

Ref: SEC/PSC/19

Dated: 26 November 2019

Mr. Hassan Raza
General Manager
Product Management & Research Department
Pakistan Stock Exchange Limited
Stock Exchange Building
Karachi-74000

Subject: **Shariah Review for re-composition of Shariah Indices as of June 30, 2019**

Dear Sir,

We write with reference to your letter No.PSX/Gen-5688 dated 19 November 2019 on the above subject and state that financial statements for FY 2018, have been approved by the shareholders at the AGM held on 4 November 2019, and the financial statements for FY 2019 are in audit process of which PSX and SECP have been duly informed.

Insofar as disclosure for FY2018 required under Fourth Schedule of the Companies Act 2017 is concerned, the same have already been disclosed in financial statements for the FY 2018. Required information are attached, herewith.

Yours sincerely,



Mohammad Atif

General Manager, Corporate Affairs & Payroll & Funds

MOHAMMAD ATIF
General Manager
Controlling & Accounting
K-ELECTRIC LIMITED

Encl. As above

K-Electrci Limited

For the year ended June 30, 2018

Requiemment of Fourth Schedule

Description	Note to FS	Link
Sharia complaint companies and the companies listed on Islamic index shall disclose:		
(i) Loans/advances obtained as per Islamic mode;	Note 20, 21 and 28	Long term financing!A1 short term borrowing!A1
(ii) Shariah compliant bank deposits/bank balances;	Note 15	Cash and bank!A1
(iii) Profit earned from shariah compliant bank deposits/bank balances;	Note 39	Other income!A1
(iv) Revenue earned from a shariah compliant business segment;	Note 32 and 33	Revenue!A1
(v) Gain/loss or dividend earned from shariah compliant investments;		No investment is made by the Company
(vi) Exchange gain earned from actual currency;	Note 38	Other operating expense!A1
(vii) Mark up paid on Islamic mode of financing;	Note 40	Finance cost!A1
(viii) Relationship with shariah compliant banks; and		No Relation ship with any bank
(ix) Profits earned or interest paid on any conventional loan or advance.	Note 40	Finance cost!A1

	Note	2018 (Rupees in '000)	2017
1. LONG-TERM DIMINISHING MUSHARAKA			
Diminishing musharaka - secured	1.1	17,405,681	21,705,568
Less: Current maturity shown under current liabilities		(4,400,000)	(4,400,000)
		<u>13,005,681</u>	<u>17,305,568</u>

- 1.1 During the year ended June 30, 2015, the Company issued 4.4 million KE AZM Sukuk certificates, having face value of Rs. 5,000 each aggregating to Rs. 22,000 million and entered into a diminishing musharaka agreement with the investment agent, Pak Brunei Investment Company (trustee on behalf of the Sukuk holders) as a co-owner of the Musharaka assets. The issue resulted in cash receipts of subscription money of Rs. 22,000 million. The Company, however, paid transaction cost from the said receipts amounting to Rs. 491 million resulting in proceeds net of transaction cost of Rs. 21,509 million. The Sukuk certificates carry profit at the rate of 3 months KIBOR + 1% and with quarterly rental payments. These certificates are issued for a tenure of seven years and are structured in such a way that first quarterly principal repayment installment commenced from the quarter ended September 2017. These certificates are issued to generate funds under Islamic mode of financing and are structured as long term diminishing musharaka. Under this arrangement the Company sold the beneficial ownership of the musharaka assets, mainly plant and machinery, to the investment agent (for the benefit of Sukuk holders) although legal title remains with the Company. The overall arrangement has been accounted for on the basis of substance of the transactions in these financial statements.

	Note	2018 (Rupees in '000)	2017
2. LONG-TERM FINANCING			
From banking companies and financial institutions - secured			
Medium term loan	2.1	-	2,750,000
Syndicated loan	2.2 & 2.5	1,242,857	2,912,067
Hermes financing facility	2.3 & 2.5	5,873,045	611,138
Sinosure financing facility	2.4 & 2.5	6,939,095	975,302
	2.6	<u>14,054,997</u>	<u>7,248,507</u>
Current maturity shown under current liabilities		(2,158,010)	(4,407,143)
		<u>11,896,987</u>	<u>2,841,364</u>
Others - Secured			
Due to oil and gas companies		610	610
Current maturity shown under current liabilities		(610)	(610)
		-	-
Unsecured			
GoP loan for the electrification of Hub area		26,000	26,000
Current maturity shown under current liabilities		(26,000)	(26,000)
		-	-
		<u>11,896,987</u>	<u>2,841,364</u>

- 2.1 This represented financing facility of Nil (2017: Rs. 2,750 million) availed from a commercial bank for a period of 3 years. The loan carries mark-up at 3 months KIBOR + 0.07% (2017: 3 months KIBOR + 0.07%) per annum. This facility was secured against charge on specific operating fixed assets with 20% margin. As per the terms of the facility, it was at the discretion of the Company to repay the remaining outstanding amount any time after the date of disbursement, without any prior notice to the bank. The facility has been fully repaid during the year.

- 2.2** On March 28, 2014 the Company entered into agreements for syndicate facility amounting to Rs. 5,700 million, term finance facility of Rs. 1,360 million and Musharaka facility of Rs. 640 million. The finances were utilized for the procurement and services required to increase output and efficiency of 90 MW GE Jenbacher engines and to convert single cycle operation to combined cycle operation. The loan carries mark-up at 3 month KIBOR + 0.5% (2017: 3 months KIBOR + 0.5%) per annum. The loan and term finance facility is to be settled in 14 quarterly installments with installment commencing on December 31, 2015 and repayable by March 16, 2019. Whereas, Musharaka facility is to be settled in 14 quarterly installments with the installment commencing on January 1, 2016 and repayable by March 16, 2019. In September 2016 the Company partially prepaid the syndicate loan to the tune of Rs. 1,357 million.
- 2.3** This represents Pakistan Rupee equivalent drawdowns of EUR 41.49 million (2017: EUR 5 million) disbursed under Hermes supported facility agreement entered into on December 22, 2015 amounting to EUR 46.5 million, with Standard Chartered Bank, London Branch. The loan is to be utilized to fund the Transmission Project (TP 1000-04). The loan carries mark-up at 3 month EURIBOR + 1.65% per annum. The loan is to be settled in 28 quarterly installments with first installment due on March 16, 2019 and is repayable by December 16, 2025. The Company has executed cross currency swaps with commercial banks to hedge the Company's foreign currency payment obligation under the facility together with EURIBOR interest accruing thereon. During the year, through 2nd amendment to the facility agreement, amount under the facility has been enhanced to EUR 51.5 million.
- 2.4** This represents Pakistan Rupee equivalent drawdowns of USD 57.06 million (2017: USD 9 million) disbursed under Sinasure supported facility agreement entered into on December 22, 2015 amounting to USD 91.5 million, with a syndicate of foreign commercial lenders. The loan is to be utilized to fund the Transmission Project (TP 1000-03). The loan carries mark-up at 3 month USD LIBOR + 3.5% per annum. The loan is to be settled in 28 quarterly installments with the first installment due on March 16, 2019 and is repayable by December 16, 2025. The Company has executed cross currency swaps with commercial banks to hedge the Company's foreign currency payment obligation under the facility together with USD LIBOR interest accruing thereon.
- 2.5** The above facilities, stated in notes 21.2 to 21.4 are secured against:
- assets and properties (excluding stores, spares and fuel) existing and located on each of the Bin Qasim Site (other than units 3 and 4 of BQPS-1), the Korangi site, the Korangi Gas Plant Site and S.I.T.E Plant site;
 - stores and spares of the Company, not exceeding fifteen percent (15%) of the aggregate value, wheresoever located;
 - hypothecation charge over specific consumers' receivables; and
 - lien on specific accounts and deposits by way of first pari passu charge for the benefit of facility parties.
- 2.6** The bifurcation of long term financing under Conventional banking and Islamic banking is as follows:

	2018	2017
	(Rupees in '000)	
Conventional:		
Medium term loan	-	2,750,000
Syndicated loan	1,105,714	2,580,000
Hermes financing facility	5,873,045	611,138
Sinasure financing facility	6,939,095	975,302
	13,917,854	6,916,440
With Islamic banks:		
Syndicated loan	137,143	332,067
	14,054,997	7,248,507

3. SHORT-TERM BORROWINGS

Secured:

From banking companies:

Bills payable	3.1 & 3.2	5,282,752	350,147
Short term running finances	3.1 & 3.3	27,904,667	10,498,941
Short term loans	3.1 & 3.4	-	426,208
Murabaha finance facilities	3.1 & 3.5	5,526,000	3,145,500
Structured invoice financing	3.1 & 3.6	1,116,756	4,043,337
		<u>39,830,175</u>	<u>18,464,133</u>

From others:

KES Power Limited - Holding Company - unsecured	3.7	9,300	36,870
KE Azm Certificates	3.8	-	496,647
KE Azm Sukuk Certificates	3.9	1,477,885	1,425,856
		<u>41,317,360</u>	<u>20,423,506</u>

- 3.1** The total facility limit of various financing facilities available from banks aggregate to Rs. 45,210 million (2017: Rs. 45,451 million) out of which Rs. 5,380 million (2017: Rs. 26,987 million) remained unutilised as of reporting date.
- 3.2** These are payable to various commercial banks at a maturity ranging from 30 to 90 days from the date of discounting in respect of payments made to fuel and oil suppliers of the Company and Independent Power Producers (IPPs) and are secured against charge on specific fixed operating assets and joint pari passu hypothecation charge over current assets of the Company.
- 3.3** The Company has arranged various facilities for short-term working capital requirements from commercial banks, on mark-up basis. These are for a period of one year and carry mark-up of 1 to 3 months KIBOR - 0.03% to KIBOR + 1.25% per annum. These finances are secured against joint pari passu charge over current assets and charge over specific fixed assets. In addition, demand promissory notes in respect of the above mentioned facilities have also been furnished by the Company.
- 3.4** This includes short-term loan amounting to Nil (2017: Rs. 426 million), being Pakistan Rupee equivalent of USD 4.1 million, availed from a commercial bank carrying mark-up at 3-months LIBOR + 1.5% per annum. This facility is secured against joint pari passu hypothecation charge over current assets and charge over specific fixed assets.
- 3.5** This includes murabaha financing facility under Islamic mode of financing to meet the Company's working capital requirements amounting to USD 50 million (2017: USD 30 million), for a period of six months. The facility is so structured that the Company's cost is effectively 6-month KIBOR minus 0.11% per annum and is secured against joint pari passu hypothecation charge over current assets and charge over specific fixed assets.
- 3.6** This represents structured working capital finance facility obtained from commercial bank for financing of vendors' suppliers payments and carries mark-up rate at the rate of relevant tenure KIBOR + 0.1% per annum, with maximum repayment dates of 90 days from each invoice financed. These are secured against joint pari passu hypothecation charge over current assets and charge over specific fixed assets.
- 3.7** This represents excess funds received from KES Power Limited (Holding Company) while subscribing its share of right issue, and USD 0.25 million paid by KES Power Limited to a supplier as deposit on behalf of the Company. During the year, the Company has settled certain portion of the aggregate dues by adjusting the expenses incurred by the Company on behalf of KES Power Limited.

- 3.8** This represents 100,000 certificates having original face value of Rs. 5,000, net off unamortized transaction cost of Nil (2017: Rs. 496 million) matured in August 2017. The profit payments on these certificates are based on the fixed rate of 15.5% per annum. These certificates are secured by way of exclusive hypothecation over certain specific consumer receivable and specific fixed assets.
- 3.9** This represents the outstanding balance of 300,000 listed Sukuk certificates having original face value of Rs. 5,000, net off amortized transaction cost, due to mature by March 2019. The profit payments on these certificates are based on 3 months KIBOR + 2.75% per annum. As of June 30, 2018, the Sukuk holders had the option for early repayment. These Sukuk certificates are secured by way of exclusive hypothecation charge on specific fixed assets.
- 3.10** The bifurcation of short-term borrowings from banking and other companies under conventional and shariah compliant modes is as follows:

Note	2018	2017
	(Rupees in '000)	
Conventional:		
Bills payable	5,282,752	350,147
Short-term running finances	26,904,667	9,370,661
Short-term loan	-	426,208
Structured invoice financing	1,116,756	4,043,337
KES Power Limited - Holding Company	9,300	36,870
KE Azm Certificates	-	496,647
	33,313,475	14,723,870
Shariah compliant:		
Short-term running finances	1,000,000	1,128,280
Murabaha finance facilities	5,526,000	3,145,500
KE Azm Sukuk certificates	1,477,885	1,425,856
	8,003,885	5,699,636
	41,317,360	20,423,506

	Note	2018 (Rupees in '000)	2017
4. CASH AND BANK BALANCES			
Cash in hand		26,232	19,787
Cash with:			
Conventional banks:			
- Current accounts		119,708	301,081
- Deposit accounts	4.1	286,684	51,378
- Collection accounts		678,698	1,479,854
		1,085,090	1,832,313
Islamic banks:			
- Current accounts		4,804	-
- Deposit accounts		1,486	13,798
- Collection accounts		15,062	212,018
		21,352	225,816
		<u>1,132,674</u>	<u>2,077,916</u>

4.1 These carry mark-up at rates ranging from 4% to 4.5% (2017: 3.75 % to 4.0%) per annum.

5. OTHER INCOME

Income from financial assets

Return on bank deposits	5.1	132,057	229,344
Late payment surcharge	5.2	2,317,811	2,479,073
		<u>2,449,868</u>	<u>2,708,417</u>

Income from non-financial assets

Liquidated damages recovered from suppliers and contractors		104,780	265,050
Scrap sales		240,043	277,336
Amortization of deferred revenue	24	1,686,016	1,531,800
Service connection charges		1,286,680	2,081,816
Collection charges - TV license fee		113,074	101,434
Gain on disposal of property, plant and equipment		535,017	1,323,956
Gain on sale of assets classified as held for sale		-	169,652
Others		2,054,736	939,317
		<u>6,020,346</u>	<u>6,690,361</u>
		<u>8,470,214</u>	<u>9,398,778</u>

5.1 Includes Rs. 0.141 million (2017: Rs. 6 million) being return on bank deposits that are Shariah Compliant mode.

5.2 In accordance with the Company's policy, Late Payment Surcharge (LPS) receivable on delayed payment of electricity bills from various Government / Government controlled entities (Public Sector consumers, "PSCs") amounting to Rs. 6,515 million up to June 30, 2018 (2017: Rs. 7,550 million) has not been recorded in these financial statements and will be accounted for on receipt basis. It is the Company's management contention that the calculation of LPS on PSCs should be made on the same basis as the accrued interest on delayed payments on account of circular debt situation. If similar basis is adopted, the LPS income amount would substantially increase.

	Note	2018	2017
		(Rupees in '000)	
6. OTHER OPERATING EXPENSES			
Exchange loss - net		674,953	51,050
Workers' profits participation fund		722,066	458,512
Interest on consumer deposits		348,715	282,200
Donations		68,149	86,179
Listing fee		2,685	1,713
Others		305,854	657,396
		<u>2,122,422</u>	<u>1,537,050</u>

	Note	2018	2017
(Rupees in '000)			
7. FINANCE COST			
Mark-up / interest on:			
- Long term financing	7.1	2,230,514	1,855,012
- Short-term borrowings	7.2	719,362	1,198,071
		<u>2,949,876</u>	<u>3,053,083</u>
Late payment surcharge on delayed payment to creditors		2,354	2,564
Bank charges, guarantee commission, commitment fee and other service charges		209,584	356,779
Letter of credit discounting charges		74,478	196,552
		<u>3,236,292</u>	<u>3,608,978</u>
7.1	Includes Rs.1,461 million (2017: Rs. 1,691 million) being mark-up on long-term financing that are under Shariah Compliant mode.		
7.2	Includes Rs. 135 million (2017: Rs. 555 million) being mark-up on short-term financing that are under Shariah Compliant mode.		

	Note	2018 (Rupees in '000)	2017
8. SALE OF ENERGY – NET			
Gross sales		228,708,792	210,147,715
Sales tax		(33,575,559)	(31,381,037)
Other taxes		(10,977,676)	(10,197,465)
Net sales		<u>184,155,557</u>	<u>168,569,213</u>
8.1 NET SALES			
Residential	8.1.1	85,776,137	80,357,970
Commercial	8.1.1	38,805,912	36,840,798
Industrial	8.1.1	48,640,899	46,502,014
Karachi Nuclear Power Plant (KANUPP)	8.1.1	246,768	141,871
Fuel surcharge adjustment	8.1.2	7,443,750	971,174
Others		3,242,091	3,755,386
		<u>184,155,557</u>	<u>168,569,213</u>

8.1.1 The above includes net cycle day impact amounting to Rs. 394 million (2017: Rs. 1,508 million).

8.1.2 This represents monthly fuel surcharge adjustment as per mechanism provided in MYT decision . The said amount has been / will be charged to the consumers subsequently as per notification by the Ministry of Energy (Power Division).

8.1.3 This includes Rs. 2,350 million (2017: Rs. 2,809 million) in respect of supply of energy through street lights.

	Note	2018 (Rupees in '000)	2017
9. TARIFF ADJUSTMENT			
Tariff adjustment	9.1	<u>32,970,950</u>	<u>15,285,893</u>
9.1	This represents tariff differential subsidy claim for variation in fuel prices, cost of power purchases, operation and maintenance cost, and adjustments required as per NEPRA's MYT decision and those resulting in adjustment of tariff due from Government.		
9.2	Includes Rs. 3,371 million comprising dues of 64,779 customers (2017: Rs 6,195 million comprising dues of 79,260 customers) recognized during the year against actual write-off of bad debts, as allowed by NEPRA under the MYT decision for the period from July 1, 2016 to June 30, 2023, through the decision dated July 5, 2018. The write-off amount has been claimed by the Company on July 19, 2019 on a provisional basis as part of quarterly tariff adjustment for the fourth quarter ended June 30, 2018 aggregating to Rs. 4,545 million (fourth quarter ended June 30, 2017: Rs. 7,104 million). Further, in connection with claims for the year ended June 30, 2017 final claims amounting to Rs. 6,195 million have been submitted to NEPRA on July 19, 2019, the determination of which is yet to be finalised by NEPRA.		

As required under the aforementioned NEPRA decision of July 5, 2018, for the purpose of claim of tariff adjustment in respect of actual write-off of bad debts, the Company ensured the following required procedures:

- The defaulter connection against which the bad debts have been written off were disconnected prior to June 30, 2018 and the customers were inactive in the Company's system i.e. SAP prior to June 30, 2018.

- The aforementioned amount of write-off of bad debts has been approved by the Company's Board of Directors certifying that the Company has made all best possible efforts to recover the amount being written-off in accordance with the "Policy and Procedures for Write-off of Bad Debts".

- The actual write-off of bad debts has been determined in accordance with the terms of write-off detailed in the "Policy and Procedures for Write-off of Bad Debts", as approved by the Board of Directors of the Company.

Further, the statutory auditors of the Company verified that the write-off of bad debts amount is not recoverable notwithstanding the efforts of the Company.

In case any amount written-off, as included in the aforementioned claim, is subsequently recovered from the customer, the recovered amount shall be adjusted in next year's tariff, as required under the aforementioned NEPRA decision of July 5, 2018.

In respect of all the defaulter connections, against which the aforementioned write-off amount has been claimed by the Company as tariff adjustment for the years ended June 30, 2018 and June 30, 2017, the Company in addition to the defaulter customer identification and traceability procedures mentioned in the "Policy and Procedures for Write-off of Bad Debts" has carried out physical surveys for establishing the fact that the defaulter connection is physically disconnected and the defaulter customer who utilised the electricity is untraceable or recovery in the present circumstances is not possible.

There are number of locations / premises which were removed as a result of anti-encroachment drives by the government authorities, whereas, in a number of other cases the premises to which electricity was supplied is no more traceable due to change in either the mapping of the area (including unleased area), demolition of the original premises, structural changes (including division of single premises into many) to the original premises and discontinuation / demolition of single bulk PMT connection. In all of these cases due to the specific situation the connection and / or premises are no more traceable. In addition, there are certain defaulter customers; who were not able to pay off their outstanding dues, in various forms including outstanding amounts on hook connection at the time of transfer of defaulter customers to metered connections and other settlements. Accordingly, the same has been claimed as part of write-off for the years ended June 30, 2018 and June 30, 2017. The corresponding amount has been claimed in the tariff adjustment after verifying underlying facts.