K-ELECTRIC LIMITED

KE BRIEF ON THE PROPOSED ESCROW ARRANGEMENT

BACKGROUND

Since 2007, K-Electric Limited ("**KE**") has been operating two master collection accounts which were initially established to secure debt financing received from various lenders including International Finance Corporation and Asian Development Bank. All collections/receivables from KE's consumers in respect of the supply of electric power are transferred from the specific collection bank accounts maintained by KE and such funds are accumulated in the two master collection accounts ("**MCAs**"). The arrangement for the MCAs is governed by the master collection agreement(s) signed between KE, the relevant collection banks, MCA Agent and the relevant secured parties ("**Master Collection Agreement(s)**").

HISTORICAL STATISTICS

It is vital to emphasize that the MCAs have maintained a healthy balance ever since their inception. In recent years, the actual collection for the MCAs has shown significant growth. Starting from the financial year 2019, where it was at PKR 32 billion, the collection has experienced substantial growth and is projected to close at PKR 227 billion at the end of current financial year 2024. After fulfilling KE debt obligations, the already executed MCA still retains approximately two-thirds of the collections as a cushion available that can be allocated to prospective power suppliers.

CURRENT OPERATIONAL MECHANICS

The MCAs are used to service KE's debt obligations to various lenders and has been successfully utilized with no defaults having occurred to date. KE now intends to utilize the same MCAs for the purposes of providing a payment mechanism for, *inter alios*, renewable energy providers. Since such MCAs are also subject to a security interest in favour of KE's lenders, any proposal to offer such robust payment method through MCAs would require prior written approval from KE's existing lenders.

The operation of MCAs requires an irrevocable standing instruction to the relevant financial institution to transfer the relevant amounts from the MCAs in favour of the lenders on a periodical basis without any recourse to KE. Accordingly, relevant debt obligations of KE are discharged in line with its financing arrangement and any remaining and excess amounts are then released to KE for its own use.

PROPOSED DYNAMICS

KE intends to open and operate a sub-account titled power supplier account ("**PSA**")[1] which will be fed from the MCA. The operation of the PSA would involve an amendment of MCA agreement already executed between KE, the relevant collection banks, MCA Agent and all lenders ("**Escrow Agreement**"). Pursuant to the Escrow Agreement, KE would issue irrevocable standing instructions to the relevant account bank to automatically transfer due amounts equal to the monthly energy invoices of KE's power supplier on a periodical basis in accordance with the terms of the energy purchase agreement between KE and its power supplier ("**EPA**"). To ensure seamless operation and accumulation of funds in the PSA, appropriate changes would be affected in the existing Master Collection Agreement(s) to enable any amount in the MCAs which is in addition of the debt servicing obligation for a given period to be transferred to the PSA on a periodical and consistent basis. Such a regular stream of payment would automatically feed the PSA to satisfy the payment obligation of KE under the relevant EPAs without any control of KE in respect thereto.

[1] Lenders of KE will also have a lien over the PSA.