the year ended 30 June 2013

	Note	2013	2012
		(Rupees in ‘000)	
REVENUE			
Sale of energy – net	33	112,165,8729	2,569,725
Tariff adjustment	34	76,615,1857	0,029,156
Rental of meters and equipment	2	17,591	216,748
		188,998,648	162,815,629
EXPENDITURE			
Purchase of electricity	35	(78,371,645)	(74,657,982)
Consumption of fuel and oil	36	(67,807,844)	(58,596,694)
		(146,179,489)	(133,254,676)
Expenses incurred in generation, transmission and distribution	37	(13,997,872)	(13,301,239)
GROSS PROFIT		28,821,287	16,259,714
Consumer services and administrative expenses	38	(15,400,354)	(12,218,247)
Other operating expenses	39	(646,507)	(910,557)
Other operating income	40	5,090,344	7,140,066
		(10,956,517)	(5,988,738)
OPERATING PROFIT		17,864,770	10,270,976
Finance costs	41	(13,960,441)	(7,702,419)
PROFIT BEFORE TAXATION		3,904,329	2,568,557
Taxation -			
- Current	42	-	(948,584)
- Prior	42	1,823,548	-
- Deferred	42	1,000,760	1,000,366
		2,824,308	51,782
NET PROFIT FOR THE YEAR		6,728,637	2,620,339
		(Rupees)	
EARNING PER SHARE - BASIC/DILUTED	43	0.26	0.11
		(Rupees in '000)	
Earning Before Interest, Tax, Depreciation and Amortization (EBITDA)		26,749,902	17,376,005

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

Nayyer Hussain
Chief Executive Officer

Shan A. Ashary
Director

Karachi Electric Supply Company Limited
Profit and Loss Account
For the year ended 30 June 2013

	Note	2013	2012
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	44	12,983,359	3,103,181
Deferred liabilities paid		(1,238,024)	(1,411,852)
Income tax paid/adjusted		350,665	(552,681)
Receipts in deferred revenue		671,501	762,273
Finance cost paid		(11,690,974)	(11,655,148)
Interest received on bank deposits		335,242	327,493
Net cash from / (used in) operating activities		1,411,769	(9,426,734)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(3,442,636)	(4,735,190)
Proceed from disposal of fixed assets		287,397	814,845
Receipt from GOP - PSO and PIRKOH		-	317,000
Long term loans		8,014	15,920
Long term deposits		14,107	(100,265)
Net cash used in investing activities		(3,133,118)	(3,687,690)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subscription of right shares		4,882,000	12,754,944
Payment of long term financing - net		(18,024,125)	(2,061,039)
Transaction cost incurred on right issue		(78,399)	(132,488)
Short term borrowing repaid / acquired - net		9,558,341	3,515,152
KESC Azm certificates receipts - net		267,968	1,657,845
Security deposit from consumers		360,594	421,668
Net cash (used in)/generated from financing activities		(3,033,621)	16,156,082
Net (decrease)/increase in cash and cash equivalent		(4,754,970)	3,041,658
Cash and cash equivalent at beginning of the year		(2,172,509)	(5,214,167)
Cash and cash equivalent at end of the year	30	(6,927,479)	(2,172,509)

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

Nayyer Hussain	**Shan A. Ashary**
Chief Executive Officer	Director

6.5 UN-AUDITED ACCOUNTS AS AT SEPTEMBER 30, 2013

Karachi Electric Supply Company Limited
Condensed Interim Balance Sheet
As at 30 September 2013

	Note	30 September 2013 (Un-Audited)	30 June 2013 (Audited)
		(Rupees in '000)	
ASSETS			
Operating fixed assets		161,765,477	163,011,738
Intangible assets		450,556	504,823
		162,216,033	163,516,561
Long-term loans and advances		38,755	41,220
Long-term deposits and prepayments		104,593	104,594
		162,359,381	163,662,375
CURRENT ASSETS			
Due from the Government		317,750	317,750
Stores, spare parts and loose tools		6,478,413	6,630,630
Trade debts	4	63,914,616	62,843,648
Loans and advances		429,282	418,979
Trade deposits and short-term prepayments		2,165,305	2,736,495
Other receivables	5	53,595,133	38,498,853
Derivative financial assets		3,438,752	2,523,006
Taxation-net		846,802	810,957
Cash and bank balances		428,955	790,396
		131,615,008	115,570,714
TOTAL ASSETS		293,974,389	279,233,089
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share 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
Accumulated losses		(72,048,568)	(74,267,606)
Other reserve		(65,124,773)	(67,376,538)
TOTAL EQUITY		31,136,778	28,885,013
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		24,764,741	25,236,527
		55,901,519	54,121,540
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term financing	6	22,592,811	24,901,343
Long term deposits		5,242,713	5,114,912
Deferred liabilities		5,233,191	5,245,788
Deferred revenue		15,302,978	15,600,186
Deferred tax liability		13,345,856	13,588,899
		61,717,549	64,451,128
CURRENT LIABILITIES			
Current maturity of long term financing		14,828,996	14,965,034
Trade and other payables	7	109,532,561	96,214,810
Accrued mark-up		5,903,509	5,776,415
Short-term borrowings	8	39,634,794	37,608,485
Short-term deposits		6,445,483	6,085,699
Provisions		9,978	9,978
		176,355,321	160,660,421
CONTINGENCIES AND COMMITMENTS	9		
TOTAL EQUITY AND LIABILITIES		293,974,389	279,233,089

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Nayyer Hussain
Chief Executive Officer

Mubasher H. Sheikh
Director

Karachi Electric Supply Company Limited
Condensed Interim Profit and Loss Account
For the three months period ended 30 September 2013 (Un-audited)

	Note	Three months period ended 30 September 2013	30 September 2013
		(Rupees in '000)	
REVENUE			
Sale of energy – net		33,686,176	29,463,683
Tariff adjustment		15,526,495	19,938,024
Rental of meters and equipment		54,459	54,470
		49,267,130	49,456,177
EXPENDITURE			
Purchase of electricity	10	(18,838,507)	(18,567,634)
Consumption of fuel and oil	11	(19,813,434)	(22,410,223)
		(38,651,941)	(40,977,857)
Expenses incurred in generation, transmission and distribution		(3,868,152)	(3,492,216)
GROSS PROFIT		6,747,037	4,986,104
Consumer s ervices and administrative expenses		(3,296,402)	(2,922,638)
Other operating expenses		(80,499)	(10,046)
Other operating income		999,093	1,589,530
		(2,377,808)	(1,343,154)
OPERATING PROFIT		4,369,229	3,642,950
Finance cost	12	(2,865,021)	(3,408,015)
PROFIT BEFORE TAXATION		1,504,208	234,935
Taxation			
- Prior		-	1,823,548
- Current		243,042	249,731
NET PROFIT FOR THE PERIOD		1,747,250	2,308,214
		(Rupees)	
EARNING PER SHARE - BASIC/DILUTED			0.09
		(Rupees in '000)	
Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA)			5,845,184

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Nayyer Hussain
Chief Executive Officer

Mubasher H. Sheikh
Director

Karachi Electric Supply Company Limited
Condensed Interim Cash Flow Statement
For the three months period ended 30 September 2013 (Un-audited)

	Note	Three months period ended 30 September 2013	30 September 2013
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	13	3,448,260	(1,382,495)
Deferred liabilities paid		(233,919)	(244,245)
Income tax paid		(35,845)	(26,332)
Receipts in deferred revenue		-	99,209
Finance cost paid		(2,711,596)	(2,888,371)
Interest received on bank deposits		80,902	99,471
Net cash generated from/(used in) operating activities		5 47,802	(4,342,763)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(1,015,846)	(714,941)
Proceed from disposal of fixed assets		103,947	138,124
Long term loans		2,465	2,533
Net cash used in investing activities		(909,434)	(574,284)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of long term financing		(2,153,922)	(3,196,986)
Short term borrowing acquired		4,007,443	7,020,489
Security deposit from consumers		127,801	95,941
Net cash generated from financing activities		1,981,322	3,919,444
Net increase/(decrease) in cash and cash equivalent		1,619,690	(997,603)
Cash and cash equivalent at beginning of the period		(6,927,479)	(2,172,509)
Cash and cash equivalent at end of the period		(5,307,789)	(3,170,112)

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Nayyer Hussain
Chief Executive Officer

Mubasher H. Sheikh
Director

6.6 CREDIT RATING REPORT
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

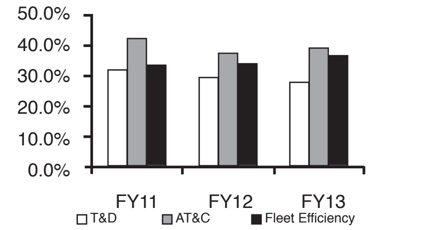
January 2, 2014

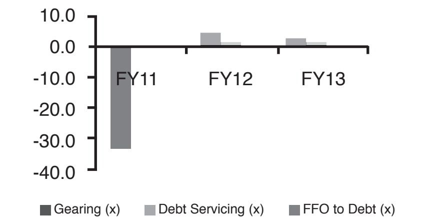
***Analysis**:* Talha Iqbal
Mohammad Arsal Ayub

Category	Latest	Previous
Entity	A+/A-2 *Jan 2, '14*	A+/A-2 *Nov 25, '13*
Sukuk-1 (Rs. 0.75b)	A+	A+*
Sukuk-2 (Rs. 3.75b)	A+	A+*
Sukuk-3 (Rs. 1.5b)	A+	A+*
	Jan 2, '14	Nov 25, 13
Outlook	***Positive*** *Jan 2, '14*	***Positive*** *Nov 25, 13*

**Preliminary*

Key Operational & Financial Trends





(All figures in PKR Billions)	FY11	FY12	FY13
Net Sales	130.7	162.8	189.0
Net Profit/(loss)	(9.4)	2.6	6.7
Gross Margin	0.2%	10.0%	15.3%
Net Margin	-7.2%	1.6%	3.6%
Tier-1 Equity	-2.4	15.4	28.9
Total Debt	62.4	66.9	69.4
Long Term Debt*	41.1	43.4	31.8
FFO	-3.6	5.3	21.1
FFO/Total Debt	-6%	7.9%	30.4%
ROAE	-	20.2%	30.4%
ROAA	-	1.0%	2.4%

Karachi Electric Supply Company Limited

Chairman: Mr. Tabish Gauhar; Chief Executive Officer: Mr. Nayyer Hussain

Rating Rationale

The assigned ratings recognize the strategic importance of Karachi Electric Supply Company Limited (KESC), a vertically integrated utility company, having exclusive rights in its service area. KESC's strong business risk profile is supported by the enhanced efficiency of generation portfolio, reduction in Transmission & Distribution (T&D) Losses stable & professional management team and improving financial risk profile. Demonstrated financial support from the sponsor, Abraaj Capital, provides strength to the assessment of overall risk profile of the institution. Conversion of a portion of debt extended by International Finance Corporation (IFC) and Asian Development Bank (ADB) into equity also reflects confidence of stakeholders in KESC.

Over the last five years, generation capacity has been enhanced by over a 1,000MWs with over three fourths of the power added through more efficient combined cycle power plants (CCPP). This is evident in an increase in overall fleet efficiency of KESC's power plants from 30.7% to 37.8% over the last five years. Moreover, three existing open cycle plants are being converted into combined cycle which will result in further efficiency and capacity enhancements. Given the current supply shortage of gas, diversification of fuel mix is also being actively pursued. In this regard, conversion of two units of Bin Qasim Power Station-1 (BQPS-1) to coal is planned. The coal conversion project is being undertaken through the IPP structure by K-Energy (Pvt.) Limited; KESC will have a long term off-take agreement with the said entity. This is expected to result in reduction of consumer tariff besides bridging the demand supply gap, particularly in the backdrop of the scheduled expiry of 650 MWs Power Purchase Agreement with National Transmission & Despatch Company Limited (NTDC) in 2015. The coal conversion project will take at least two and a half years for completion, from the notification of tariff by National Electric & Power Regulatory Authority. Management believes that the tariff will be notified by year-end. Till such time that the coal project comes online, it may reasonably be expected that power from the national grid will continue to be made available, given the strategic importance of Karachi as the business hub of Pakistan.

Reorganization of the distribution department along with client segmentation in terms of losses has allowed the company to pursue a focused recovery drive, while also exempting a significant proportion of Karachi's population from load shedding. Despite significant improvements, T&D losses continue to be weaker than NEPRA's benchmark. Aggregate Technical & Commercial (AT&C) losses were higher in FY13 on account of decline in recoveries from certain public sector entities. A number of initiatives are on the anvil to address T&D losses in the high loss areas including implementation of Aerial Bundled Cabling, Smart Grids and Mobile Meter Reading solutions while active negotiation with all stakeholders is underway for improvement in recoveries from select public sector strategic consumers. Continued reduction in AT&C losses in line with projections is considered important.

****Including Current Maturity***

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KESC has an efficiency based tariff structure which allows the company to benefit from efficiency enhancements on the generation front while T&D losses also impact profitability. Net profits have depicted marked improvement since the commissioning of BQPS-2. Resultantly, cash flows and debt service coverage have also showcased improvement.

While gearing has declined on a timeline basis, the same continues to be on the higher side. Debt profile has witnessed a change in FY13 with an increase in the proportion of short-term borrowings (54% at end-FY13 as compared to 35% at-end FY12). Higher short-term borrowings were mobilized to meet enhanced working capital requirement to finance delays in receipt of tariff differential claim and trade receivables. Timely recovery of net tariff differential claims and dues from public sector entities is important from the perspective of cash flow management.

KESC plans to issue Sukuk of Rs. 6b in the on-going year to reduce reliance on short term bank credit. The Sukuk structure is based on Shirkat-ul-Milk. Sukuk is planned to be issued in three tenor buckets with maturities of 13 months, 3 years and 5 years, with bullet repayments. Given the anticipated increase in profits and resultantly FFO, projected debt service coverage in each of the next 5 years is over 1(x), both as per management's own projections and under realistic stress scenarios.

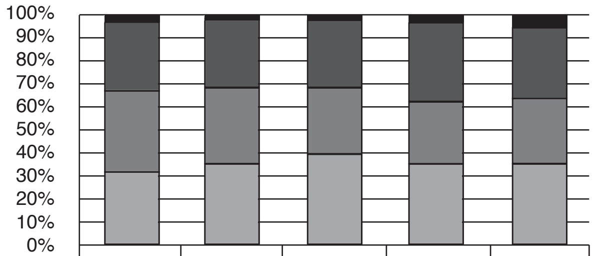
Overview of Institution

KESC was incorporated on September 13, 1913. KESC 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 KESC. Financial Statements for FY13 were audited by M/s KPMG who have been re-appointed for FY14.

Sector overview

For years, the matter of balancing Pakistan's supply against the demand for electricity has remained a largely unresolved matter. The government's inability to build dams and over reliance on natural resources for electricity generation has exacerbated the issue. Energy shortfall is estimated at around 3,000 MWs in the country. The major reliance for electricity generation remains on gas and oil whilst hydel power continues to be under-utilized. According to independent reports, Pakistan has potential capacity to generate 100,000 MWs through hydel power of which only 6,500 MWs are produced currently. Given the gas shortage, Pakistan has also entered into talks with Iran for importing gas. The current gas prices in Pakistan continue to be below regional price level and at the current consumption rate, Pakistan's gas reserves are expected to be exhausted in around 20 years time. This has forced government officials and other stakeholders to look into alternate sources; one of which is coal due to presence of abundant reserves in Thar, Pakistan. However, conversion of Pakistan's existing plants from furnace oil and gas to coal may require sizeable capital expenditure and developments in this regard have been slow. A source-wise breakup of power generation and the trends in same is presented in the graph below:

Figure 1: Source-wise Power Generation [1]



	FY08	FY09	FY10	FY11	FY12
Coal	0.1%	0.1%	0.1%	0.1%	0.1%
Nuclear	3.0%	2.0%	3.0%	4.0%	6.0%
Hydel	30.0%	30.0%	29.0%	34.0%	30.0%
Gas	34.9%	32.9%	29.0%	27.0%	29.0%
Oil	32.0%	35.0%	38.9%	34.9%	34.9%

[1] *(Pakistan Energy Year Book)*

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The National Electric Power Regulatory Authority (NEPRA) is the regulatory body that issues licenses for generation, transmission and distribution of power and is also responsible for determining tariffs. The sector can be broadly classified into three categories namely; generation, transmission and distribution. The most dominant player in the power generation segment is the Water & Power Development Authority (WAPDA) with a name plate capacity of around 19,600 MWs.

Table 1: Installed Capacity[2]

Installed Capacity	FY10		FY11		FY12	
	MW	%	MW	%	MW	%
WAPDA	11,381	55%	11.381	51%	11,276	50%
IPPs	7,123	34%	8,363	37%	8,353	37%
KESC	1,955	9%	1,946	9%	2,341	10%
Nuclear	462	2%	787	3%	787	3%
Total	20,921	100%	22,477	100%	22,797	100%

Increase in total installed capacity of Independent Power Producers (IPPs) has reflected positively in the share of electricity produced by these entities, replacing some of the share of WAPDA.

Transmission of electricity across Pakistan is governed by National Transmission and Despatch Company Limited (NTDC) whilst the distribution of electricity to various cities is handled by distribution companies like Lahore Electric Supply Corporation (LESCO) & Faisalabad Electric Supply Corporation (FESCO), etc. Karachi Electric Supply Company Limited (KESC) is the only vertically integrated power utility in Pakistan that generates, transmits and distributes electricity.

KESC - Corporate profile

KESC was incorporated on September 13, 1913, under the now repealed Indian Companies Act, 1882; it is currently operating under the framework of Companies Ordinance, 1984. In 1952, the Government of Pakistan (GoP) took over control of the company by acquiring majority shares in order to facilitate investment in infrastructure; in 1980s, the management of KESC was handed over to WAPDA.

During the period 1999 to 2005, Army was instated at the state utility with a view to stabilize the company's operational and financial health. In 2002 and 2003, incentives were introduced in preparation for KESC's privatization, which was eventually finalized on November 29, 2005 with a transfer of ownership to a consortium of the Saudi Al-Jomaih Group of Companies and Kuwait's National Industries Group (NIG), with the GoP still retaining 26% stake. During 2008, Saudi Al-Jomaih Group and NIG approached Abraaj Capital, a leading private equity firm based in Dubai, with the proposal of a potential stake in KESC. The deal was finalized in 2008, as a result of which $361m had to be invested in the company within a period of 3 years, for a significant equity stake in KESC that granted Abraaj Capital full management control. The Group is a leading investor in growth markets, managing $ 7.5b in assets, operating through over 30 offices in Asia, Africa, Latin America and the Middle East. Other shareholders include International Finance Corporation (IFC) and Asian Development Bank (ADB), subsequent to the debt to equity swap of $50m executed in FY13.

[2]*(Pakistan Energy Year Book)*

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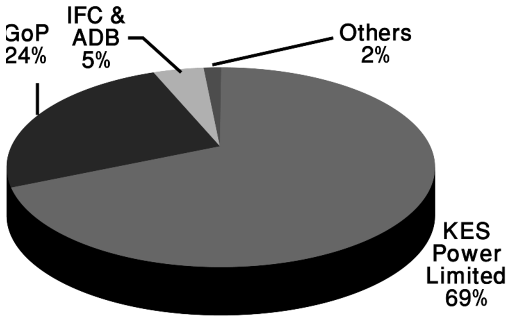
The company is listed on all three stock exchanges of Pakistan. The current ownership structure of KESC is presented in the chart below, with major shareholding vested with KES Power Limited[3].

Figure 2: KESC Ownership Structure



Board of Directors (BoD) of KESC comprises twelve members, including two executive directors, one independent director and two representatives of the GoP; remaining members are Abraaj's representatives. Further induction of independent directors may be considered in line with corporate governance best practices. The table below presents a list of directors and their brief profile.

Table 2: Board Composition

Name	Designation	Details
Tabish Gauhar	Chairman	• **Experience:** 19 years in the infrastructure sector • Partner at The Abraaj Group • Director, MSF (Pakistan) and Byco Industies Inc. (Mauritius)
Nayyer Hussain	Executive Director	• Chief Executive Officer - KESC
Khalid Rafi	Independent Director	• **Experience:** 20 years at Price Waterhouse Cooper LLP • Non-Executive Director, Unilever Pakistan Limited • Chairman, FAMCO
Frederic Sicre	Non-Executive Director	• **Experience:** 20 years • Managing Director - The Abraaj Group • Chairmain, Mustaqbali Foundation • Director, wamda Ltd. Injaz & Dubai Cares
Mubasher H.Sheikh	Non-Executive Director	• Group Financial Controller, National Industries Group, Kuwait
Muhammad Tayyab Tareen	Non-Executive Director	• **Experience:** 20 years with mulitinationals • Representative - The Abraaj Group • Board Member, 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
Noor Ahmed	Non-Executive Director	• Representative - GOP: (Sr. Joint Secretary (CF-11) Finance Division, GOP) • Director in PHPI, 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	• Investment Adviser, Al-Jomaih Holding Co. (Saudi Arabia)
Walid Hamid	Non-Executive Director	• Partner at The Abraaj Group • Head of The Abraaj Performance Acceleration Grroup • Director, Jorm Co Jordan, Network International Dubai, Mediamarph Newyork, Art Marine Dubai, Byco Industries Inc. • Knowledge Platfrom, Singapore
Syed Arshad Masood Zahidi	Executive Director	• **Experience:** 22 years in Process design, business development, project management and plant management • Director at The Abraaj Group

[3] KES Power Limited is the holding company of KESC. Majority shareholding of KES Power Limited rests with Abraaj Capital whilst other investors include Denham Capital & Al-Jomaih Group.

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Four BoD meetings were convened during FY13. Apart from GoP nominees, whose attendance level remained low, attendance level of other members has remained high. Board is actively discharging its responsibilities, keeping track of the company's financial and operational performance, while also pursuing new projects in line with the company's strategic vision. The board has delegated specific responsibilities to its committees namely; Board Audit Committee (BAC), Board Finance Committee (BFC) and Board Human Resource & Remuneration Committee (BHR&RC). In line with best practices, BAC is chaired by an independent director.

In order to enhance KESC's brand equity, marketing campaigns, media engagements and various customer communication drives have been initiated. Moreover, significant improvement has been witnessed in customer service and load shed management through customer segmentation. This has elevated KESC's status to the 'healthy brand category' as per AC Nielsen's brand tracker study. The management plans to continue its efforts towards further improving the company's brand image and alter customer perceptions previously held about the company.
The company is OHS-AS 18001 certified (Occupational Health and Safety Measurement Standard) for all generating stations and is also ISO-9001 certified for its Korangi Combined Cycle Power Plant. KESC is actively involved in social empowerment programmes and Corporate Social Responsibility (CSR) activities. During 2012, KESC also received the CSR award for innovation and sustainability reporting by CSR Association of Pakistan. Moreover, KESC's environmental management system is ISO-14001 compliant which is the international standard for environment management. Documented policies for climate change and energy conservation are also in place.

On the technology front, the company upgraded its system to SAP for integration of processes. A number of modules including SAP Customer Relationship Management and SAP Business Warehouse/Business Intelligence Solution have been implemented. Besides implementation of SAP across all Integrated Business Centers, implementation of SAP IS-U utility industry solution for customer care and billing, covering all customers, has also been undertaken.
In order to improve monitoring of data such as gas received from Sui Southern Gas Company Limited (SSGC) and frequency at various KESC plants, the company has deployed an Oracle based system, Supervisory Control and Data Acquisition (SCADA). The system also monitors the load and auto trips the circuit in case of load imbalance.

Post-Abraaj KESC

Subsequent to the takeover, Abraaj brought in a professional management team to take charge of operational activities at KESC. Below is a list of critical decisions which were instrumental in the turnaround of KESC.

- **Staff lay off:** As with every government organization in Pakistan, the tag of nepotism, excess and political hiring was associated with the organization's name. The company was significantly over-staffed, with a total of 17,403 employees. A Voluntary Separation Scheme (VSS) worth PKR 6b was offered to 4,459 employees. Of this, 3,400 employees accepted the VSS whilst the rest were retrenched. Another 1,022 employees were dismissed on charges of misconduct in recent years. Various revised policies were introduced to manage the organization's human resources. Resultantly the salary expense has reduced in FY13. KESC had total staff strength of 10,603 (FY12: 11,326) at end FY13.
- **Customer Segmentation:** The city was divided into multiple areas on the basis of recovery rates. The idea that a paying customer should get uninterrupted supply is the driving principal behind this segregation. As a result, almost 52% of the city has been exempted from load shedding.
- **Recovery Rate:** The company pursued a focused recovery drive that included awareness through print and digital media in addition to incentives for full settlement of existing dues and disconnection of non-paying customers.
- **Measures against Theft:** As illegal connections/kunda arrangements sprawled across the city were slashed, distribution losses have reduced on a timeline basis.
- **Capex on Generation:** New power generation facilities were built and old ones were refurbished as required.

KESC - Power Generation

KESC, currently, has a total installed capacity of 2,341 MWs, of which 420 MWs is dedicated for coal conversion, in lieu of which NEPRA's tariff approval is awaited. Over the past five years, the new management has added additional generation capacity of 1,010 MWs by construction of new plants and capacity enhancement of several existing plants.
Installed capacity of KESC's power generation facilities is presented below:

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Table 3: Source-wise Power Generation

Facility	Installed Capacity
Bin Qasim Power Station 1 (BQPS-1)	1,260 MWs
Bin Qasim Power Station 2 (BQPS-2)	560 MWs
Korangi Thermal Power Station (KTPS)	125 MWs
Korangi Combined Cycle Power Plant (KCCPP)	220 MWs
SITE Gas Turbine Power STation (SGTPS)	88 MWs
Korangi Gas Turbine Power Station (KGTPS)	88 MWs

BQPS-1 was inaugurated under the headship of previous management and the plant comprises six power generation units. Major overhaul and capex has been undertaken for efficient operations of the existing units, including 50MW BQPS-1 rehabilitation. However, given that all six units are open cycle power plants, efficiency of these units is on the lower side as compared to KESC's other power plants. Operational bottlenecks requiring additional capex in units 3 & 4 have resulted in these units being rendered as idle currently. Management has decided to lease units 3 & 4 to K-Energy (Pvt.) Limited (K-Energy), which will then incur the required capital expenditure for conversion of these units to coal based power plant. K-Energy has been set up as an IPP; KESC will enter into a Power Purchase Agreement (PPA) with K-Energy. Approval from the BoDs and shareholders, via an extraordinary general assembly meeting, has already been obtained in this regard.

Shareholders of K-Energy comprise a consortium of an Indonesian business conglomerate and Hong Kong and Korea based private equity companies. This consortium has created an off-shore entity by the name of Bright Eagle Enterprises Group Investments Limited (BEEGIL). BEEGIL has formed a Special Purpose Company under the laws of Pakistan by the name of K-Energy. The feasibility study of the Project has been undertaken by US based Knight Piesold & Co., while Lahmeyer International has been selected as the independent/owner's engineer.

The project has an estimated duration of 2-2.5 years for completion from the notification of tariff by NEPRA which is a critical milestone in commencement of the project; management expects the project to come online by June 2016. The project will have the following stages:

- Signing of EPC Contract which was done on November 9, 2013 with Harbin Electric International of China (HEIC). HEIC was also the EPC contractor for BQPS-2
- KESC's proposed license modification with NEPRA whereby units 3 & 4 of BQPS-1 will be excluded from KESC's existing generation license (Public Hearing held on November 19)
- Tariff Approval (Expected to be achieved by year-end)
- Coal supply arrangement
- Long term lease agreement to be executed
- PPA between KESC and K-Energy to be executed

The project will entail the following benefits:

- Diversification of fuel mix
- Replacement of furnace oil with coal will result in reduction of power tariff
- Extensive rehabilitation of units 3 & 4 is included in the scope of project. The units are expected to significantly regain degraded generation capacity and would benefit from improved heat rate & plant efficiency.

BQPS-2 was built under the leadership of current management and is based on a combined cycle process. BQPS-2 was commissioned in 2012 and has three gas turbines (Frame 9E) and one steam turbine. The plant can be run entirely on gas and operates at a relatively higher efficiency level as compared to KESC's other power plants. During the last six months of FY13, efficiency level of the power plant at 42.2% was higher than NEPRA's threshold level used for determining tariff. Given the current efficiency levels, dispatch factor for BQPS-2 was highest amongst all power plants.

Three power stations of the company are located in Korangi that collectively have a nameplate capacity of 433 MWs. These include Korangi Combined Cycle Power Plant (KCCPP) having a capacity of 220 MW, Korangi Thermal Power Station (KTPS) having a capacity of 125 MWs and Korangi Gas Turbine Station (KGTPS) with a capacity of 88 MW. Another 88 MW power plant is located at SITE that operates on gas engines. Amongst these, KCCPP is the most efficient. Currently, KGTPS and SGTPS are being converted to combined cycle power plants to enhance efficiencies of the same. Most of the above plants have been commissioned in 2008 and 2009.

Overall fleet efficiency of KESC's power plants has improved from 30.7%, during January-June 2008, to 37.8% during January-June 2013. Efficiency improvement has largely been achieved with the commissioning of KCCPP and BQPS-2.

Besides internal power generation, KESC has a PPA in place with NTDC that provides 650 MWs of electricity from the national grid. The PPA with NTDC is scheduled to expire in 2015. KESC has also signed 22 year PPAs, with Tapal Energy (Pvt.) Limited and Gul Ahmed Energy Limited, of 262 MWs under the 1994 power policy. These plants run on furnace oil. As part of its strategic plan, management plans to negotiate agreements with additional IPPs to cater to contingencies, particularly the expiry of 650 MWs PPA with NTDC.

Dispatch factor of KESC's power plants and IPPs is based on an economic merit order which amongst others is dependent on efficiency of power plant, availability of fuel and location at which electricity is required to be supplied. On an aggregate basis, KESC generates and/or has purchase agreements in place for around 2,000 MWs, while demand is higher at around 2,400 MWs. The shortfall is compensated with load shedding in mostly low recovery areas.

In case of existing power plants, the primary focus is on efficiency improvements through conversion of open cycle plants to combined cycle. This has been initiated with the conversion of SGTPS, KGTPS and two open cycle units of KCCPP. Results of conversions are expected to be as follows.

Table 4: Projected Results of Planned Projects

S.No.	Facility	Capacity Addition	Efficiency Improvement
1.	KCCPP	27 MWs	4%
2.	SGTPS	10 MWs	5%
3.	KGTPS	10 MWs	5%
	Total	47 MWs	-

Besides coal conversion of BQPS-1 and efficiency enhancement projects, the company is also exploring various alternative energy sources as presented in the table below.

Table 5: Alternative Arrangements

S.No.	Type	Capacity Addition	Details
1.	Biogas	22 MWs	A new waste to energy power plant is plannned to be set up at Landhi Cattle Colony by Karachi Organic Energy Limited (KOEL), which is co-owned by KESC Aman Foundation, IFC and GE An MoU has been signed with Karachi Metropolitan Corporation for allotement of land and supply of feed stock for power plant.
2.	Coal	1,200 MWs	600 MWs under power purchase arrangement in continuation of Joint Development Agreement with Oracle Coal Fields and 600 MWs via development of mine-mouth based power plant with Sindh engro Coal Mining Company.
3.	Other	1,400 MWs	LOIs have been issued to Burj Power and BEEGIL for long term coal fired IPPs in Port Qasim Area
4.	Dydro	650-900 MWs	MoU signed with Laraib Group for power purchase from private hydropower projects in northeran areas

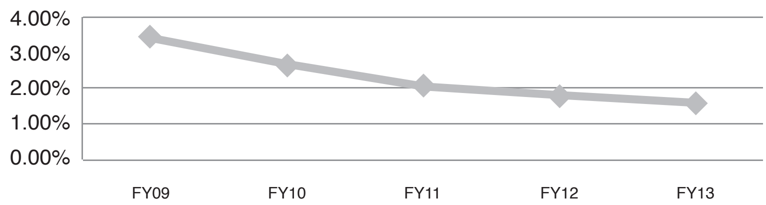
Talks have also been initiated with Jhelum and Sukhi-kinari power stations for purchase of hydel power.

Transmission

Electric power transmission is the transfer of electrical energy from power plant to the grid stations located near demand centers. KESC's transmission system comprises 62 grid stations and 128 power transformers. In addition, the company owns and maintains 1,249 km length of extra high voltage circuits (220 KV, 132 KV & 66 KV).

Previously, issues such as rusting in wires and faulty grid stations resulted in high transmission losses. Since the management took over, a declining trend in transmission losses has been witnessed, as presented in the chart below:

Figure 3: Transmission Loss Trend

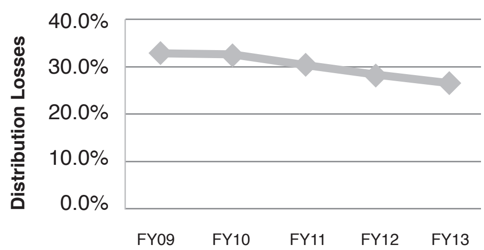


Total capex of $ 104m has been incurred on transmission infrastructure over the last four years which includes addition of 10 new grid stations. Additionally 19 new circuits, 62 km of new transmission lines and 189 km of circuit length has been added since FY09. Resultantly, transmission losses have declined by 2.8%, since FY08, and were lower at 1.37% in June-2013. On the contrary, a rise in line trips has been witnessed although this was on account of external factors.

Distribution

Electricity distribution is the process of transferring electricity from the grid station to the end user. This area is impacted by multiple issues which include technical losses in medium & low voltage system, transformation loss, direct theft of electricity and meter pilferage. Distribution losses have witnessed a declining trend in recent years, although they remain weaker than the threshold used by NEPRA. Transmission & Distribution (T&D) losses currently stand at 27.8%. Country average of T&D losses was around 23% which in itself was weaker than other countries in the region with losses in Bangladesh and Sri Lanka standing at 17% and 15%, respectively. A rolling average of the distribution losses is presented below:

Figure 4: Distribution Loss Trend



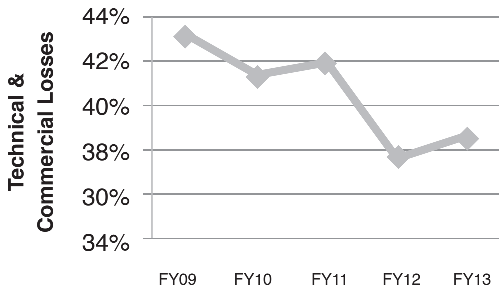
Distribution losses have decreased as a result of improved safeguards against electricity theft. However despite diligent efforts by the company, electricity theft still persists to be a major problem, especially in areas where law and order issues prevent the staff from disconnecting illegal connections.

The management is projecting T&D losses to decline significantly over the next five years. In order to bring about reduction in distribution losses in line with projections, a number of initiatives are being undertaken including, but not limited to, roll out of SAP IS-U across KESC, one-window customer care centres, alternative bill distribution and numerous process driven initiatives which include optimization of revenue protection & recovery department. Furthermore, few capital intensive projects are also on the anvil, such as introduction of Aerial Bundled Cabling (ABC) in high loss areas, replacement of electromechanical meters with static meters and high voltage distribution systems. Going forward, the company also plans to introduce Smart Grids, which is a remotely managed smart meter that monitors the energy flows, detects where losses are occurring and allows for remote power cut off. This will also allow the company to get a better estimate of its T&D losses. Mobile meter reading is also being introduced to improve the meter reading process. Since these meters digitally record electricity usage, which can be transmitted wirelessly; it will enable quick processing and reduce human errors.

In order to effectively manage operations and enhance recoveries, the new management has divided the city into 4 regions, each having a separate regional head. These regions are further sub-divided into 28 Integrated Business Centers (IBCs). Each IBC has pre-defined financial and non-financial Key Performance Indicators (KPIs) and monetary incentives are provided on achievement of targets. Where recoveries have been impacted on account of poor law and order situation, KESC has outsourced collection to Distribution Service Providers (DSPs), who are also offered monetary benefits and assigned KPIs. So far this has been done for Orangi and Gadap and, as per management, the results achieved by these DSPs have been satisfactory.

Aggregate Technical & Commercial (AT&C) losses, which account for both T&D losses and recovery deficit, reduced to 37.7% in FY12 as compared to 43.2% in FY09. This improvement was achieved on the back of improving T&D loss situation and stable recoveries. Recovery rate, however, trended downwards in FY13 due to substantially lower recovery rate from public sector customers, which declined to 63% (FY12: 78%) in FY13. Total receivables from KW&SB amounted to PKR 23b at end FY13 (FY12: Rs. 18b). Resultantly, AT&C losses were higher at 38.7% in FY13. Trend in AT&C losses over the last five years is shown below:

Figure 5: T&C Loss Trend



Despite significant improvements, high AT&C losses continue to be a major challenge on the distribution front with one-third of Karachi still having AT&C losses of over 60%. Other major challenge is the increase in tariff by 16.7% in FY13 and further in the ongoing year which might continue to impact recovery rates. The management is projecting AT&C losses to reduce significantly by FY17.

Financial Analysis

Profitability

In contrast to IPPs, KESC's tariff structure has no fixed in-built return. KESC has an efficiency based tariff structure which allows the company to benefit from efficiency enhancements on the generation front. Moreover, profitability of the company is dependent upon T&D losses incurred vis-à-vis the threshold level used by NEPRA while determining tariff. While the company continues to have higher T&D losses as compared to the threshold used by NEPRA in determining the power tariff, the same has declined from 35.9% in FY09 to 27.8% in FY13. Profitability of the company has witnessed marked improvement with commissioning of the more efficient BQPS-2 combined cycle power plant in 2012. The plant produces 185 MW additional electricity from the same quantity of gas, relative to the past. Efficiency improvements have allowed KESC to absorb the impact of higher financial and impairment charges. Resultantly, profit before tax for FY13 was higher at Rs. 3.9b (FY12: Rs. 2.6b).

Further improvement in efficiency of up to 5% is planned from three existing open cycle power plants once conversion of the same to combined cycle is achieved. On the distribution front, a number of initiatives are planned which the management anticipates to result in significant reduction in T&D losses. Resultantly, profitability indicators are projected to improve substantially, going forward.

Revenues increased by 16% in FY13 and stood higher at Rs. 189b (FY12: Rs. 162.8b). Sale of energy represented 59% (FY12: 57%) of total revenues while remaining pertained largely to tariff adjustment subsidy. Over the last five years, sale of energy to industrial consumers, where recovery ratio is 100%, has witnessed a decline on account of conversion to captive power plants. However, sale of energy to commercial consumers where tariff rates are higher, has increased from 17% in FY09 to 23% in FY13. Segment wise sale of energy to various consumer segments is as follows:

Table 6: Energy Consumption by Sector

Sale of Energy	FY09	FY10	FY11	FY12	FY13
Residential	34%	34%	34%	38%	40%
Commercial	17%	17%	16%	16%	23%
Industrial	47%	46%	44%	41%	31%
Other	2%	3%	6%	5%	6%
Total (Rs. In m)	**58,069**	**70,508**	**85,927**	**92,570**	**112,166**

Total cost of electricity purchased and consumption of fuel & oil used by KESC for electricity generation amounted to Rs. 146.2b (FY12: Rs. 133.3b). Cost of electricity purchased from NTDC, IPPs, KANUPP and PSMC comprised 54% (FY12: 56%; FY11: 56%; FY10: 62%) of total cost. The breakup of purchased energy through various sources is depicted in the table below:

Table 7: Purchase of Energy

Purchase of Energy	FY09	FY10	FY11	FY12	FY13
NTDC	60%	60%	59%	70%	66%
IPPs	34%	34%	38%	25%	28%
KANUPP	5%	5%	2%	5%	6%
PSMIC	1%	1%	1%	0%	0%
Total (Rs. In m)	**44,921**	**59,881**	**65,296**	**74,658**	**78,372**

Cost of furnace oil consumed for electricity generation at KESC was higher on account of higher utilization of furnace oil, due to shortage of gas; cost of electricity produced by furnace oil is 3.5 times more than the same unit produced by gas. Cost of natural gas consumed also trended upwards due to increase in gas prices.

Table 8: Historical FO Quantity and Gas Prices

	FY09	FY10	FY11	FY12	FY13
FU Quantity (M. tons)	313,106	481,429	681,365	650,134	587,276
Gas prices (Rs/mmbtu)	339	360	394	472	525

Apart from FY12 where proportion of cost of furnace oil in total cost declined due to lower consumption, proportion of cost of furnace oil in the overall cost of electricity generation by KESC has witnessed an increasing trend over the last five years. During FY13, despite a slight decline in furnace oil prices, proportion of the same in overall cost was higher on account of higher utilization. Around 73% of the electricity generated by KESC in FY13 was through gas while the remaining 27% was generated by furnace oil.

Table 9: Proportion of gas and FO in total fuel consumed

Expenditure on fuel and oil	FY09	FY10	FY11	FY12	FY13
Natural gas	72%	61%	41%	46%	43%
Furnace and other oils	28%	39%	59%	54%	57%
Total (Rs. In m)	**37,451**	**37,181**	**50,694**	**58,597**	**67,808**

JCR-VIS Credit Rating Company Limited

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

Expenses incurred in relation to generation, transmission & distribution amounted to Rs. 14b (FY12: Rs. 13.3b) during FY13. Depreciation and employee related expenses represented 81% of total expenses. In absolute terms, depreciation expense was higher at Rs. 8.2b (FY12: Rs. 6.5b) on account of addition to fixed assets. Employees related costs declined to Rs. 3.2b (FY12: Rs. 4.5b) on account of impact of rationalization of staff strength undertaken in prior years.

Gross profit stood higher at Rs. 28.8b (FY12: Rs. 16.3b) while gross margins also improved to 15.3% (FY12: 10%) during FY13. The latter was on account of lower generation cost due to full scale operation of more efficient BQPS-2 combined cycle power plant during January 2013 to June 2013.

Consumer services and administrative expenses increased by 26% in FY13 and amounted to Rs. 15.4b (FY12: Rs. 12.2b). This was on account of higher provisioning charges to the tune of Rs. 6.2b (FY12: Rs. 2.5b) partly due to revision in provisioning policy in lieu of impairment of receivables. Provisioning charge of 100% is now being taken for private sector dues outstanding for more than 3 years as compared to five years previously. Salary expense was lower at Rs. 5.7b (FY12: Rs. 6.4b) in FY13 on account of rationalization of staff strength.

Finance cost stood higher at Rs. 14b (FY12: Rs. 7.7b) during FY13 on account of increase in financial charges on delayed payment to fuel suppliers. Moreover, interest cost for financing of BQPS-2, which was being capitalized previously was expensed in FY13 on account of completion of the project. Accounting for finance cost, the company recorded profit before tax of Rs. 3.9b (FY12: Rs. 2.6b) while profit after tax amounted to Rs. 6.7b (FY12: Rs. 2.6b). The profit for FY12 included a one-time tariff adjustment of Rs. 6b in lieu of quarterly fuel price and cost of power purchase adjustment for prior years. Given the sizeable tax losses available with the company on account of capex incurred and the resultant depreciation charge, the company has projected no tax charges over the next five years. Total deferred tax asset not recognized in the financial statements amounted to Rs. 116.9b (FY12: Rs. 96.3b) at end-FY13.

KESC's profitability is subject to a claw back mechanism (CBM) whereby profits accruing to KESC beyond a predetermined return (EBIT to total Assets) shall be shared with consumers through tariff reduction in the subsequent year. Return in excess of 12% shall be shared in the ratio of 25:75 between consumers and KESC while return in excess of 15% and 18% will be shared in the ratio of 50:50 and 75:25, respectively.

Balance Sheet Composition

Total assets of KESC amounted to Rs. 279.2b (FY12: Rs. 272.6b) as at end-June 2013. These include operating fixed assets and capital work in progress to the tune of Rs. 154b and Rs. 9b, respectively. Operating fixed assets comprise plant and machinery (62%), transmission grids and lines (19%) and distribution network (12%). Total current assets amounted to Rs. 115.6b, of which, trade debts and receivables from GoP in lieu of subsidy and sales tax amounted to Rs. 101.3b.

Total current liabilities amounted to Rs. 160.7b (FY12: Rs. 146.3b) as at end-June 2013. Trade payables amounted to Rs. 96.2b while short and long-term borrowings aggregated Rs. 37.6b and Rs. 31.8b (including current maturity of long-term financing), respectively.

Receivables and Payables

NTDC bills KESC on a monthly basis for the 650MW power supplied to the company while KESC has receivable from GoP in lieu of tariff differential claims due to subsidy provided to consumers. In order to facilitate settlement of energy dues, receivables and payables are settled on net basis with KESC being a net receiver during FY13. Total receivables from GoP in lieu of tariff differential claim stood at Rs. 47.9b (FY13: Rs. 32.7b) at end Sep'13. Timely recovery of net tariff differential claim is important from the perspective of cash flow management.

Table 10: Break-up of Tariff

	FY09	FY10	FY11	FY12	FY13
Tariff - Notified	6.2	7.5	8.5	9.0	10.3
Tariff - Subsidy	2.9	3.0	4.4	6.8	7.0
Determined-Tariff	9.1	10.5	12.9	15.8	17.3

JCR-VIS Credit Rating Company Limited

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With the increase in tariff for industrial consumers applicable from September 2013, the gap between receivables and payables has reduced considerably. Given the increase in consumer tariff effective October 2013, KESC's reliance on GoP for timely receipt of subsidy is expected to reduce. In line with the relevant provisions of the PPA, Ministry of Finance (MoF) has to pay KESC's tariff differential receivable directly to NTDC. PPA with NTDC expires in 2015 and could result in cash flow issues in case of non-renewal or progressive reduction in the 650MW power supplied. However, till such time that the coal project comes online, it may reasonably be expected that power from the national grid will continue to be made available, even if on a reducing quantum basis, given the strategic importance of Karachi as the business hub of Pakistan.

Table 11: Ageing of Trade Debts

Ageing of Trade Debts	Total	Neither past due nor impaired	> 30 days up to 1 years	1-2 years	2-3 years	3-4 years	Over 4 years
2012	49.4	17%	35%	20%	11%	6%	11%
2013	62.8	16%	38%	18%	12%	5%	11%

Trade debts stood higher at Rs. 62.8b (FY12: Rs. 49.4b) at end-FY13. The increase is largely on account of outstanding dues from government and various autonomous bodies including KWSB and City District Government Karachi (CDGK). Over 50% of the outstanding receivables pertain to KWSB and CDGK; balances outstanding for over three years also mostly pertain to these entities. Since these receivables are guaranteed by the GoP, no provisions have been created against the same. The management expects recoveries from public sector companies to improve significantly in the coming years on the back of planned initiatives.

Trade and other payables stood higher at Rs. 109.5b (FY13: Rs. 96.2b) at end Sep'13. These primarily include payables to Pakistan State Oil Company Limited (PSO) and SSGC. KESC is in dispute with SSGC over supply of committed quantity of gas of 276mmcfd while SSGC has also filed a suit against the company for unpaid gas consumption and interest charges in the High Court of Sindh. Given the decline in gas supply by SSGC, proportion of furnace oil in the fuel mix has witnessed a sharp increase. Subsequent to end-FY13, an understanding has been reached with SSGC for 3 months whereby the company will supply 220mmcfd of gas while KESC is paying current month bills plus a certain amount towards arrears.

KESC records late payment surcharge/interest on delayed payments on net basis as the management is of the view that overdue amounts have arisen due to delayed settlement of tariff differential claim by GoP. As per management, financial charges will only be payable once similar claims are received from GoP and public sector entities. NTDC had claimed an amount of Rs. 15.5b on account of mark-up in arrears and delayed payments which the company has not acknowledged as debt. Similarly, financial charges not accounted for, in lieu of delayed payments to SSGC amounted to Rs. 15.6b. As per management, this is on account of reduced gas supply from SSGC along with delayed settlement of energy dues from certain public sector entities. The company records an overall provision for accrued markup for delayed payments based on its net receivable/payable position.

Capitalization

On account of conversion of IFC and ADB financing worth $50m into equity and issuance of ordinary shares in lieu of preference shares previously outstanding, paid-up-capital stood higher at Rs. 96.3b (FY12: Rs. 93b) at end-FY13. Accounting for reserves and accumulated losses to the tune of Rs. 74.3b (FY12: Rs. 82.9b), tier-1 equity stood higher at Rs. 28.9b (FY12: Rs. 15.4b). As at end-FY13, the company had a revaluation surplus of Rs. 25.2b pertaining to leasehold land, plant & machinery and transmission and grid equipments.

Total capital expenditure incurred over the last five years amounted to $988m while equity injection during this period amounted to $533.8m, including $50m conversion in FY13. Over 70% of the capex has been channeled towards the generation front to improve efficiencies and enhance capacities. The remaining capex has been incurred in the transmission and distribution segments. During FY13, total capital expenditure incurred by KESC amounted to Rs. 3.4b (FY12: Rs. 4.7b). Going forward, capex levels are projected to increase again with improving profitability levels.

Table 12: Capital Expenditure by Segment

	FY09	FY10	FY11	FY12	FY13
Generation - New	14,963	8,761	27,988	5,430	720
Generation - Existing	656	540	873	746	361
Transmission	3,749	1,912	2,291	482	65
Distribution	1,675	3,014	3,140	2,145	2,149
Other	189	736	265	184	147
Capex (Rs. In m)	**21,232**	**14,963**	**34,557**	**8,987**	**3,443**

While declining on a timeline basis at end-FY13 and end-1QFY14, leverage indicators of the company continue to be on the higher side. Debt leverage and gearing stood at 8.67x (FY12: 16.74x) and 2.4x (FY12: 4.4x), respectively, at end FY13. These are considered high in context of the interest rate environment in the country and the company's margins. Going forward, leverage indicators are projected to decline on account of increase in equity due to retained profits and decline in debt levels. No dividend payouts are projected over the tenor of the Sukuk.

Along with declining leverage, Funds generated From Operations (FFO) have also showcased improvement and amounted to Rs. 21.1b (FY12: Rs. 5.3b) during FY13. Including working capital changes, cash flow from operations stood at negative Rs. 9.4b in FY12 while improving to positive Rs. 1.4b in FY13

In absolute terms, total debt stood at Rs. 69.4b (FY12: Rs. 66.9b) at year-end FY13. Debt profile has witnessed a change in FY13 with an increase in the proportion of short term borrowings to 54% of total borrowings at end-FY13 as compared to 35% at-end FY12. Higher short-term borrowings were on account of growth in working capital requirement to finance delays in receipt of tariff differential claim and trade receivables. Total outstanding long term borrowings (including current maturity) aggregated Rs. 31.8b (FY12: Rs. 43.4b) at end-FY13. In addition to principal repayments, reduction in long term borrowings is also attributable to conversion of $ 50m long term loan into equity. Going forward, additional long-term financing of Rs. 8b is planned to be raised in FY14 and FY15 for conversion of existing open cycle plants to combined cycle plants. No further long-term debt is assumed in projections subsequently.

Given the anticipated increase in profits and resultantly FFO, projected debt service coverage in each of the next 5 years is significantly over 1(x), both as per management's projections and also under realistic stress scenarios.

<u>Sukuk Structure</u>

KESC plans to issue Sukuk (based on Shirkat-ul-Milk) of Rs. 6b (inclusive of a Green Shoe Option of Rs. 500m) in FY14. The Sukuk is asset based in nature and is planned to be issued in three tenor buckets with maturities of 13 months, 3 and 5 years. Sukuk will have a bullet repayment structure. Rental payment frequency is expected to be monthly for the Sukuk with tenor of 13 months and quarterly for Sukuk with tenors of 3 and 5 years. The Sukuk will also be listed on the Karachi Stock Exchange. Sukuk holders will have exclusive charge by way of hypothecation over Shirkat-ul-Milk assets. Going forward, the company plans to conduct a regular Sukuk programme for fulfilling working capital needs. Moreover, the company wants to reduce reliance on bank credit.

KESC has identified grid stations having a value of Rs. 8b, of which, tangible (non-consumable) assets having a worth of Rs. 6b will be sold to the Investment Agent (IA) acting on behalf of the Sukuk holders on deferred payment basis. After the purchase of the proportionate ownership in the identified assets, the IA and KESC will enter into a Shirkat-ul-Milk structure whereby Sukuk holders (through IA) will hold 75% share in the specified assets and KESC will own 25%.

With improvement in profitability, and resultant cash flows, on the back of efficiency enhancements and lower T&D losses, ability to service debt obligations is expected to remain adequate 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.

6.6.2 Instrument Rating by Islamic International Rating Agency, Bahrain

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

January 5, 2014
Ref: 002-RL/KESC/2014

Mr. Syed Moonis Abdullah Alvi
Karachi Electric Supply Company Limited
3rd Floor, BOC Bldg. KESC House
39-B, Sunset Boulevard
DHA II, Karachi
Pakistan

Subject: Rating of the Sukuk Issue of Rs. 6b (Inclusive of a Green-shoe Option of Rs. 500m)

Dear Mr. Syed Moonis Abdullah Alvi,

Based on the instrument's structural characteristics and cash flows expected to be available to service sukuk holders, the Islamic International Rating Agency (IIRA) has assigned a 'final', 'national scale' rating of 'A+ (A Plus)' with a 'Stable' outlook to the sukuk issuance of Rs. 6b (USD 56.6m as of date of this letter) by Karachi Electric Supply Company Limited (KESC). This rating has been assigned to each of the sub-sukuk to the issue, Sukuk I (Rs. 750m), Sukuk-II (Rs. 3,750m) and Sukuk-III (Rs. 1,500m). The rating committee has noted the asset based nature of the Sukuk, and believes that coverage of the repayments to be made from the cash flows of KESC will remain above 1(x), for the tenor of each of the sub – sukuk to the issue.

As an issuer, KESC's status as the only vertically integrated unit in the country, engaged in power generation, transmission and distribution, and serving one of the 10 most populous cities of the world, gives it considerable strategic significance to the policy makers in Pakistan. It is also evident that the present owners and management have made substantial headway by way of capacity enhancement, better infrastructure management, and improved communication with its customers, that has translated into significantly improved operating cash flows in the most recent reporting periods. The international reputation of its key shareholders and their commitment to the organization's mandate, as manifest in financial support through equity infusion, and induction of senior management personnel, has been noted.

Key risk factors include the company's various engagements with other government concerns, governing input supplies like gas and/or power purchased, in addition to delinquencies from public sector concerns, resulting in cash inadequacies. In the context of policy rate environment in Pakistan - its average levels and variability - KESC's gearing ratio is also high, in relation to operating profitability. Improving efficiencies can assist the company in meeting its potential as a utility company in a growing economy.

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Please note that the assigned rating does not take into account force majeure situations, including prolonged discontinuation of services to be provided by KESC to a notable section of the city, on account of any lapse or dispute in agreements and arrangements, with the Federal or Provincial Government, governing the operations of the company. Force majeure also includes natural disasters or serious geopolitical threats.

We sincerely thank you for your co-operation.

Kind regards,

Sabeen Saleem, CFA
Chief Executive Officer
Islamic International Rating Agency

PART VII

7. TRUSTEE AND SECURITY

7.1 THE SECURITY

The Sukuk Issue has been secured by way of exclusive hypothecation charge on the unencumbered grid stations provided in the list below ("**Sukuk Assets**"/"**Security**"):

S. No.	GRID STATIONS	ADDRESSES/LOCATION	EQUIPMENT	
			New Value /Market	Depreciated* Value/Written Down Value
			in PKR	
1	D.H.A.	Plot No. 135 A, Khayaban-e-Shaheen, Phase VI, D.H.A., Karachi	743,808,099	448,940,348
2	Landhi	Plot No. HG-10, Near Alkaram Textile Mills, Landhi, Karachi	961,783,499	459,840,627
3	ICI	Opposite Bin Qasim Power House, KE	458,717,744	272,998,159
4	Korangi Town	Survey No. 196, Deh Sharafi, Korangi Industrial Area	794,103,609	284,868,297
5	Civic Centre	Block 14, Gulshan e Iqbal, Behind UK Square, off University Road, Karachi	754,479,197	421,623,044
6	Gulshan-e-Iqbal	Plot No. ST-1, Block 19, Gulshan-e-Iqbal, Karachi	1,055,187,921	602,743,203
7	Garden Road	Garden Road, Near Makki Masjid, Karachi	974,473,760	587,558,657
8	Gulshan-e-Maymar	Naclas 77, Deh Bitti Amri, Gulshan-e Maymar, Scheme # 33, Karachi	533,579,242	488,189,363
9	Azizabad	Plot # ST-12-D/1, Block-2, F.B Area	606,304,564	554,728,175
10	Hospital	Plot ST-14, 15 & 16 Block-16 Sch-36 Gulistan-e-Jauhar, Karachi	664,770,789	624,574,226
11	Memon Goth	Plot NC-336, Deh Mulh Memon Goth, Karachi	542,562,425	496,408,376
12	Civil Aviation	Near Jinnah Terminal Karachi	650,207,250	300,921,208
13	Federal 'B' Area B	Plot No. ST-3, Block 19, F.B. Area, Near Alnoor Society, Karachi	816,103,770	342,479,684
14	Federal 'B' Area A	Plot No. ST-3, Block 19, F.B. Area, Near Alnoor Society, Karachi	291,503,082	230,850,968
15	North Nazimabad	Plot No. ST-3, Block P, North Nazimabad near Ashgar Ali Shah Ground, Karachi	701,209,354	358,575,536
16	North Karachi	Scheme 22, Sector 5 – C/4, North Karachi, Power House Chowrangi, Karachi	808,990,586	342,287,892
17	Hub Chowki	Hub Chowki, Moiza Hub Tehsil Hub Dist. Lasbella, DehBarot.	640,164,795	242,997,398
18	Gizri	Plot No. 39/B, Sunset Blue Wat Road, Ph-4, D.H.A., Karachi	799,462,866	222,841,400
19	Vinder	Survey No. 2/3, Khasara No. 10/106 Mosa Khathore the Somiani Khatore,Vinder	362,657,023	66,163,802
20	Uthal	Survey No. 138 Khasara No. 67 Moza, Khangar the Dera Uthal, Lasbella	317,529,606	95,237,671
21	Bela	Mauza Wang Tehsil Bela, Dist. Lasbella	245,100,846	3,979,146
22	Airport 2	Plot # 213, Deh Drag Tappo, Malir	715,976,677	655,070,832
	Total		**14,438,676,704**	**8,103,878,012**

* as at June 15, 2013

7.2 HYPOTHECATION OF FIXED ASSETS

KE as the sole legal and beneficial owner has hypothecated the Hypothecated Assets, in favour of the Trustee for the benefit of the Investors, by way of a first pari passu charge **("Hypothecation")**.

7.3 THE TRUSTEE/INVESTMENT AGENT

In order to safeguard the interests of the Sukuk holders, Pak Brunei Investment Company Limited **("PBICL")** has been appointed to act as Trustee/Investment Agent for the issue. The Issuer shall pay to PBICL a Trustee/Investment Agent fee of PKR 550,000/- one time for Sukuk 1 and annual fee of PKR 1,500,000/- for Sukuk 2 and Sukuk 3. 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 (for Sukuk 2 and Sukuk 3). 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 Declarations 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 Declarations of Trust/Trust Deeds) in the event of any breach of terms and conditions of Sukuk and the Declarations of Trust by KE.

7.4 THE TRUST DEEDS

The Trust Deed for Sukuk 1, Sukuk 2 and Sukuk 3 each dated December 26, 2013 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. **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 OF DEFAULT AND SECURITY ENFORCEMENT PROCEDURE

The Dissolution Events will be governed under para 8.1 of the Trust Deeds executed between the Company and the Trustee to the Issue.

Under the Trust Deeds, 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 this Declaration and the Conditions; or
 (ii) pay any amounts payable by the Issuer under this 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 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 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 this 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 in the reasonable opinion of 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 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 Trustee;

(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 Trustee;

(m) any governmental agency nationalises, 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 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 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 Trustee;

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

(r) any obligation or obligations of the Issuer under this 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 Trustee;

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

(t) the Issuer repudiates this Declaration or evidences an intention to repudiate this 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) 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 judgement or arbitral award for payment, against the Issuer and the Issuer fails to effect such payment within sixty (60) days of the date on which the obligation to pay arises and provided the same has a Material Adverse Effect in the reasonable opinion of the 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 Trustee;

(x) the Issuer fails to comply with the covenants set out in this 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 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 this Declaration;

(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 Trustee.

Note: It is confirmed that all events of default mentioned in the security documents have been disclosed in this prospectus in the same manner.

PART VIII

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, Chief Financial Officer and twelve other Directors. The CEO has an overall responsibility to manage the portfolio of businesses of the Company.

S.No.	Names & Designations	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.	Nayyer Hussain CEO	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi	Nil
3.	Mubasher H. Sheikh Director	P.O. BOX 417 SAFAT, 13005, SAFAT, KUWAIT	Nil
4.	Muhammad TayyabTareen Director	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi	Nil
5.	Wahid Hamid Director	1501 Anbar Dubai Marina Dubai	• Joram Co, Jordan, Network International, Dubai, • Mediamorph, New York, Art Marine, Dubai, • Byco Industries Inc. Mauritius • Knowledge Platform, Singapore
6.	Syed Arshad Masood Zahidi Director	3rd Floor, KE House, 39-B, Sunset Boulevard, Phase-II, Defence Housing Authority, Karachi	Nil
7.	Omar Khan Lodhi Director	LAKES, HATTAN 2, STREET 2, VILLA # 40, DUBAI - UAE	Nil
8.	Shan A. Ashary Director	Aljomaih Holding Co., Aljomaih Building, P.O. Box 54308, Riyadh 11514, Saudi Arabia Investment Adviser, Aljomaih Holding Co. (Saudi Arabia)	Nil
9.	Frederic Sicre Director	Jumeira 3 161 Al Safee Street, P.O. Box 504905, Dubai, UAE	• Wamda Limited • Injaz • Dubai Cares
10.	Khalid Rafi Independent Director	8-C, Khyaban-e-Shujaat, Phase-V, D.H.A., Karachi	• Unilever Pakistan Ltd. (Non-Executive Director)
11.	Noor Ahmed Director	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	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.	Saifullah Chattha Director	17-A, 4th Floor, Family Sweets, G-5/2, Islamabad Secretary, Ministry of Water & Power, GOP, Islamabad	Nil

8.2 PROFILE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Mr. 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. Mr. Gauhar started his career at Exxon Chemical. He graduated with a First Class Honours 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

Mr. Syed Nayyer Hussain is the CEO of KE since February 2013. He has served as Chief Distribution Officer since November 2009 to February 2013. Prior to joining The Abraaj Group, he was with Mashreq Bank where he managed the Retail Risk Management function. While with Citigroup from 1991 to 2005 he worked with their franchise in Pakistan, Saudi Arabia and Russia as Head of Retail Risk Management. In Pakistan and Russia, he was part of the pioneering team which was responsible for the launch of Retail Banking Business. During his tenure in Saudi Arabia with Saudi American Bank, he managed the turnaround of an adversely performing portfolio and also led the Retail banking team which helped merge United Saudi Commercial Bank (previously known as Saudi Cairo Bank).

8.4 PROFILE OF THE CHIEF FINANCIAL OFFICER/COMPANY SECRETARY

Syed Moonis Abdullah Alvi is the Company Secretary and Chief Financial Officer of KE. He is responsible for all financial activities within the organisation 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 TaseerHadi & 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 10,000/- 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 traveling, 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 sections 174 to 178, 180 and 184 of the Ordinance relating to the election of Directors and matters ancillary thereto. The twelve (12) present Directors of the Company were elected/nominated effective October 8, 2012 and one (1) Director was elected/nominated effective December 05, 2013. 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.

PART IX

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 TaseerHadi& 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	THK Associates (Private) Limited Ground Floor, State Life Building - 3, Dr. Ziauddin Ahmed Road, Karachi Phone: 021-111-000-322 Fax: 021-35655595 Website: www.thk.com.pk
9.5 BANKERS TO THE ISSUE	AlBaraka Bank (Pakistan) Limited Allied Bank Limited Bank Alfalah Limited Bank Al Habib Limited Bank Islami Pakistan Limited Burj Bank Limited Dubai Islamic Bank (Pakistan) Limited Faysal Bank Limited Habib Bank Limited Habib Metropolitan Bank Limited KASB Bank Limited MCB Bank Limited Meezan Bank Limited NIB Bank Limited Samba Bank Limited Standard Chartered Bank (Pakistan) Limited Summit Bank Limited United Bank Limited
9.6 BANKER TO THE ISSUE FOR E-APPLICATION	Habib Bank Limited
9.7 REDEMPTION BANK (TO EXERCISE EARLY PURCHASE OPTION)	Habib Bank Limited

9.8 MATERIAL CONTRACTS/DOCUMENTS RELATED TO THE ISSUE

9.8.1 Amendment Deed to the Declaration of Trust (Sukuk 1 Issue) dated February 04, 2014 between the Issuer and the Trustee
9.8.2 Amendment Deed to the Declaration of Trust (Sukuk 2 Issue) dated February 04, 2014 between the Issuer and the Trustee
9.8.3 Amendment Deed to the Declaration of Trust (Sukuk 3 Issue) dated February 04, 2014 between the Issuer and the Trustee
9.8.4 Amendment Agreement to the Underwriting Agreement dated February 04, 2014 between KE and HBL
9.8.5 Agency Agreement (Investment Agent) for Sukuk 1 dated December 26, 2013 between the Issuer, the Investment Agent and Trustee
9.8.6 Agency Agreement (Investment Agent) for Sukuk 2 dated December 26, 2013 between the Issuer, the Investment Agent and Trustee
9.8.7 Agency Agreement (Investment Agent) for Sukuk 3 dated December 26, 2013 between the Issuer, the Investment Agent and Trustee
9.8.8 Asset Purchase Agreement for Sukuk 1 dated December 26, 2013 between the Company (as Seller) and the Investment Agent
9.8.9 Asset Purchase Agreement for Sukuk 2 dated December 26, 2013 between the Company (as Seller) and the Investment Agent
9.8.10 Asset Purchase Agreement for Sukuk 3 dated December 26, 2013 between the Company (as Seller) and the Investment Agent
9.8.11 Agreement to enter into Musharaka for Sukuk 1 dated December 26 2013 between the Company (as the Co-Owner), the Trustee and the Investment Agent
9.8.12 Agreement to enter into Musharaka for Sukuk 2 dated December 26 2013 between the Company (as the Co-Owner), the Trustee and the Investment Agent
9.8.13 Agreement to enter into Musharaka for Sukuk 3 dated December 26 2013 between the Company (as the Co-Owner), the Trustee and the Investment Agent
9.8.14 Rental Payment Agreement for Sukuk 1 dated December 26 2013 between the Issuer, the Trustee and the Investment Agent
9.8.15 Rental Payment Agreement for Sukuk 2 dated December 26 2013 between the Issuer, the Trustee and the Investment Agent
9.8.16 Rental Payment Agreement for Sukuk 3 dated December 26 2013 between the Issuer, the Trustee and the Investment Agent
9.8.17 Service Agency Agreement for Sukuk 1 dated December 26, 2013 between the Company (as the Co-owner and Service Agent), the Trustee and the Investment Agent
9.8.18 Service Agency Agreement for Sukuk 2 dated December 26, 2013 between the Company (as the Co-owner and Service Agent), the Trustee and the Investment Agent
9.8.19 Service Agency Agreement for Sukuk 3 dated December 26, 2013 between the Company (as the Co-owner and Service Agent), the Trustee and the Investment Agent
9.8.20 Declaration of Trust for Sukuk 1 dated December 26, 2013 between the Issuer and the Trustee
9.8.21 Declaration of Trust for Sukuk 2 dated December 26, 2013 between the Issuer and the Trustee
9.8.22 Declaration of Trust for Sukuk 3 dated December 26, 2013 between the Issuer and the Trustee
9.8.23 Purchase Undertaking (Early Redemption, Final Redemption and Termination) for Sukuk 1 dated December 26, 2013 by the Issuer in favour of the Investment Agent and the Trustee
9.8.24 Purchase Undertaking (Early Redemption, Final Redemption and Termination) for Sukuk 2 dated December 26, 2013 by the Issuer in favour of the Investment Agent and the Trustee
9.8.25 Purchase Undertaking (Early Redemption, Final Redemption and Termination) for Sukuk 3 dated December 26, 2013 by the Issuer in favour of the Investment Agent and the Trustee
9.8.26 Letter of Lien and Set off for Sukuk 1 dated December 26, 2013 executed by KE
9.8.27 Letter of Lien and Set off for Sukuk 2 dated December 26, 2013 executed by KE
9.8.28 Letter of Lien and Set off for Sukuk 3 dated December 26, 2013 executed by KE
9.8.29 Letter of Hypothecation dated December 26, 2013 executed by KE
9.8.30 Underwriting Agreement dated January 06, 2014 between KE and HBL
9.8.31 Subscription Form to be submitted by each Sukuk investor
9.8.32 Fatwa by Sharia Advisory Board to the Issue

9.9 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 Letter of Hypothecation, the Credit Rating Report by JCR-VIS and IIRA, Bahrain, Clearance letter from KSE, Clearance letter from LSE, Clearance letter from ISE and the approval letters 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.

9.10 LEGAL PROCEEDINGS

The Company is party to a number of cases in respect of fatal injuries and billing disputes as mentioned in note 31.3.4 financial statements. 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, 2013.

9.11 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 judgement is given in connection with any application under Section 488 of the Ordinance in which relief is granted to him by Court.

9.12 CAPITALISATION OF RESERVES

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

9.13 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	Cost/Written
	Rs. 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**

Source: KE Annual Accounts 2013

9.14 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 authorised 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.

9.15 VENDORS

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

9.16 SUBSIDIARY COMPANIES

The company has no subsidiary companies.

9.17 INVESTMENT IN ASSOCIATED COMPANIES

The Company holds 0.00055% of the total share capital of Karachi Organic Energy (Private) Limited (KOEL) by virtue of investment in 2 ordinary shares having face value of PKR 10 each which amounts to total investment of Rs. 20. KOEL has been incorporated for set-up and operation of a biogas project.

PART X

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 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 AT LEAST 62 GRAMS.

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

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 Net Banking 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 February 24, 2014 and will close at 12:00 midnight on May 23, 2014, 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 from 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) 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, Councillor, 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.

(8) 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, Councillor, 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 8(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

(9) 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.

(10) 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.

(11) 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 **"K-Electric Sukuk 1" and/or "K-Electric Sukuk 2" and/or "K-Electric Sukuk 3"**, as the case may be and crossed **"A/C PAYEE ONLY"**.

(12) 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.

(13) Applications are not to be made by minors and/or persons of unsound mind.

(14) Applicants should ensure that the bank branch, to which the application is submitted, completes the relevant portion of the application form.

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) 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 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 Rs. 10,000/-.

2. Application for Sukuk below the total value of Rs. 10,000/- shall not be entertained.

3. Applications for Sukuk by the general public, including institutions and individuals, must be made for a minimum of the aggregate face value of Rs. 10,000/- or in multiples of PKR 5,000/- for amounts above Rs. 10,000/-

4. Allotment/Transfer of Sukuk to successful applicants shall be made in accordance with the allotment criteria/instructions disclosed in the Prospectus.

5. 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.

6. **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.**

7. **The Registrar will dispatch Sukuk to successful applicants or credit the respective CDS accounts of the successful applicants (as the case may be). Therefore, applicants are advised to fill in accurate mailing address and CDS account details, if any.**

8. BANKERS TO THE ISSUE

Code	Name of Banks	Code	Name of Banks
01	AlBaraka Bank (Pakistan) Ltd	10	Habib Metropolitan Bank Ltd
02	Allied Bank Ltd	11	KASB Bank Ltd
03	Bank Alfalah Limited	12	MCB Bank Ltd
04	Bank Al Habib Limited	13	Meezan Bank Ltd
05	Bank Islami Pakistan Limited	14	NIB Bank Ltd
06	Burj Bank Ltd	15	Samba Bank Limited
07	Dubai Islamic Bank (Pakistan) Ltd	16	Standard Chartered Bank (Pakistan) Ltd
08	Faysal Bank Ltd	17	Summit Bank Ltd
09	Habib Bank Ltd	18	United Bank Ltd

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 Net Banking 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 February 24, 2014 and will close at 12:00 midnight on May 23, 2014, unless full subscription is received before the end of Subscription Period

9. Overseas Bankers to the Issue

Code	Name of Banks	Code	Name of Banks
01	-	06	-
02	-	07	-
03	-	08	-
04	-	09	-
05	-	10	-

10. 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

11. Nationality Code

Code	Country	Code	Country
001	USA	006	Iran
002	UK	007	Bangladesh
003	UAE	008	China
004	K.S.A.	009	Bahrain
005	Oman	010	Other

For further queries, you may contact:

HBL
Name: Khurram Shaukat
Phone: (021) 32439400
Email: khurram.shaukat@hbl.com

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

KE
Name: Danyaal Jamal
Phone: (021) 32637133 Ext: 7225
Email: danyaal.jamal@ke.com.pk

PART XI

11. SIGNATORIES TO THE PROSPECTUS

Names of Directors	Signatures
Mr. Tabish Gauhar (Chairman)	-Sd-
Mr. Nayyer Hussain (Chief Executive Officer)	-Sd-
Mr. Muhammad Tayyab Tareen	-Sd-
Mr. Shan A. Ashary	-Sd-
Mr. Mubasher H. Sheikh	-Sd-
Mr. Frederic Sicre	-Sd-
Mr. Khalid Rafi	-Sd-
Mr. Syed Arshad Masood Zahidi	-Sd-
Mr. Omar Khan Lodhi	-Sd-
Mr. Noor Ahmed	-Sd-
Mr. Muhammad Zargham Eshaq Khan	-Sd-
Mr. Wahid Hamid	-Sd-
Mr. Saifullah Chattha	-Sd-

Witness 1:

Name: Khurram Shaukat   Signature: _______________-Sd-_____________

Place: Karachi

Witness 2:

Name: Khurram Iqbal   Signature: _______________-Sd -_____________

Place: Karachi

PART XII

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, theatres, 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 rope ways 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 rope ways 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 rope ways 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 company's 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, cooperation, 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 moneys 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 Rs. 125,000,000,000 (Rupees One Hundred and Twenty-Five Billion Only) divided into the following kinds of shares:

i. Share Capital of Rs. 115,000,000,000 (Rupees One Hundred and Fifteen Billion Only) divided into 32,857,142,857 ordinary shares of PKR 3.50 each.

ii. Shares Capital of Rs. 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 by each	Number of Ordinary Shares taken 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)

(formerly Karachi Electric Supply Company Limited)

KE AZM SUKUK 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 February 24, 2014 to May 23, 2014 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	LSE	02	ISE	03
Code					

For Bankers

Banker's Stamp	
Bank Code	Branch Code

Application Serial No.

1) PAYMENT DETAILS (Payment should be made in "K-Electric Sukuk 1/Sukuk 2/Sukuk 3"). 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 authorise you to send the Sukuk to me/us pursuant to this application and if no Sukuk is allotted to me/us, you are hereby authorised 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 in line with Sharia principles and I/we are satisfied with the Fatwa issued by Sharia 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 AZM Sukuk and transaction documents

Yours faithfully,

Signature(s) a) ______________________ b) ______________________

5) FOR PRINCIPAL HOLDER	**Sukuk Type**	**KE AZM Sukuk 1 (13 months)** ☐	**KE AZM Sukuk 2 (36 months)** ☐	**KE AZM Sukuk 3 (60 months)** ☐

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 Number, 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) 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		**Signature of the Applicant as per the Bank account**
Account Number		
Bank Name		
Branch Name and Address		

(TO BE FILLED IN BY THE APPLICANT'S BANKER)

8) 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 CNICs/Passports. 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/Passport 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)		

9) 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 Investor 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. **THE APPLICATION MUST BE MADE ON THE COMMISSION'S APPROVED APPLICATION FORM OR A LEGIBLE PHOTOCOPY THEREOF ON A PAPER OF A4 SIZE WEIGHING AT LEAST 62 GRAMS.**

3. Copies of Prospectus and application forms can be obtained from the members of KSE, LSE, ISE and 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 application (e-IPO) to its account holders. HBL account holders can use HBL Net Banking 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 February 24, 2014 and will close at 12:00 midnight on May 23, 2014, 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 that recorded with 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. **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.

8. **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 8(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.

9. Joint application in the name of more than two 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.

10. 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 **"K-Electric Sukuk 1/ Sukuk 2/Sukuk 3"** and crossed "A/C PAYEE ONLY".

11. 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.

12. **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.**

13. Applications are not to be made by minors and/or persons of unsound mind.

14. Applicants should ensure that the bank branch, to which the application is submitted, completes the relevant portion of the application form.

15. 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.

16. 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.

17. 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.

18. **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

19. 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.

20. 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 may be).

7. **BANKERS TO THE ISSUE**

Code	Name of Banks	Code	Name of Banks
1	Al Baraka Bank (Pakistan) Ltd.	10	Habib Metropolitan Bank Ltd.
2	Allied Bank Ltd.	11	KASB Bank Ltd.
3	Bank Alfalah Ltd.	12	MCB Bank Ltd.
4	Bank Al Habib Ltd.	13	Meezan Bank Ltd.
5	Bank Islami Pakistan Ltd.	14	NIB Bank Ltd.
6	Burj Bank Ltd.	15	Samba Bank Ltd.
7	Dubai Islamic Bank (Pakistan) Ltd.	16	Standard Chartered Bank (Pakistan) Ltd.
8	Faysal Bank Ltd.	17	Summit Bank Ltd.
9	Habib Bank Ltd.	18	United Bank Ltd.

8. **OVERSEAS BANKERS TO THE ISSUE**

Code	Name of Banks	Code	Name of Banks
1	n/a	6	n/a
2	n/a	7	n/a
3	n/a	8	n/a
4	n/a	9	n/a
5	n/a	10	n/a

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 Banks	Code	Name of Banks
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

EARLY PURCHASE OPTION (REDEMPTION) NOTICE FOR SUKUK OF K-ELECTRIC LIMITED
Formerly Karachi Electric Supply Company Limited

Information of the Principal Holder (as it appears on the Sukuk/CDC Account)			
Full Name (Mr. /Mrs. /Ms. /Co.):			Date:
Father's/Husband's Name:			
Mailing Address:			
City:	Country:	Mobile:	Tel. No.:
CNIC/NICOP/Passport/Reg. No.:			
Joint Holder Information (If any)			
Full Name (Mr. /Mrs. /Ms. /Co.):			
CNIC/NICOP/Passport/Reg. No.:			
Redemption Details	☐ **Sukuk 1**	☐ **Sukuk 2**	☐ **Sukuk 3**
Amount in PKR:	Amount in words:		No. of Sukuk (PKR 5,000/- each):

Holding Details

1. For physical Sukuk holders:		Folio No.:
Sukuk Holding No.:	No. of Sukuk:	Face Value (in PKR):

2. For CDC Account holders (Please attach CDS print out):

☐ Participant Account		☐ Investor Account	
Participant A/c Holder ID	Sub Account No. /House A/c No.	Investor A/c Services ID	CDC Investor A/c No.

Payment 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:		Bank Name:
Bank A/C No.:		Branch Address:

Authorisation: I/We agree
(i) to redeem the Sukuk(s) specified above, as per the Early Purchase Option criteria mentioned in the Prospectus; (ii) to authorise you to deposit payment as per the instructions above (Payment Details); (iii) that the certificates applied for Early Purchase Option will be cancelled and not available for sale in the secondary market; (iv) that if any information given herein is incorrect or the notice not filled completely then I/we shall not be entitled to the Early Purchase Option (redemption of Sukuk).

Yours faithfully,

Authorised Signature (as per bank account in case of difference in CNIC or Bank account, then please affix both signatures)

Principal Holder's signature

Joint Holder's signature

For Bank Use Only

Bank Name	Branch Name & Address	Date of Receipt	Bank Officer's Name	
				Authorised Signatory & Rubber Stamp

For CDC IAS/Participant's Use Only

Transaction ID:	Saved by: Date:	Posted by: Date:	Authorised Signatory & Rubber Stamp

Customer Acknowledgement Receipt (to be filled by the banker)

Provisional Acknowledgement of redemption of KE AZM Sukuk.

Received from Mr. /Mrs. /Ms. /Co. ________________________ Redemption Notice for PKR ___________ i.e.,

______ Sukuk(s)

Bank Name	Branch Name & Address	Branch Code	Bank Officer's Name	
				Authorised Signatory & Rubber Stamp

IMPORTANT: (i) This slip must be retained by the Applicant; (ii) Please read instructions provided with application.

APPLICATION INSTRUCTIONS FOR SUKUK HOLDERS

1. SUKUK HOLDERS HOLDING SUKUK(S) IN PHYSICAL FORM

Sukuk holders should submit the Redemption form along with the following documents to K-Electric Limited ("KE") or to the branches of the Redemption Bank:

I. Physical Sukuk(s)
II. Attested photocopy of CNIC including joint holder(s), if any
III. Official letter on letterhead (in case of institution)

2. SUKUK HOLDERS HOLDING SUKUK(S) IN CDS

Sukuk holder should submit the Redemption form to either the Participant (in case of Sukuk held in CDC Sub Account) or to CDC [in case of Sukuk held in CDC Investor Account Services (IAS)] and obtain "Cancellation Request" printout to ensure that the Participant/CDC IAS completes the relevant portion of the Redemption form. Sukuk holders should then submit the same Redemption form with the following documents to the Company or to the Redemption Bank:

I. Printed copy of the "Cancellation Request" generated by the CDS
II. Attested photocopy of CNIC including joint holder(s), if any
III. Official letter on letterhead (in case of institution)

3. GENERAL INSTRUCTIONS

a. All Sukuk holders are required to complete the relevant sections of the Redemption form
b. In case of discrepancy between the information provided in this form and the information already held by the Registrar, the Company reserves the right not to process the Redemption form
c. Name(s) and address(es) must be written in full BLOCK LETTERS, in English and should not be abbreviated
d. The form must bear the name and signature of the Sukuk holder. In case of difference with the Computerised National Identity Card (CNIC) or the National Identity Card for Overseas Pakistanis (NICOP) or Passport, both the signatures should be affixed on the Redemption form
e. Redemption amount and the accrued profit will be paid as per the instructions given in the Redemption form. In case of discrepancy in the bank information provided on this form, payment will be made in the form of cheque/pay order dispatched to the Principal holder's mailing address
f. Sukuk holders should ensure that, in case the Redemption form is submitted to the bank branch, the bank officer completes the relevant portion of the Redemption form
g. Sukuk holders should retain the bottom portion of their Redemption form as provisional acknowledgement of submission of their redemption request
h. The Redemption Bank is prohibited to recover any charges from the Sukuk holder for processing Redemption form. Hence, the Sukuk holders are advised not to pay extra charges to the bank

4. BASIS FOR REDEMPTION

a. Redemption can be made for any number of Sukuk
b. Profit will be paid till the date the Company receive the redemption noties
c. The investor will be required to provide written notice of 15 days and in case of partial Early Redemption Option, the amount to be redeemed should either be PKR 5,000/- or in multiples thereof
d. Redemption requests will be processed in accordance with the criteria/instructions disclosed in the Prospectus
e. Only completed forms with accurate information will be processed for redemption
f. For all redemptions, the following discount rates on face value shall be applicable which will be deducted from the final payment:

SCHEDULE OF DISCOUNT RATES ON FACE VALUE	**Tenor**		
Early Purchase	**13 Months**	**36 Months**	**60 Months**
After December 26, 2014 till completion of one year from Issue Date	**2.75%**	**3.50%**	**4.25%**
After one year but before completion of two years from the Issue Date		**3.00%**	**3.75%**
After two years but before completion of three years from the Issue Date		**2.50%**	**3.25%**
After three years but before completion of four years from the Issue Date			**2.75%**
After four years but before completion of five years from the Issue Date			**2.25%**

5. REDEMPTION BANK

Habib Bank Limited

6. COMPANY ADDRESS

KE AZM SUKUK

Manager Treasury

KE House, Plot No. 39/B, Sunset Boulevard, DHA Phase II, Karachi.

UAN: **021-111-537-222**

Note: All redemption requests to be submitted to the Company shall be couriered to the above address.