

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

## Shariah Opinion (Fatwa) on KE Retail Sukuk

الحمد لله رب العالمين، و الصلاة و السلام على سيد الأنبياء و المرسلين، و  
على آله و أصحابه أجمعين، و بعد

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

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

1. The total Sukuk amount of PKR 22,000 Million comprises of private placement (Pre-IPO) of PKR 15,000 Million and public offering of PKR 7,000 Million (inclusive of green shoe option of PKR 2,000 Million) offered through an Initial Public Offering (IPO) to the general public via listing at Karachi Stock Exchange (KSE) for the tenor of seven (7) years with 2 years grace period.
2. Sukuk Subscription Agreement (in the form of subscription application/ or Pre-IPO agreement) will be executed by contributing investors of Sukuk (the “Investors”) which will record their commitments to subscribe for the Sukuk to be issued by KE. Under the Sukuk Subscription Agreement, the Investor will also appoint Investment Agent to act on behalf of the Investors/ Sukuk Holders whereas the IPO investors will acknowledge the signing of Asset Purchase Agreement by the investment agent on behalf of IPO investors.
3. KE will identify a specific pool of plant & machinery having a value of at least PKR 29.34 billion out of which PKR 22 billion will be sold to the Investment Agent acting on behalf of the Investors on deferred payment basis by executing Asset Purchase Agreement, after obtaining permission of sale from the existing charge holders, if required, who will not be paid off from this facility. The proportionate ownership of the Assets worth PKR 22 billion will be transferred to the Investment Agent whereas legal title of the assets will remain with KE and the assets will continue to be on the books of KE on behalf of the Investment Agent, on Trust basis.
4. The funds generated from IPO and pre-IPO placement will be utilized by the Investment Agent, on behalf of the Investors, to make payment to KE for the purchase of identified assets under Asset Purchase Agreement.
5. After the purchase of the proportionate ownership in the identified assets, the Investment Agent will enter into Musharaka arrangement with KE by executing Diminishing Musharaka Agreement under which the Sukuk Holders/ Investors



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

6. KE will be appointed as Managing Co-Owner of the Musharaka Assets in the Musharaka Agreement. The Managing Co-Owner will be responsible for structural maintenance, insurance, security and payment of ownership expenses and taxes in respect of Musharaka Assets. The cost actually incurred on account of aforementioned services by Managing Co-Owner in respect of Investment Agent's share in Musharaka Assets (to be called as Asset Service Charge Amount) during any rental period will be reimbursable to Managing Co-Owner by Investment Agent upon demand along with documentary evidences of all such expenses.
7. Managing Co-Owner will arrange insurance of the Musharaka Assets under Islamic Concept of Takaful or otherwise provide written justification for procuring conventional insurance. In case of total loss/ destruction of the Musharaka Assets, the Takaful claims received will be shared among Participants and KE in the ratio of their Musharaka share. In case of conventional insurance the claims received will be treated in the manner advised by the Shariah Advisor at the time of receipt of such claims.

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


Rental Payment for first quarterly period will comprise:

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

Rental payment for the subsequent quarterly rental payment period comprises:

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

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

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8. KE will undertake through Purchase Undertaking to purchase Investors Share in the Musharaka assets in equal Buy-Out price quarterly starting from the end of 27<sup>th</sup> month from the Issue date to redeem the Sukuk. The purchase of Investors Share will be recorded through issuance of Purchase receipt.
9. The Issuer will be able to redeem the Sukuk at any point in time after completion of Grace Period, i.e. 2 years.
10. The undertaking will also be applicable in case of Events of Default & Termination whereby KE will be obliged to purchase Investors' total Musharaka Share in the Musharaka Assets immediately upon issuance of the Termination Notice. In case KE intimate for any changing directly or Indirectly in majority Shareholding of the Sponsors (i.e 51% of the shares of K Electric ) at any point in time during Sukuk tenor, the Sukuk holders may opt to redeem their Sukuk holdings through concurrence in extra ordinary general meeting (if the change in the Shareholding is not acceptable to Sukuk holders).
11. KE will declare a Trust over the amounts contributed by the Investors and the asset acquired from contribution for the benefit of Investors and appoint trustee:
  - i. To act as issuing agent in respect of the Assets;
  - ii. To issue Sukuk to the Investor representing the ownership interest in the Assets;
  - iii. To hold the Assets and security absolutely for the benefit of Sukuk Holders in accordance with the provision of Trust Deed; and
  - iv. To distribute the Rental Payments on respective distribution dates among the Sukuk Holders in accordance with the provision of Trust Deed.

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

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

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

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



2. The whole transaction is in line with the Shariah guidelines issued by regulatory authorities in Pakistan;
3. This Fatwa/Shari'ah opinion is limited to the Shari'ah aspects of the transaction only. Other legal and regulatory compliance should be ensured before its formal launch.

و صَلَّى اللهُ عَلَى نَبِيِّنَا مُحَمَّدٍ وَبَارَكَ وَسَلَّمَ

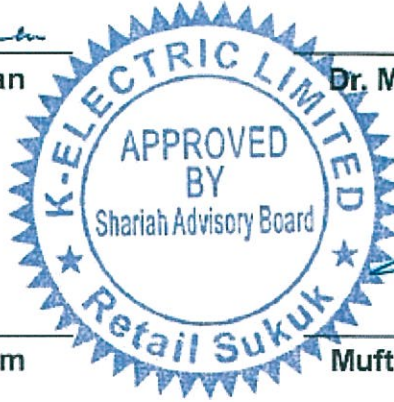
وَاللَّهُ أَعْلَمُ بِالصَّوَابِ

*Munib ur Rehman*

Prof. Mufti Munib Ur Rehman

*Dr. Muhammad Imran Usmani*

Dr. Muhammad Imran Usmani



*Mufti Muhammad Yahya Asim*

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*Mufti Irshad Ahmad Aijaz*

Mufti Irshad Ahmad Aijaz

February 6<sup>th</sup> 2015, 16 Rabi-us-Sani 1436