
K-Electric Limited Investor Presentation

November 2019

Market Overview

Pakistan Power Sector

Strategic Importance of Karachi

Reforms Underway

KE's Brief History & Overview

Operational & Financial Performance

Multi-Year Tariff

Future Plans

Key Challenges

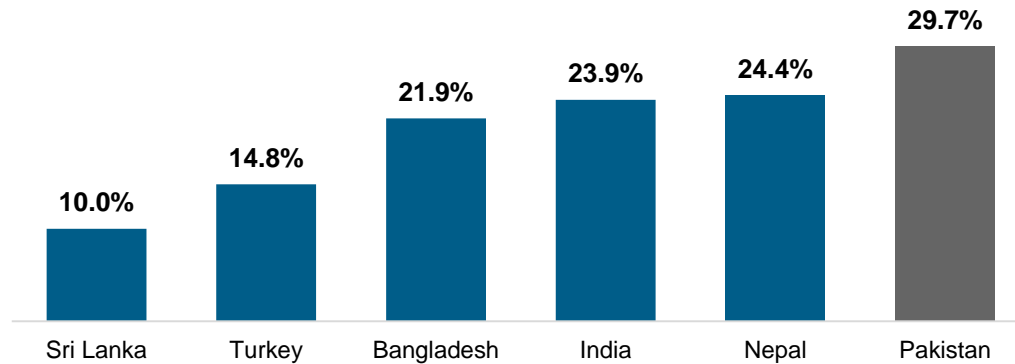
The Journey Continues

Pakistan Power Sector – State of the Industry

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

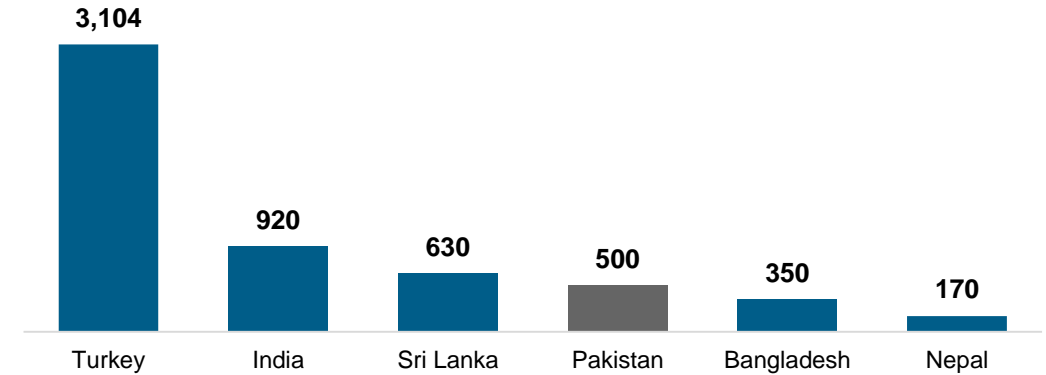
AT&C Loss Comparison

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



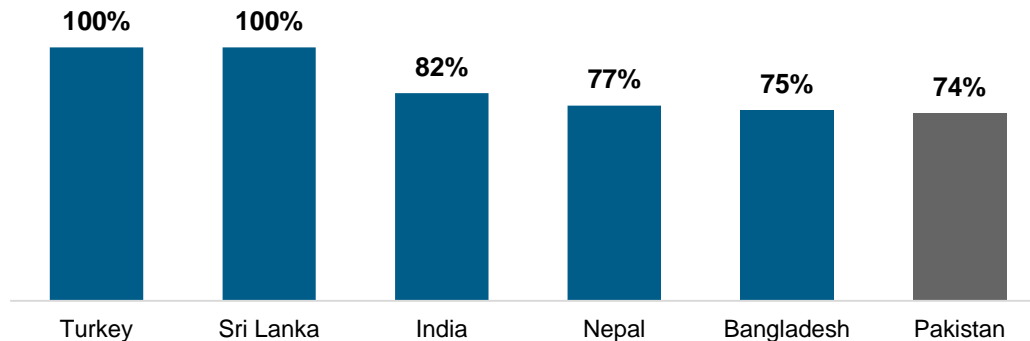
Per Capita Consumption (kWh)

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



Electrification Rate

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



Need for continued investments

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

“... Pakistani power sector including generation, transmission and up-gradation has over USD 80 Billion investment opportunities and foreign direct investment was pouring as multiple companies have shown their interest to invest”

Omar Ayub, Minister for Energy, Government of Pakistan

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Strategic Importance of Karachi

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

Karachi's Importance to Pakistan

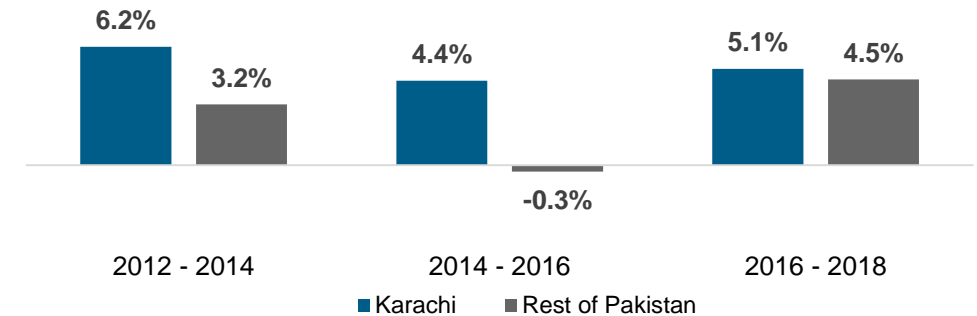
- Karachi is the commercial hub and gateway of Pakistan – accounts for c. 20% of the country's GDP
- Home to Pakistan Stock Exchange, making it the financial centre of Pakistan
- c. 40% of large-scale manufacturing employment is in Karachi
- Population is expected to grow at a CAGR of c. 2.5% in the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

Rest of Pakistan vs. Karachi – Growth in Peak Demand¹ (MW)

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

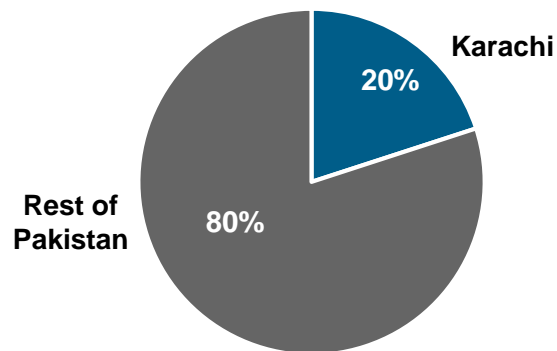
Growth in Peak Demand CAGR (FY 12 – 18)

Karachi	5.2%
Rest of Pakistan	2.4%

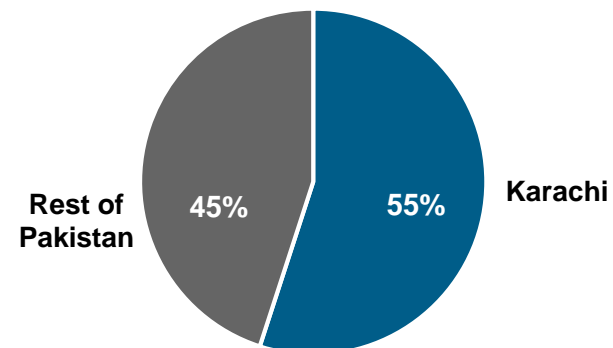


Karachi's Contribution to Pakistan's Economy

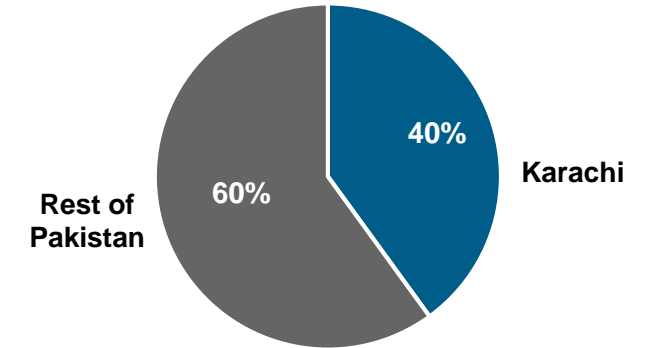
Gross Domestic Product



Tax Revenue



Large-scale Manufacturing Employment



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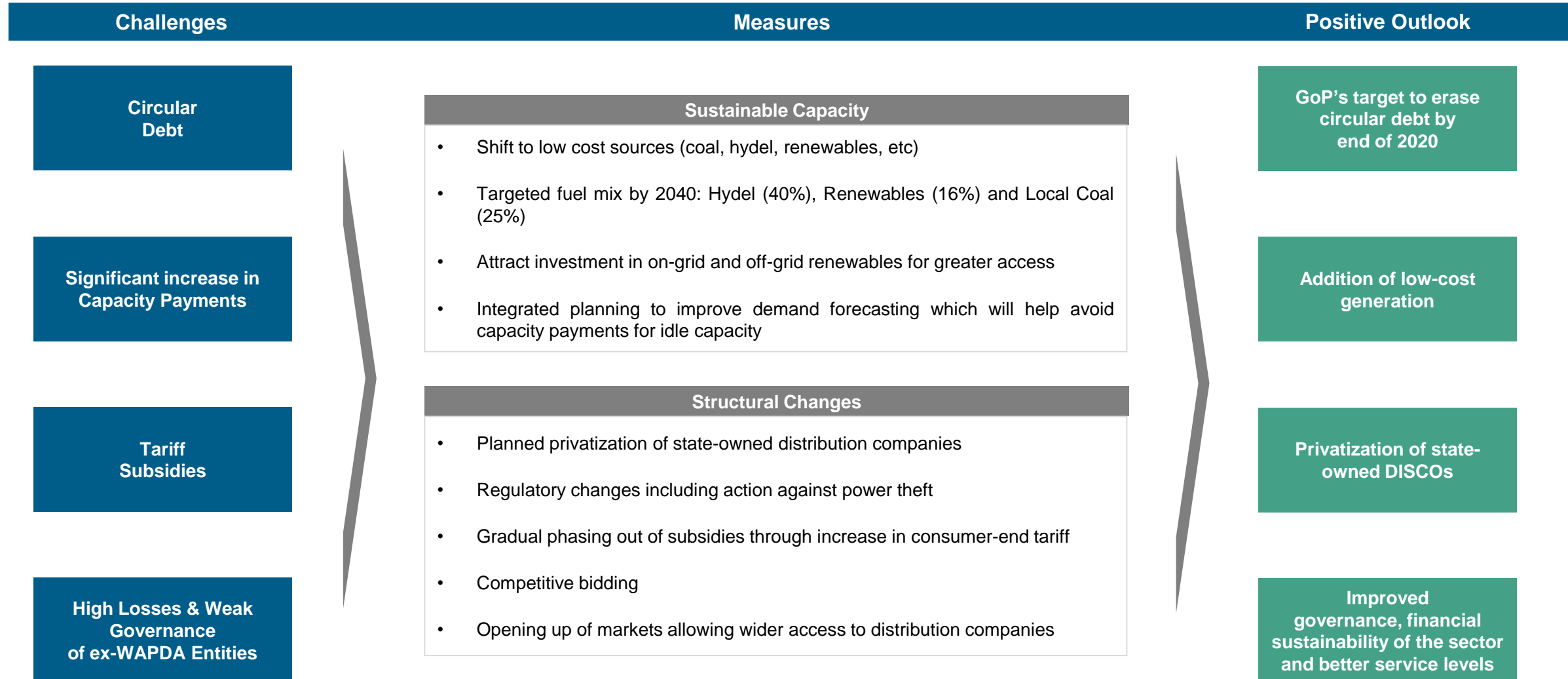
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Pakistan Power Sector – Reforms Underway

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



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Business Overview



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

Presence Across the Entire Power Value Chain

Generation

Own Generation

Power Purchases

5 plants with installed capacity of **2,267 MW** and 1,300+ MW of arrangement with external sources

Transmission

Grid Stations

6,078 MVAs transmission capacity through **68 grid stations**, **160 Power Trafos** & over **1,283 km** of EHT lines

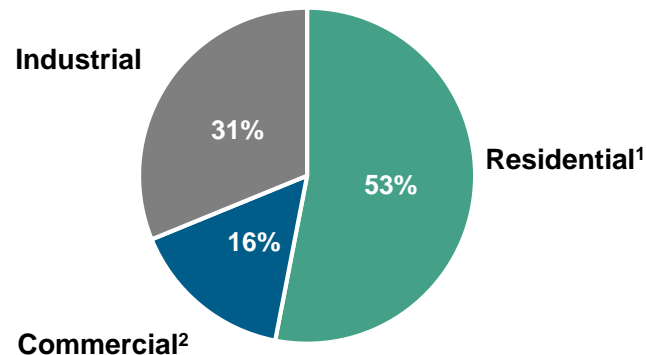
Distribution

End User

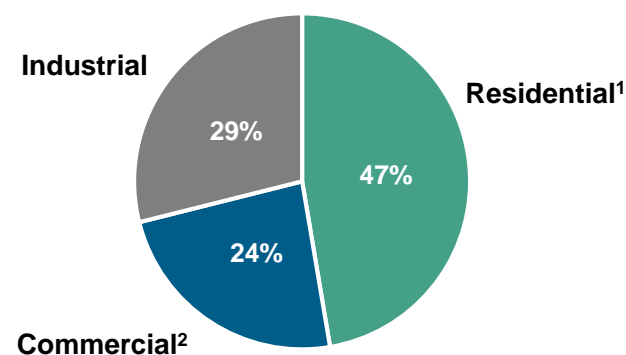
7,702 MVAs distribution capacity through **1,807 feeders** & **28,000+ PMTs and substations**

A Diversified Customer Base

Customer Breakdown
(Units Billed)

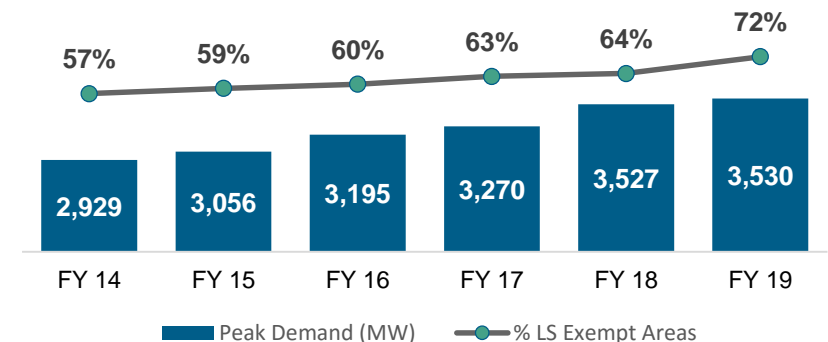


Customer Breakdown
(Amount Billed)



Growing Power Demand and Reduction in Load-shed

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



1. Residential includes Domestic, Agriculture, Street light and General Services
Note: Public sector consumers account for c. 9% of annual units billed

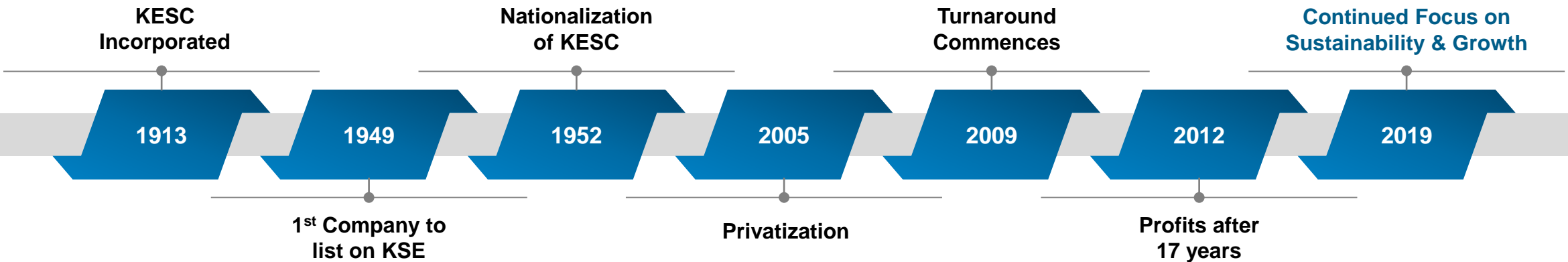
2. Commercial includes Bulk Supply consumers

Brief History & Overview



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

From KESC to KE¹



KE in 2009		
USD 1,084 Million FY09 Revenue	USD (87) Million FY09 EBITDA	1,685 MW Generation Capacity
35.9% T&D losses	c. 2.0 Million Customers	52 Grid Stations
Severe lack of Investment and old & dilapidated Infrastructure resulting in frequent outages and unannounced load-shed		
Cash Burn of USD (180) Million in FY 09		

KE in 2019 ²		
USD 1,975 Million FY 18 Revenue	USD 295 Million FY 18 EBITDA	2,267 MW Generation Capacity
19.1% T&D losses	> 2.8 Million Customers	68 Grid Stations
Over USD 2.4 Billion invested across the value chain since 2009		
Profitable after 17 years in FY 12 – IFC and ADB converted their long-term financing of USD 50Mn into equity		

1. Rebranded to KE in 2014

2. KE's financials for FY 19 are in the process of finalization

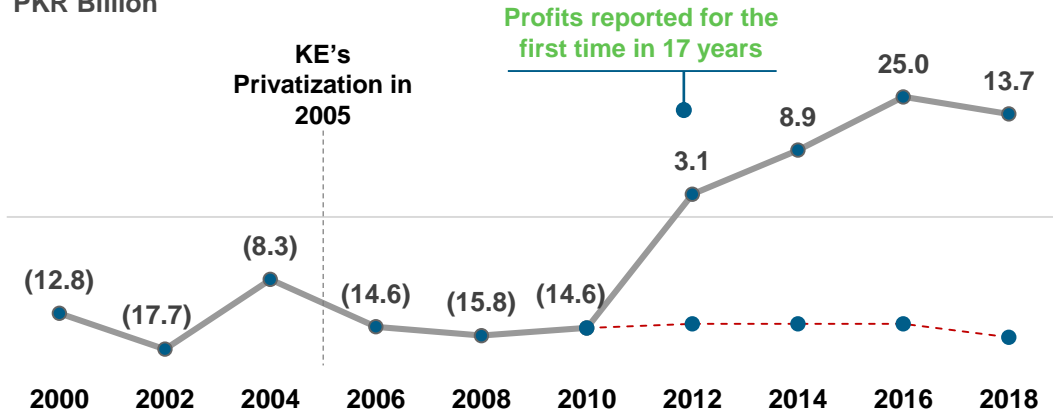
KE's Turnaround – A Success Story

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

KE's Turnaround from a troubled loss-making entity

Profit / (Loss) Before Taxation¹

PKR Billion

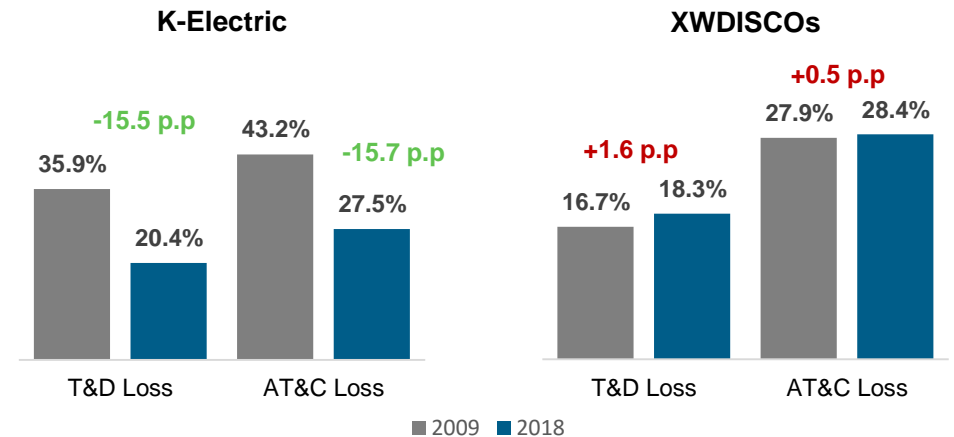


KE's Privatization & Turnaround – Setting a precedent for the Power Sector

- To keep KE's operations afloat, **annual average operational subsidy of c. PKR 9.5 Billion** had to be provided by GoP during FY 2003 to FY 2005, which was not required post privatization – losses borne by KE's private investors
- Evident from the performance of XWDISCOs, had KE not been privatized, the company would have continued on a loss-making trajectory, **burdening the GoP in the form of operational subsidy – KE's improvement in AT&C losses of 15.7% points (Annual impact of c. PKR 50 Billion²)**
- XWDISCOs reported a cumulative loss of **c. PKR 207 Billion** from 2013 to 2016 – **Eight out of ten state-owned distribution companies reported losses in FY 16** and are heavily dependent upon GoP support

Operational Improvements outperforming state-owned DISCOs

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



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

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Operational Performance since 2009

Through investments of over USD 2.4 Billion across the value chain during FY 09 to FY 19¹, KE's management focused on enhancing fleet efficiency, reducing T&D losses and improving operational processes to unlock value

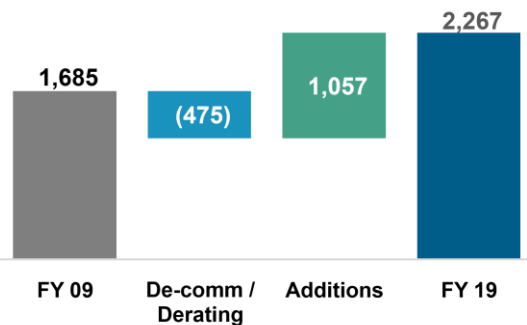
Investments across the value chain since 2009

GENERATION

c. USD 1,100
MILLION¹

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

Capacity Addition (MW)



TRANSMISSION

c. USD 615
MILLION¹

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

DISTRIBUTION

c. USD 690
MILLION¹

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



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



100%
Industrial zone load-shed exemption



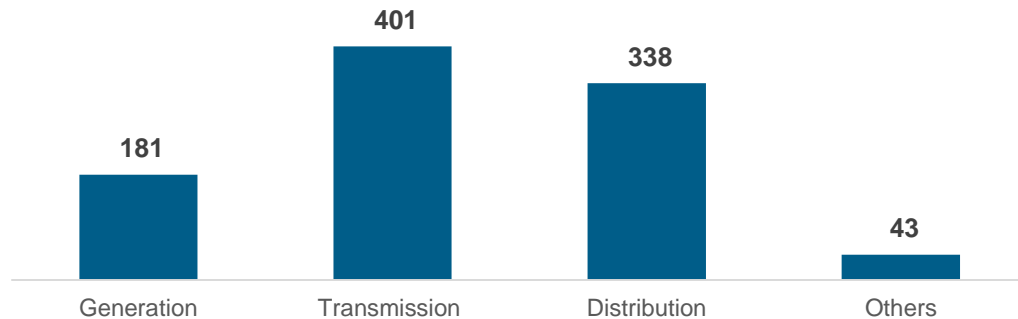
19.1%
T&D losses – improvement of 16.8% points since 2009

Investments made across the Value Chain in last 3 years

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

Capex FY 17 – FY 19¹ (USD Million)

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



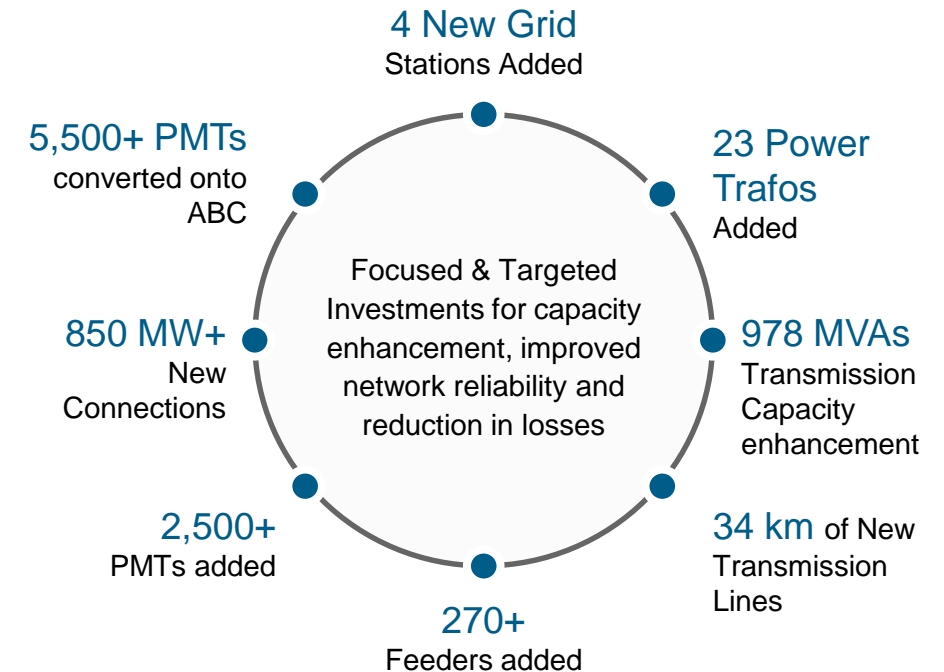
Operational Improvements

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

Capacity Addition & System Improvements in last 3 years

Power Supply added to KE's System in last 3 Years

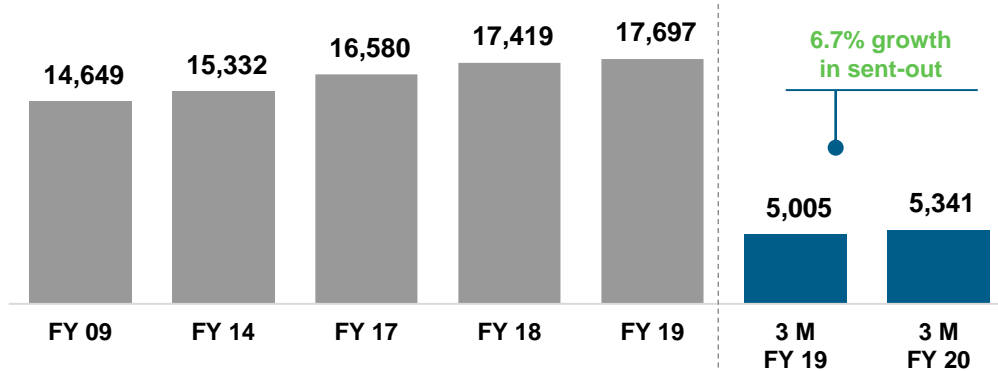
National Grid (150 MW) June, 2019	Oursun (50 MW) Nov, 2018	SNPC (101 MW) Jan, 2018	FPCL (52 MW) May, 2017
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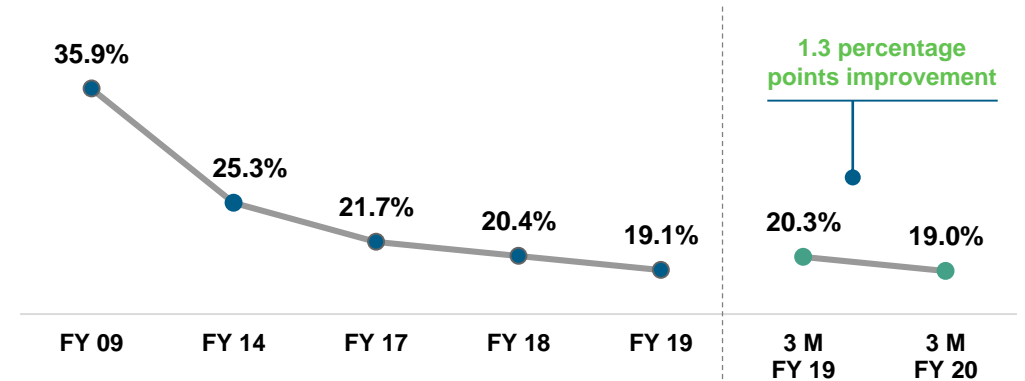
Operational Performance – Generation, Transmission & Distribution

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

Sent-out (GWh)

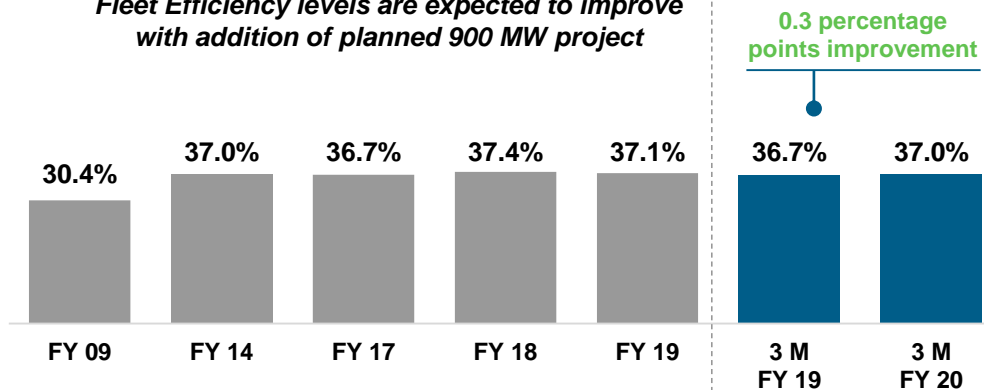


Rolling Average T&D Losses (%)

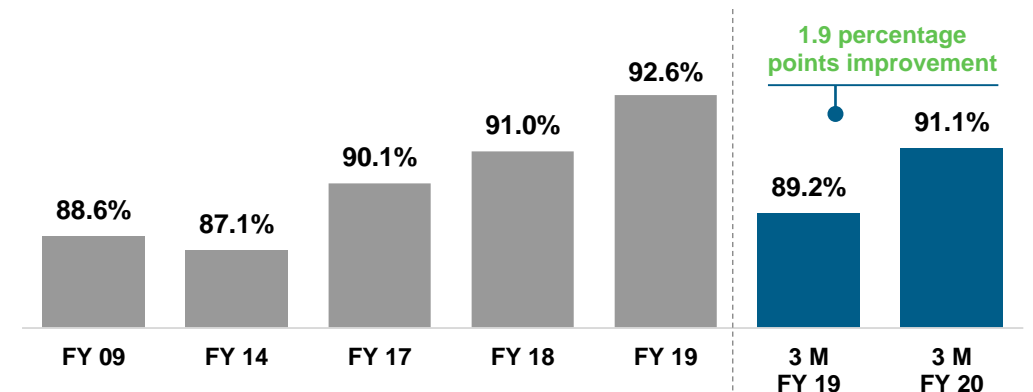


Generation Fleet Efficiency (%)

Fleet Efficiency levels are expected to improve with addition of planned 900 MW project



Recovery Ratio (%)



Financial Performance

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

Financial Highlights

Change in Tariff Level & Structure

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

Continuous Investments and Improved Operational Performance in FY 18

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

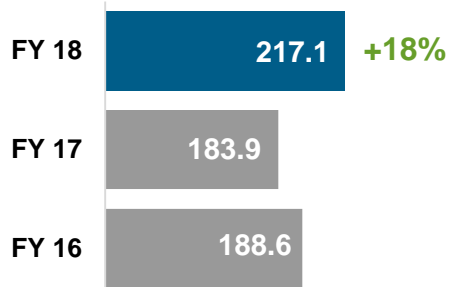
Sustained Financial Outlook

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



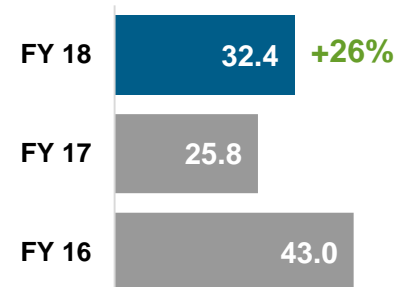
Revenue

PKR Billion



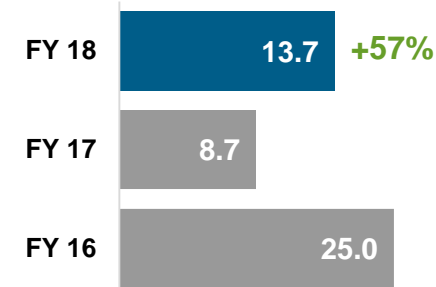
EBITDA

PKR Billion



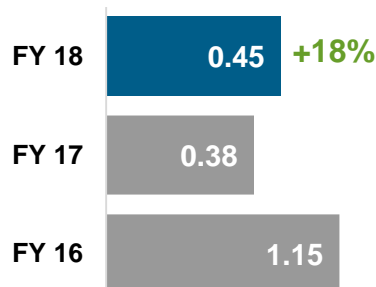
Profit Before Taxation

PKR Billion



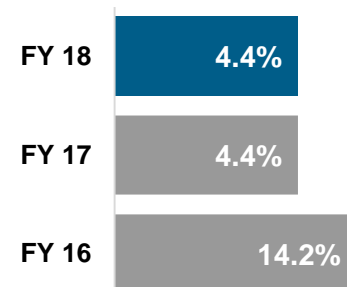
Earnings Per Share

PKR



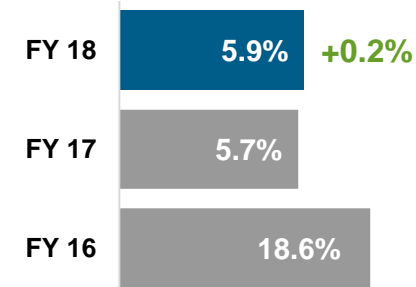
Return on PPE¹

%



Return on Equity²

%



Key Financing Initiatives

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

Key Financing Initiatives



K-ELECTRIC LIMITED

**SYNDICATED MULTI FINANCING FACILITY
OF
PKR 25,000 MILLION**

MANDATED LEAD ADVISORS & ARRANGERS

UBI faysalbank Meezan Bank

LEAD ADVISOR & ARRANGER

MCB Bank for Life Allied Bank

FACILITY & INVESTMENT AGENT **SHARIAH STRUCTURING AGENT**

faysalbank Meezan Bank

FINANCIERS' LEGAL COUNSEL **COMPANY'S LEGAL COUNSEL**

HAIDERMOTABNR MTC

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



K-Electric Limited is pleased to announce the successful issuance of

**Pakistan's largest privately placed,
Shariah-compliant
Islamic Commercial Paper (ICP)
PKR 10,000,000,000**

Rated "AA/A-1" by VIS Credit Rating Company.

**Mandated Lead Arranger & Advisor,
Issuing & Paying Agent and Investment Agent**



BankIslami
BankIslami Pakistan Limited

Valued Investors

Al Meezan NBP FUNDS

HBL ASSET MANAGEMENT LTD. MCB-ARIF HABIB Aftab Investments

Transaction Legal Counsel

MCI MOHSIN TAYEBALLY & CO.

March, 2019

This appears as a Matter of record only.

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



**KE signs US\$ 50M loan facility arranged by
Standard Chartered & Askari Bank Limited, supported
by GuarantCo for upgrading power infrastructure**

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

VIS Credit Rating Company Limited

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

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

KE Sukuk – PKR 25 Billion

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

Salient features of the proposed PKR 25 Billion Sukuk

Purpose

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

Expected Timelines

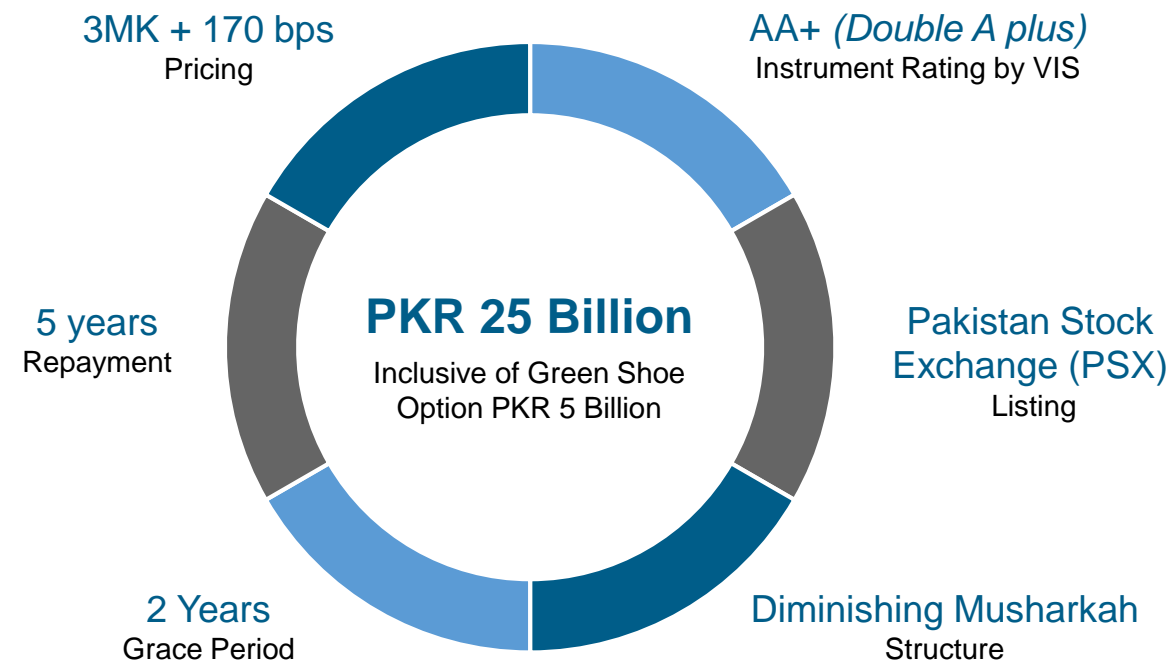
- Pre-IPO: November 2019
- IPO: April 2020

Security

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

Shariah Board

- Renowned scholars form part of a 5 member Shariah board



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

Express Tribune, 09 February, 2019

Structuring Agents



HABIB BANK
حبیب بینک



National Bank of Pakistan
نیشنل بینک آف پاکستان

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Determined MYT

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

Opportunities to Unlock Value under the Determined MYT

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



Return on RAB structure – allows for a long-term, de-risked, construct as KE's RAB will continue to increase as key projects come online – this structure is also in line with tariff structure provided to other power sector entities in Pakistan



Dollarized returns across the value chain have been allowed



Operational Efficiencies – outperforming NEPRA benchmarks for T&D loss, sent-out growth and beating NEPRA projected O&M costs



Removal of “-X” Factor from O&M Indexation for Generation – similar to IPPs



Allowance of Actual write-offs – improved recovery which combined with allowed write-offs will minimize KE's recovery gap



Mid-Term Review Mechanism in Tariff – to re-assess certain assumptions including investments, exchange rates and working capital



Investment Flexibility – investments in new generation projects (*other than BQPS – III*), subject to NEPRA's approval



Tax / WWF / WPPF allowed as pass-through items

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

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Initiatives across the Energy Value Chain

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

Investments across the Value Chain

Generation

- Capacity addition of **c. 3,000 MW** – key projects include:
 - **900 MW** RLNG Plant – the project would significantly improve KE's overall fleet efficiency
 - **700 MW** Coal IPP (equity project)
 - c. 1,000 MW through external IPPs including 300 MW of renewables¹
- Planned projects would also diversify KE's fuel mix

Transmission

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

Distribution

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

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

Improved Network
Reliability

Reduction in
Load-shed

Process
Automation and
Improved Service
Levels

Enhanced
Network Safety

Industrial
Connections fueling
economic growth

1. Includes IPPs which are currently under planning / approval

Potential for Further Value Improvement through a Strategic Investor

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

Strategic Investment – Potential Impact

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

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

Wang Yundan, Chairman SEP

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

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Key Challenges – Receivables from Government Entities and Departments



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

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

Receivables from Government Entities	PKR Billion		Payables to Government Entities	PKR Billion	
Tariff Differential Claims ¹	149.2		NTDC / CPPA – G	97.3	
KWSB “Strategic Customer”	32.4		SSGC	13.7	
Government of Sindh (GoS)	18.9		Other Federal & Provincial Entities	5.5	
Other Federal & Provincial Entities	13.7				
Total Receivables	214.2		Total Payables	116.5	

Net Receivable to KE

c. PKR 98 Billion

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

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

Other Challenges

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

Challenges	Description	Mitigating Strategy
Demand-Supply Gap	<ul style="list-style-type: none">Delayed finalization of MYT has resulted in consequential delays in execution of planned generation projects	<ul style="list-style-type: none">Planned 900 MW and 700 MW projects being pursued on fast track basisEngagement with GoP for additional supply from the National Grid to manage the growing power demand
City Infrastructure and External Factors impacting Provision of Safe Power Supply	<ul style="list-style-type: none">Encroachments and illegal settlements hinders access to certain areasTheft of earthing / grounding equipmentTampering with KE's network by TV cable / internet cable operators poses a safety hazardRight of Way ("RoW") issues impact timely execution of projects	<ul style="list-style-type: none">Continuous engagement with local administration / authorities on kunda removal drives / tampering with network / Right of Way issuesRevalidation of grounding / earthing of HT / LT poles and change in specification of earthing / grounding material to avoid theft
Consistency in Government / Regulatory Policies	<ul style="list-style-type: none">Consistency in regulatory landscape and government policies to ensure that interest of all stakeholders is balanced	<ul style="list-style-type: none">Engagement at Government level and with the regulator to ensure certainty in regulatory and policy matters, enabling a pro-investment environment

Market Overview

Pakistan Power Sector

Strategic Importance of Karachi

Reforms Underway

KE's Brief History & Overview

Operational & Financial Performance

Multi Year Tariff

Future Plans

Key Challenges

The Journey Continues

The Journey Continues

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

Potential Impact



Capacity Additions

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



Growth & Productivity

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



Operational Efficiency

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



Socio-Economic Improvements

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



Dollarized Returns

- Accelerated Capex and dollarized returns across the value chain



Enhanced Safety

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

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

Thank You

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