

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	Unsecured, privately placed short term Sukuk (the "Facility").
Facility Amount	Upto PKR 6,000 Mn
Purpose	To meet short term working capital requirements of Hub River Power Station.
Financial Advisor	Meezan Bank Limited.
Lead Arranger	Meezan Bank Limited.
Investors	Include financial institutions, mutual funds, takaful companies and corporate entities.
Tenor	Up to six (6) months from the date of Drawdown.
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	Facility will be redeemed in bullet at the expiry of Tenor.
Desired Profit Rate	Base Rate plus 25bps. <i>Base Rate is defined as the 6-Month Karachi Interbank Offered Rate ("KIBOR"). KIBOR is defined as Average Ask rate, as published on Reuters page KIBR or as published by the Financial Markets Association of Pakistan in case the Reuters page is unavailable. The Base Rate will be set one business day prior to the Drawdown date for the profit due at the end of that period.</i>
Provisional Profit Payment	Provisional Profit will be payable at maturity.
Fixed Assets	Any one or two of the Generation Unit 1 & 2 of the Hub River Power Plant located in Baluchistan ("Assets") on the basis of market value.
Investment Agent	Meezan Bank Limited
Face Value	The Face Value of each Sukuk Certificates will be PKR 100,000/- (Pak Rupees Hundred Thousand Only)



Transaction Structure & Synopsis of Agreements

1. Investment Agency

- 1.1. Investors ("Sukuk Holders") will enter into an Investment Agency Agreement to appoint Meezan Bank Limited ("MBL") as their Investment Agent. Investors will authorize the Investment 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:
- To secure the commitments of the Investors.
 - To enter into the Musharaka and all relevant Facility documents on behalf of the Investors.
 - To perform calculation of Provisional Profit & Musharaka Profit.
 - To ensure timely issuance of notices as specified under the Legal Agreements.

2. Musharaka (Shirkat-ul-Aqd)

- 2.1. Investment 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 through cash and in kind through its existing investment in Assets (based on the latest market value) which will form a Musharaka Pool.

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

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 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. At any time, Musharaka Pool must contain Fixed Assets (HUBCO's share in Generation Unit(s) at least 20% 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 Investment 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. 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.

- 3.3. 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).
- 3.4. The profit-sharing ratio of Investors above the Profit Ceiling Amount shall be 0.0001%.
- 3.5. Investors will receive the Provisional Profit Payments, based on the Desired Profit Rate (i.e. the Profit Benchmark at the end of Musharaka).
- 3.6. The Provisional Profit Payments shall be on account payments and shall be subject to final adjustment as laid down in below clauses.
- 3.7. 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.
- 3.8. 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.
- 3.9. If the Musharaka Dissolution Date occurs before the Provisional Profit Payment Date, the Company shall pay the Provisional Profit till such date.

4. Loss Sharing

- 4.1. Musharaka loss, if any, will be shared between the Investors and HUBCO in the Investment ratio and the Provisional Profit Payments distributed prior to the determination of Musharaka loss as per the Statement of Musharaka Income shall be returned by the Investors to the HUBCO within (7) Business Days from the date of determination of the Musharaka loss.

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 through fresh valuation at the end of Musharaka Tenure for the purpose of final profit calculation.
- 5.2. The Company shall provide information to the Investment 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 Subject to adjustment of Loss, if any, 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.



- b) Upon the occurrence of an Event of Default and Termination during the Musharaka Tenor, at the value of Investors' equity appearing on Musharaka Balance Sheet. Further, Customer will also undertake that in case of an Event of Default and Termination 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 over the amounts contributed by the Investors and the underlying assets for the benefits of the Investors and appoint Investment Agent as agent 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 Meezan Bank Limited as an agent to Sukuk assets for and on behalf of and for the benefit of the Sukuk Holders and Meezan Bank Limited has agreed to act as an agent in terms of the Sukuk Issuance Agreement.
- 7.3. Meezan Bank Limited will agree to act as the Investment Agent for the Sukuk Holders pursuant to the Investment Agency Agreement to be entered into between the Sukuk Holders and the Investment Agent.
- 7.4. Meezan Bank Limited 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. Meezan Bank Limited 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 (HUBCO's share in Generation Unit(s)) at least 20% 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. Investment 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. In case, if any cash amount is utilized by HUBCO for operations of other Generations units other than Musharaka, it should be mentioned as Receivables in the Musharaka Balance Sheet.
- 8.8. Company will immediately inform Investment 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.
- 8.11. HUBCO (the Issuer) will ensure on best effort basis compliance with KMI Shariah Screening Criteria.

Legal Agreements

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

1. Sukuk Subscription and Issuance Agency Agreement (*Between Investment Agent 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 Issue 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 under the musharaka pool in 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.



Mufti Hafiz Muhammad Shoaib
Shariah Advisor
SECP/IFD/SA/146

Date:

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	XXXX	XXXX	XXXX
Investment Ratio		XX%	XX%
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

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Annexure B

Musharaka Balance Sheet

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

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Annexure C

Musharaka Pool

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

P/ Habib