

**SHARIAH STRUCTURE****FOR ISSUANCE OF UNSECURED, PRIVATELY PLACED SHORT TERM SUKUK ISSUE OF UP TO PKR 6,000 MN FOR HUBCO**

Abridged Terms and Condition	
Issuer	Hub Power Company Limited (“HUBCO” or the “Company”)
Facility	Issue Rated, Unlisted, Unsecured, Privately Placed, Short Term Sukuk (the “Facility”).
Facility Amount	Upto PKR 6,000 Mn
Purpose	To finance the Company’s working capital requirements.
Mandated Lead Advisor and Arranger (“MLAA”)	The Bank of Punjab (“BOP” or the “MLAA”)
Investors	Include financial institutions, mutual funds, Takaful companies and corporate entities.
Tenor	Up to six (6) months from the Issue date.
Availability Period	Up to one (1) month from the date of signing of the Facility documents. Undrawn Facility Amount, if any, on expiry of Availability Period will stand cancelled.
Musharaka Contribution	In bullet.
Facility Redemption	Sukuk will be redeemed in bullet at the expiry of Tenor.
Profit Benchmark/ Desired Profit Rate	<p>Base Rate + 0.30% - 0.50% per annum (subject to a well-defined floor & cap as approved by Shariah Advisor, as applicable).</p> <p>The pricing shall be determined and finalized in consultation with the Issuer at the time of issuance of Sukuk. The MLAA shall endeavor on a best effort basis to obtain the best possible pricing for the Company subject to prevailing market dynamics and appetite at the time of issuance of Sukuk.</p> <p>Base Rate is defined as the 6-Month Karachi Interbank Offer Rate (“KIBOR”). KIBOR is defined as Average Ask rate for the relevant tenor, as published on Reuters page KIBOR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable.</p> <p>The Base Rate will be set 1 (one) business day prior to the</p>



	<p>Disbursement date.</p> <p>The Base Rate shall be subject to two (2) upward / downward revisions in monetary policy (“MPS Differential”) during the Issue Tenor which shall be passed on to the Investors by the Issuer, provided that the change in policy rate is equivalent to or above 50bps. The Base rate will be subject to revision in 2 (two) Business Days after the date of effectiveness of the monetary policy statement. The revised Base Rate shall be applicable from the revised date till the remainder of the Tenor of the Instrument unless changed due to subsequent revision. The MPS Differential will be payable by the Issuer at the time of profit payment date.</p>
Profit Payment	Profit will be paid at maturity.
Issue Date	The date on which entire Disbursement has been taken
Fixed Assets	Generation Unit 1 & Unit 2 of the Hub River Power Plant located in Baluchistan (“Assets”)
Issue/Investment Agent	The Bank of Punjab
Face Value	Sukuk will be issued at a face value of PKR 1,000,000 each or in multiples thereof.
Form of Issuance	Sukuk will be issued in form of scripless securities at face value.

Transaction Structure & Synopsis of Agreements

1. Issue Agency

1.1. Investors (“Sukuk Holders”) will enter into a Sukuk Subscription & Issue Agency Agreement to appoint The Bank of Punjab (“BOP”) as their Issue Agent. Investors will authorize the Issue Agent to do all acts necessary for the purposes of investment in the Musharaka and for safeguarding the interests of the Investors in respect of their investments including but not limited to the following:

- a) To secure the commitments of the Investors.
- b) To enter into the Musharaka and all relevant Facility documents on behalf of the Investors.
- c) To perform calculation of Provisional Profit & Final Musharaka Profit.
- d) To ensure timely issuance of notices as specified under the Legal Agreements.

2. Musharaka (Shirkat-ul-Aqd)

2.1. Issue Agent (on behalf of the Investors) and HUBCO will enter into a Musharaka to make the relevant Generation Unit(s) available for generation and sale of electricity and to participate in the profits generated by the Musharaka in proportion to their pre-agreed profit-sharing ratios (to be agreed in the **Musharaka Agreement**).



- 2.2. Investors' will contribute their investments in cash, whereas HUBCO will contribute in kind through its existing investment in Assets (based on the latest available market value) and through cash (if required) which will form a Musharaka Pool.

Musharaka Pool value = Cash Consideration + Market Value of HUBCO's share in Assets

Subsequent to Musharaka, The total size of Musharaka pool will be 15.3 bln, consisting of cash contribution (PKR 6 bln) from investors and the value of Generation Unit 1 & 2 (PKR 9.3 bln) being contribution from company, constituting ownership percentage in Musharaka Pool of **39.22% & 60.78%** for Investors and Company respectively.

On need basis, during the currency of the Musharaka, HUBCO can inject additional cash from its own sources which results in change of its Musharaka Pool share.

The Musharaka Investment Share will be maximum 80% for investors and minimum 20% for HUBCO. Value of Musharaka pool will be calculated on the basis of actual position of Musharaka assets as determined by Annexure B. To comply the requirement of Shariah, at any time, Musharaka Pool must contain Fixed Assets at least 33% of the total Value of Musharaka Pool.

- 2.3. HUBCO will be responsible on behalf of the Musharaka to operate, maintain, and use assets of the Musharaka Pool and generate and sell the electricity.
- 2.4. At the beginning of Musharaka, the Issue Agent on behalf of Sukuk holders will send Provisional Profit Rate Notice (Relevant Schedule of the Musharaka Agreement) to communicate Desired Profit Rate.
- 2.5. Musharaka Period shall begin from the commencement date and end at the Musharaka Dissolution Date.

3. Profit Computation and Distribution

- 3.1. Musharaka Profit will be calculated at the end of the Tenor or the Musharaka Dissolution Date on the basis of the Statement of Musharaka Income as per the format attached as Annexure A hereto within (15) Business Days from the Musharaka Dissolution Date on the basis of the details provided by HUCBO to determine the profit/loss of the Musharaka.
- 3.2. The profit upto the Profit Ceiling Amount earned by the Musharaka shall be allocated between the Investors and HUBCO as per their pre-agreed profit-sharing ratios of (i.e. 85:15, respectively).
- 3.3. A specified ceiling (the "Profit Ceiling Amount") will be determined at the Musharaka Dissolution Date as per below formula:
Provisional Profit during the Musharaka Period *divided by* profit sharing ratios of Investors.



- 3.4. The profit upto the Profit Ceiling Amount earned by the Musharaka shall be allocated between the Investors and HUBCO as per their pre-agreed profit-sharing ratios of (i.e. 85:15, respectively).
- 3.5. The profit-sharing ratio of Investors above the Profit Ceiling Amount shall be 0.0001%.
- 3.6. Investors will receive the Provisional Profit Payments at the end of the tenor, based on the Desired Profit Rate.
- 3.7. The Provisional profit calculation as Desired Profit Rate will be determined as per below formula:
[(Base Rate 6 months KIBOR) + upto 0.50%] x Total Sukuk Holders Investment x Days of Musharakah Period/365]
- 3.8. The Provisional Profit Payments shall be on account payments and shall be subject to final adjustment as laid down in below clauses.
- 3.9. In the event that the Investors' proportionate share in the Musharaka Profit is less than the Provisional Profit, the Investors will refund to HUBCO the excess amount received by the Investors within (7) Business Days from the date of determination of the Musharaka Profit.
- 3.10. In the event that the Investors' proportionate share in the Musharaka Profit is more than the Provisional Profit, HUBCO shall pay to the investors such excess amount of Musharaka Profit within (7) Business Days from the date of determination of the Musharaka Profit.
- 3.11. If the Musharaka Dissolution Date occurs before the Profit Payment Date, the Company shall pay the Profit till such date.

4. Loss Sharing

- 4.1. In case of a Musharaka loss without negligence of HUBCO, it will be divided between the Investors and HUBCO in accordance with their respective investment ratios. Any provisional profit payments that were made prior to the determination of the Musharaka loss, as per Statement of Musharaka Income, will need to be refunded by the Investors to HUBCO within seven (7) business days from the date of determination of the Musharaka loss.

However, Musharaka loss due to negligence of HUBCO, will be sole responsibility of HUBCO.

5. Dissolution of Musharaka

- 5.1. The dissolution of Musharaka will take place on the basis of constructive liquidation whereby the Investors' share in the Musharaka Investment will be purchased by HUBCO at the value appearing on the Musharaka Balance Sheet as per attached Annexure B. Value of Musharaka Fixed Assets (Generation Units) will be determined at the end of Musharaka Tenure for the purpose of final profit calculation.
- 5.2. The Company shall provide information to the Issue Agent if the following occurs at the end of each calendar month during Musharaka:

- the operating margin (excluding other income) is less than 5% (five percent) during last month,
- foresee any major loss or material activity that is detrimental to the Business.

6. Undertaking to Purchase Musharaka Investment:

6.1 HUBCO will undertake to purchase Investors' Musharaka share:

- a) At the End of the Musharaka Tenor, at the value of Investors' equity appearing on Musharaka Balance Sheet drawn on the basis of the status prevailing on the Buy Out Date.
- b) Upon the occurrence of an Event of dissolution during the Musharaka Tenor, at the value of Investors' equity appearing on Musharaka Balance Sheet drawn on the basis of the status prevailing on the date of default or termination. Further, Customer will also undertake that in case of an dissolution during the Musharaka Tenor, the Company shall pay the Provisional Profit till such date on account basis which will be adjusted as per the Statement of Musharaka Income.

7. Sukuk Issuance Agreement

HUBCO will declare an agency through appointment of the Investment Agent as an agent, over the amounts contributed by the Investors and the underlying assets for the benefits of the Investors for the following purpose:

- 7.1. HUBCO will agree to issue, as Issuer, Sukuk Certificates under section 66 of the Companies Act, 2017 permissible under the Memorandum and Articles of Association of HUBCO, for an aggregate amount of upto PKR 6,000 million to Investors as Sukuk Holders representing the ownership interest in the Musharaka Pool;
- 7.2. The Contributing Sukuk Holders will agree to the appointment of Bank of Punjab as an agent to Sukuk assets for and on behalf of and for the benefit of the Sukuk Holders and Bank of Punjab has agreed to act as an agent in terms of the Sukuk Subscription and Issue Agency Agreement.
- 7.3. The Bank of Punjab will agree to act as the Issue Agent for the Sukuk Holders pursuant to the Sukuk Subscription & Issue Agency Agreement to be entered into between the Sukuk Holders and the Investment Agent.
- 7.4. The Bank of Punjab will be entrusted to secure of the rights and obligations of the Issuer in respect of the Sukuk, including but not restricted to the obligations to redeem the Sukuk in terms of the Musharaka facility documents.
- 7.5. Bank of Punjab will also be responsible for the distribution of profit payments and the Musharaka Dissolution Amount (Facility Redemption amount) upon Musharaka Termination or Musharaka Dissolution among the Sukuk Holders in accordance with the terms of the Sukuk Issuance Agreement.



8. Important Considerations:

- 8.1. Any inventory held by HUBCO at the start shall not become part of the opening assets of the Musharaka; they will remain in HUBCO's ownership (in its own capacity and not as Musharaka partner). Hence there will be no opening inventory in the Musharaka. However, the Musharaka may acquire fuel (inventory) and services from HUBCO to operate the Musharaka activity.
- 8.2. Disclosure for other expenses (if any) will be made in the profit and loss accounts of the Musharaka, all indirect expenses other than agreed in the financing documents shall not become part of Musharaka Expense.
- 8.3. At any time, Musharaka Pool must contain Fixed Assets at least 33% of the total Value of Musharaka Pool.
- 8.4. The Assets (i.e. HUBCO share in the Generation Unit(s)) being used in the current Musharaka will not be used by the Company in any other Musharaka Facility (short-term or long-term financing) without the prior written consent of the Investment Agent.
- 8.5. Issue Agent will issue a letter to HUBCO clarifying that Sukuk holders will not be a party to any penalty/late payment charged. HUBCO will solely responsible for their collections. In this regard, the surcharge amount if charged by HUBCO, will be excluded from the Revenue to calculate the Musharaka Profit. HUBCO will give break up of late payment surcharge so that it may be excluded from the Musharaka Profit.
- 8.6. Net Revenue & Expenses of the Musharaka will be based on the actual numbers (not the average numbers) of the generation unit(s) included in the Musharaka.
- 8.7. Cash Amount contributed by Sukuk Holders becoming part of Musharaka Pool can only be used for meeting the expenses of Musharaka and can't be used by HUBCO for its own business other than Musharaka.
- 8.8. Company will immediately inform Issue Agent in case of shutdown of Plant/Unit for more than 30 days.
- 8.9. HUBCO can only contribute in Musharaka through its owned share in Generation Unit(s) excluding the share of any bank in such Generation Unit(s) by way of DM/Ijarah tul Musha.
- 8.10. The overall Issue will be structured and executed in Sharia'h Compliant manner in accordance to the guideline provided by the Sharia'h Advisor of the transaction and all parties involved in the transaction will commit to ensure the Sharia'h Compliance of this Issue at all times.

Legal Agreements

The following Legal Agreements will be used for the proposed Musharaka:

1. Sukuk Subscription & Issue Agency Agreement (*Between Issue Agent, HUBCO and Investors*)
2. Musharaka Agreement (*Between HUBCO and Issue Agent*)
3. Undertaking to Purchase (*By HUBCO in favor of Issue Agent*)
4. Sukuk Issuance Agreement (*Between HUBCO and Investment Agent*)
5. *Any other document as may be suggested by the transaction legal counsel.*

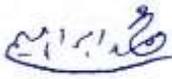


Approval

The Shariah Advisor is of the view, that the structure and Legal Agreements as stated above are based on the Shirkah tul aqd and does not attract riba in any form and same is acceptable within the principles of Shariah and the undersigned hereby approves the above structure and Legal Agreements for the short term working capital financing facility through issuance of rated, unsecured privately placed Sukuk of up to PKR 6,000 Mn. In addition, Shariah advisor further pronounce that:

1. There is no involvement of Riba as there is no any profit on loan instead the structure is based on Shirkat ul Aqd.
2. The return to Sukuk holders is derived from the profit generated by using the underlying assets, as mentioned in clause 3 above.
3. The ownership of the musharaka pool is mentioned in the clause 2.2.
4. All Legal Agreements are prepared and drafted based on Musharaka (Shirka tul Aqd) and consistent with Shariah principles.
5. There is no need of SPV as sukuk holders are investing on Shirkat ul Aqd basis in running power generation business of HUBCO.

For and on behalf of Alhamd Shariah Advisory Services Private Limited



Mufti Ibrahim Essa
Chief Executive Officer



Mufti Uzair Bilwani
Head – Research & Development



Annexure A
Statement of Musharaka Income

Net Turnover from sale of electricity (excluding late payment charges)		XXXX
Less: Operating Costs		
· Fuel Cost	XXX	
· Operations & maintenance	XXX	
· Depreciation (upto HUBCO's share)	XXX	
· Repair & Maintenance (upto HUBCO's share)	XXX	
· Other expenses (if any)	XXX	
Musharaka Profit/(Loss)		XXXX

Musharaka Profit Computation

	Total	Sukuk Holders	HUBCO
Musharaka Investment	15.3 bln	6 bln	9.3 bln
Investment Ratio	XXX	39.22%	60.78%
Profit Sharing Ratio upto Ceiling Amount		85%	15%
Profit Sharing Ratio above Ceiling Amount		0.0001%	99.9999%
Musharaka Profit	XXXX		
Musharaka Profit Ceiling	XXXX		
Musharaka Profit upto Ceiling Amount	XXXX	XXXX	XXXX
Musharaka Profit above Ceiling Amount	XXXX	XXXX	XXXX



Annexure B

Musharaka Balance Sheet Musharaka Balance Sheet

	At the beginning	At the end
<u>LIABILITIES AND EQUITY</u>		
<u>Equity</u>		
Sukuk Holders	6 bln	XXXX
HUBCO	9.3 bln	XXXX
	15.3bln	XXXX
 <u>Liabilities</u>		
Accounts Payable	XXXX	XXXX
	XXXX	XXXX
 <u>ASSETS</u>		
<u>Fixed Assets</u>		
Fixed Assets (value as per Annexure C)	9.3bln	XXXX
	9.3bln	XXXX
 <u>Current Assets</u>		
Accounts Receivable	XXXX	XXXX
Receivable from HUBCO	XXXX	XXXX
Cash	XXXX	XXXX
	XXXX	XXXX



Annexure C

Musharaka Pool

Statement of Assets	VALUE AT COMMENCEMENT [Date]	VALUE AT TERMINATION [Date]
Generation Unit (s) (HUBCO's share)	9.3bln	XXXX
Cash	6bln	XXXX
Total Assets	15.3bln	XXXX

