

Mr. Zargham Eshaq Khan
Chief Executive Officer,
Power Holding Limited,
6th Floor Shaheed-e-Millat Secretariat,
China Chowk Jinnah Avenue,
Islamabad

April 20, 2020

Dear Sir,

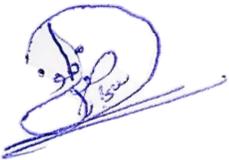
Assalam o Alaikum

Pakistan Energy Sukuk II

I, Sajjad Hussain Zafar bearing CNIC# 36202-5536870-7, have been offered by Power Holding Limited via Appointment Letter dated April 07, 2020 to act as Shariah Structuring Advisor for Pakistan Energy Sukuk II.

I hereby accept my appointment as Shariah Structuring Advisor for Pakistan Energy Sukuk II and agree to fulfil my responsibilities bestowed upon me via Appointment Letter dated April 07, 2020 in accordance with the terms and conditions mentioned therein.

Regards,



Mufti Sajjad Hussain Zafar
CNIC# 36202-5536870-7

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

Pakistan Energy Sukuk II

Structured Islamic Financing Facility to the Government of Pakistan for Energy Sector Circular Debt

Shariah Structure

Background:

Government of Pakistan (GoP) intends to raise Shariah-compliant financing to settle the circular debt of the Energy Sector, specifically the Government-owned Electricity Generation Companies (GENCOs) and Electricity Distribution Companies (DISCOs). For this purpose, a privately placed Sukuk will be issued by the Ministry of Energy/PHL.

As per the Sukuk structure, Ministry of Energy/PHL (“Issuer”) will sell certain identified assets (the “Assets”) of government-owned DISCOs/GENCOs (“Companies”) to Sukuk Investors (“Investors”) and will utilize the sale proceeds towards settlement of circular debt of Energy sector. The purchased Assets will be leased to the Ministry of Energy/PHL who will pay Lease Rentals on a floating rate basis. Upon maturity, the Assets will be purchased by Ministry of Energy/PHL to redeem the Sukuk.

Pre-Requisites:

- 1) Permission/NOC from Companies to Ministry of Energy/PHL for selling their Assets to Investors.
- 2) Confirmation from Companies that the Assets of the transaction are un-encumbered and clean.
- 3) Valuation of Assets done by a PBA approved Valuator.

Shariah Advisor:

In order to ensure timely resolution of any Shariah related issues pertaining to the sukuk issue, I (Mufti Sajjad Hussain Zafar) have been nominated as Shariah Advisor of the transaction. The decision of Shariah Advisor will be binding on all the participants.

Detailed Sukuk Structure:

The details of the transaction structure along with Documentation is as follows:

1. Sukuk Subscription and Investment Agency Agreement:

The Investors will appoint one of the participating banks (namely Meezan Bank Limited) as their Investment Agent by executing an Investment Agency Agreement for the purpose of participating in Sukuk. Under the Investment Agency Agreement, Meezan Bank will be responsible for following tasks:

- a) Executing Transaction Documents on behalf of the Investors.

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- b) Co-ordinate and communicate with Ministry of Finance and other stake holders on participants' Behalf.
- c) Issue Rental revision notices and other documents from time to time in accordance with the transaction structure.
- d) To seek guidance from the Shariah Advisor of the syndicate on any matter that requires Shariah Advisor's guidance.

2. Authorization Agreement

This Agreement will be entered into between the Investment Agent, Companies and Issuer, pursuant to which the Companies will record that they are wholly owned by GoP and upon instruction of GoP they authorize PHL (wholly owned by GoP) to sell the Assets to the Investors for the purposes of the Sukuk Issue, contain certain negative and positive covenants. Investment Agent will also authorize the company to hold legal title on behalf of Investors as joint co-owner. Each Company will also agree with the Investment Agent that they will continue to hold the legal title of the co-owned Assets on behalf of and for the benefit of the Investors. This will be registered with the Securities and Exchange Commission of Pakistan by each of the Companies.

Prior to executing the Asset Purchase Agreement, Issuer will take **permission letter/NOC** from the Companies to sell their certain identified assets to Investment Agent (on behalf of participants) for the purpose of creating joint ownership of Investors. In addition to the permission letter/NOC, any additional agreement may also be signed between Issuer and Companies as per the advice of the legal counsel.

The NOC/permission letter shall also confirm that all the Assets are free from any type of encumbrance and the GENCOs/DISCOs are authorized to grant such permission/NOC.

The letter will also mention that no encumbrance of any nature will be created and the Assets will not be sold in future till the maturity of the Sukuk.

The value of Assets to be used for the purpose of Asset Purchase Agreement will be based on the valuation conducted by a PBA approved valuator.

Upon execution of Asset Purchase Agreement, payment of purchase price will be made by the Investors to Investment Agent for onward payment to the Issuer.

3. Master Facility Agreement:

Master Facility Agreement will be executed between Issuer and Investment Agent to create co-ownership over the identified Assets.



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It will be agreed in the Master Facility Agreement that the Issuer will bear all transaction costs related to the Sukuk including but not restricted to valuation costs, (legal opinion & documentation cost, stamp duties, taxes, mortgage registration costs, and any other cost to execute transaction etc.

All the ownership related expenses will be borne by the Investors, in accordance with their joint ownership in the Assets. Issuer will be appointed as Managing Co-Owner and will be responsible for payment of ownership expenses, such as Shariah-compliant Takaful/Insurance cost in case plant and machinery made part of Assets, and taxes in respect of co-owned Assets on behalf of both the owners. The Managing Co-owner shall have the right to claim reimbursement (upon submission of relevant evidences) of the costs actually incurred on account of aforementioned services, comprising major maintenance, repair and insurance/Takaful, by Managing Co-owner in respect of Investors' share of co-owned Assets (to be called as "Assets Service Charge Amount").

Managing Co-Owner will be responsible to give details of all expenses incurred in the previous rental period along with supporting documentary evidences at least 10 working days prior to commencement of next rental period.

Master Facility Agreement will contain the terms and conditions under which co-ownership will be established upon execution of Asset Purchase Agreement.

4. Asset Purchase Agreement:

At the time of disbursement, an Asset Purchase Agreement will be signed between the Investment Agent (acting on behalf of Investors) and Issuer. If required, the Asset Purchase Agreement will also be acknowledged by authorized representatives of GENCOs/DISCOs. Letter of Possession will be executed for handing over by seller and taking possession of the Assets by the Investment Agent.

5. Ijarah Agreement:

After execution of Asset Purchase Agreement, Issuer and Investment Agent will execute Ijarah Agreement under which Investment Agent will lease the undivided share of Investors in the Assets to Issuer. The Ijarah Agreement will specify the total duration of the lease and the frequency of revision of lease rentals. The Issuer as lessee may authorize any of its sub-ordinate institution/any Government owned institution i.e. the relevant GENCOs/DISCOs to use and operate the co-owned Assets.

The lease/rent will be executed for an agreed tenure. The rental amount will be linked to a well-known benchmark rate (base rate) plus an agreed margin. However, the rental amount of the first Rental Period will be pre-determined an agreed in the Ijarah Agreement.

The **Lease Rentals for each Rental Period** will comprise an amount equal to the product of



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- (i) the Base Rate (as agreed between Issuer and Investors) subject to floor and cap, plus agreed margin
- (ii) the number of days in such rental period divided by 365, and
- (iii) the face value of the Sukuk.

On the first day of beginning of any Rental period, Investment Agent will issue a Rental Revision Notice based on the banch mark mentioned above in pera 5 (i) (ii) and (iii) to the Issuer advising the rental amount for the current period. Supplementary Rental may be pre-agreed in the Rental Revision Notice keeping in view the anticipated expenses (Asset¹ Service Charge Amount) of the Assets. The Rental revision notice will be binding on the Issuer other than the case of any manifest error.

Timely payment mechanism:

The Assets will be given on rent at an agreed rate and the Investment Agent , by mutual agreement with the Issuer at that time, may give a rebate in case payment is made within agreed time frame of due date.

6. Trust Deed:

A **Trust Deed** will be executed by Issuer and the Trustee pursuant to which the Sukuk will be governed and the security interest and the rights and benefits of the Investors will be vested in the Trustee.

7. Substitution of Assets:

Upon request of the Issuer and on the sole discretion of the Investors at that time, specific part of the Assets can be substituted with other Assets of the same value. All the pre-requisites of executing Asset Purchase Agreement including NOC/permission letter, Valuation and in-house legal opinion will be required before substitution. Such substitution will be done as per the agreements/documents advised by the Legal Counsel and Shariah Advisor at that time. Substitution of Assets may be done at least one year prior to maturity date. Such substitution of asset will be intimated to all Investors.

8. Purchase Undertaking:

After execution of Ijarah Agreement, the Issuer, on behalf of the Companies, will give a unilateral undertaking to purchase all the outstanding ownership of the Investors at a Buyout price upon maturity and/or at any Event of Default and Termination under the Sukuk Agreements. The Buy-

¹ It means that at the time of determining rental for the next period, the anticipated expenses will be agreed upon by the parties and added to the rental. But any shortfall in the previous period will not be covered by the rental of the next period.

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out price will be equal to the face value of the Sukuk Issue. Issuer will also undertake to pay any amount outstanding or overdue under any of the Financing documents. Transfer of Ownership under this Undertaking will be evidenced by the execution of Sale Contract at that time.

Tradability:

Notwithstanding the above, upon issuance of the Sukuk, each Investor shall be entitled to transfer its participation through transfer of the Sukuk certificate(s) held by it.

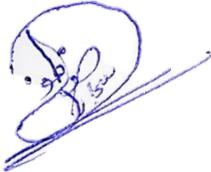
Security:

- GOP will provide sovereign guarantee to the Investors for payment of rentals and fulfillment of the Purchase Undertaking in case of default from PHL.
- Security interest will be registered on the Assets in favor of the Investors as mentioned above.

Approval:

The Shariah Advisor is of the view that, given the prevailing circumstances, the structure and mechanism as set out above is acceptable within the principles of Shariah and the undersigned, hereby approves the above structure and mechanism of the proposed facility.

And Allah knows the best.



Mufti Sajjad Hussain Zafar
Shariah Advisor
Pakistan Energy Sukuk II