KSK Power Ventur PLC - KSK
Operational Update
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KSK Power Ventur plc
("KSK" or the "Group" or the "Company")

Coal Auctions and Operating Update

KSK Power Ventur plc (KSK.L), the power project company listed on the London Stock Exchange, with interests in multiple power plants and businesses across India, is pleased to provide an update on developments of the Company's projects over the last three months, and the recent coal auctions.

KSK Mahanadi's 3.6GW project (of which 2 units totalling 1.2GW are completed) and the Sai Wardha 540MW project are both cornerstone assets for the Company's power generation operations. Every effort is being made to address the short term challenges, financing requirements and external issues that have constrained asset utilisation levels, revenues and profitability over the period. While the second half of FY2015 continues to be just as challenging as trading was during the first half, a number of positive developments have occurred during recent weeks which indicate that many of these external issues may be resolved in due course, allowing KSK's 2GW of completed portfolio to operate with improved plant load factors (PLF). These improvements are likely to take effect during FY2016 and, as a result, revenues for FY2015 are likely to be flat when compared to FY2014 and therefore below market expectations. Consequently operating profits are likely to be materially below market expectations.

A summary of recent developments are as follows:

15.12.2014	Uttar Pradesh distribution companies had provided their consent for commencement of 300MW of power supplies from KSK Mahanadi starting May 2015, ahead of the scheduled delivery date under the 1,000MW PPA executed in February 2014;
23.01.2015	Sai Wardha has achieved partial resolution of the issues directed by Competition Commission of India ("CCI") with respect to coal supplies by Coal India. Under an addendum to Fuel Supply Agreements executed,

Coal India has agreed to introduce third party sampling, a relaxation of the provision necessitating financials securities to support its mine investments, and a limited waiver of the performance incentive clause. Coal India is currently on appeal at Competition Appellate Tribunal challenging the CCI order and therefore the correction to the distortion in sale price has not been undertaken. Sai Wardha continues to pursue this vital change as ordered by CCI and now anticipates, in all likelihood, resolution of this issue during the first half of FY2016

10.02.2015	Successful appeal by Sai Wardha at Appellate Tribunal for Electricity (APTEL) with respect to the execution of Sai Wardha's long term PPA with the Maharashtra State Electricity Distribution Company. Upon such execution anticipated during first quarter of FY16, the PPA would allow sustained generation from two units at Sai Wardha, aggregating to 270MW in gross capacity terms;
16.02.2015	The Central Electricity Regulatory Corporation's (CERC) order to the Power Grid Corporation (PGCIL) outlining clear guidelines for allocation of transmission corridors among various applicants. PGCIL has been given until the 15th March 2015 to determine and provide transmission access to the applicants, such as KSK Mahanadi.

These developments form part of a series of ongoing negotiations, the pursuit of which has been undertaken for some considerable period of time. While it is anticipated that with these recent developments are positive and certain solutions could be only few weeks away, the specific timing of any complete solution is currently hard to predict given the historic delays in certain instances resolving these issues. An update will be provided upon visibility of any imminent resolution.

Renewed focus on Operational Performance

While the various power generation assets of the group are intrinsically valuable and have been configured and setup at strategic locations with vital support infrastructure, the financial performance of KSK Mahanadi and Sai Wardha is primarily dependent on the levels of asset utilisation that can be achieved, through an integration of fuel sourcing, transmission corridor and PPA offtake. The potential generation from these two large assets, in a full year of operation lies in a range between 7.6TWh to 12.9TWh, and assuming 7 cents/kWh of tariff, results in an aggregate annual revenue between $491 million to $835 million as tabulated below:

Power Plant	MW	50%	60%	70%	80%	85%
Sai Wardha	540	2365	2838	3311	3784	4021
KSK Mahanadi	1200	5256	6307	7358	8410	8935
TOTAL	MWh	7621	9145	10670	12194	12956
	$/KWh					

Revenue						
Sai Wardha	0.07	149	179	209	238	253
KSK Mahanadi	0.07	342	411	479	547	582
TOTAL	$ million	491	589	688	786	835

Hence, operating performance of the operational units is as vital and important to KSK as the focus on fuel tie ups and the construction of the balance of units at KSK Mahanadi. The Management continues to give immediate priority to these matters, while focusing on the resolution of longer term issues of asset creation and asset value enhancement.

Coal auctions and allotments - the new fuel landscape

The Coal Mines (Special Provisions) Second Ordinance, announced in December 2014 by the Government of India, completely changed the existing landscape and provided a new mechanism and additional sources for access to coal for independent power producers (IPPs). This was subsequent to the Honourable Supreme Court of India's judgments in August 2014 and September 2014, which cancelled the allocation of 204 coal blocks across India, including the Gare Pelma III and Morga-II mines which were allotted earlier to Government companies GIDC and GMDC respectively.

In the first round of auctions, six coal mines totalling over 18 million tons of annual coal production, specifically earmarked for IPPs, have been under auction during recent weeks. Under the reverse auction procedure for these blocks, in order to gain access to the coal, IPPs were required to bid and offer their maximum discount to the reference ceiling price of coal (reference ceiling price of anywhere between $11 to $20 per ton of coal depending on specifics of the mine). The discounted price offered by IPP for the coal would become the basis of determination of the transfer price of coal to the power plant operations for variable cost determination (without any reference to actual cost of mining).

The net result of this first round of auctions has meant that, in order to secure access to coal mines, IPPs have not only reduced their variable cost recovery but have also agreed for a further potential reduction over their long term power sales tariff as illustrated in table below:

Coal per ton	A Equivalent fuel cost	Reverse Auction Discount			B Resultant fuel cost charge	Forward Auction Premium			C Further reduction in tariff	D Aggregate reduction
	$Cents/Kwh	-25%	-50%	-100%	$Cents/Kwh	25%	50%	100%	$cents/Kwh	$cents/Kwh
$20/ton	1.50	0.38	0.75	1.50	0.00	0.38	0.75	1.50	-1.50	3.00
$15/ton	1.13	0.28	0.56	1.13	0.00	0.28	0.56	1.13	-1.13	2.25
$10/ton	0.75	0.19	0.38	0.75	0.00	0.19	0.38	0.75	-0.75	1.50

The net result being, three levels of potential power tariff reduction as outlined below

- A - First level of Variable cost scale down to anywhere between 0.75 to 1.5 cents/kWh (depending the grade of coal of the specific mine and reference ceiling price);

- B - Second, Reverse Auction Discount - further reduction of anywhere between 0.19 to 1.5 cents/kWh (depending on the level of auction discount offered by the successful bidders);

- C - Finally, in more competitive bid for coal mines, Forward Auction Premium - switching to forward auction premium basis, results in commitment to make additional payment to the government of anywhere between 0.19 to 1.5 cents/kWh for such coal access.

The net result of this for the auction winners is a scale down of variable costs to lower levels and thereafter effective reduction of power supply tariff of anywhere between 1.5 to 3 cents/kWh in aggregate from existing PPAs, depending on the specific case, as well as similar benefit to be passed on to Discoms under new PPAs to be executed. While a large discounts to the power supply tariffs by the various competing IPPs, would enable more competitive power tariffs, it could also materially adversely impact the financial performance of the successful IPPs and constraining their ability to meet financing costs and servicing requirements.

KSK Mahanadi has participated in these auctions to secure its fuel requirements for the longer term, but given the challenges outlined above, has maintained a cautious approach. The Company has not been successful so far in securing any mines under the auction but it will continue to review and participate over the coming weeks in auctions for further sets of coal blocks that may be under offer, where opportunities exist to secure suitable coal mines at economically viable operating levels.

In addition to securing domestic coal supplies through a public auction process, the new statute also has provisions for the direct allotment to government companies. KSK Mahanadi continues to be committed to its reciprocal power supply commitments entered into with government companies, such as GMDC and GIDC, with whom it has had prior fuel supply arrangements for such power supplies. In the event any of the government companies are successful in securing an allotment of mines under the new ordinance, KSK Mahanadi would expect to be able to continue with construction of the balance power plant in line with fuel availability.

In order to meet the long term coal requirements for all of its large 3.6GW power plant, KSK Mahanadi has also sought for the conversion of its existing tapering linkage of coal from Coal India Limited, as well as an allotment of new linkages. The Company is currently evaluating various options, and anticipates the development of the four remaining 600MW units will be contingent upon reaching a successful conclusion with regard to the key aspect of achieving a secure and long term fuel supply.

Coal supplies for KSK Mahanadi's 2 x 600MW operating units

While the Company continues to explore alternate arrangements to address the developments of coal blocks and alternate long term supply arrangements, KSK Mahanadi currently enjoys a tapering fuel supply agreement with South Eastern Coal Fields (a subsidiary of Coal India Ltd) that supports the current operation of its first two 600MW units. An additional 600MW also enjoys a supply linkage which can be utilised upon commissioning. While these efforts to secure the domestic fuel commitments over the long term will continue, in the interim, coal imported from overseas utilising collaborative arrangements which are already in place, are expected to provide additional fuel for the planned power generation from KSK Mahanadi.

Transmission Corridor access - key to enhanced asset utilisation

KSK Mahanadi has 1,500MW of long term PPAs with Tamil Nadu and Uttar Pradesh utilities, with an expected tariff of least 7 cents/KWh plus periodic escalators in line with cost and other increases. However, the Company has not been able to benefit from these PPAs due to severe constraints on the export of power to these utilities via the interstate transmission corridor, which was originally scheduled to be completed by Power Grid Limited (the Government of India owned Transmission Company) in August 2014. On the 16th February 2015, the CERC finally addressed the issue and passed an order outlining the procedure to be followed for the granting of long term access to the transmission corridor, stipulating this must be resolved by the middle of March. This order will determine the quantum of transmission corridor access that will be made immediately available to KSK Mahanadi for power supplies to Tamil Nadu, with a correspondingly significant impact on revenue and profitability. At current tariff levels, 500MW of supply to Tamil Nadu would potentially increase revenue by $18 million and EBITDA by $9 million per month.

Similarly, while the commencement of supplies under the PPA to Uttar Pradesh utilities would be subject to the availability of transmission corridor access for export to the Northern Region, the Company has received consent to start supplying 300MW in June 2015 and has initiated dialogue to secure the required open access.

Successful resolution of these transmission constraints would enable supplies to Tamil Nadu, Uttar Pradesh and Andhra Pradesh, and ensure increasing utilisation of KSK Mahanadi's 1,200MW generating capacity. The scale of increase would depend on the size of the interstate transmission corridor access granted by Power Grid.

KSK Mahanadi project construction and debt financing - the plan ahead

With capital investment in the power station of approx $1million per MW, the aggregate capital expenditure at KSK Mahanadi for full completion is currently estimated by the project lenders to be in the order of $3.6billion. The capital expenditure to date of approximately $2.4billion ($500+million of equity infused and the balance from project debt) has resulted in the completion of two operating units of 600MW each, the substantial completion of all the common infrastructure support at the power project location for the 3.6GW power station itself, plus initial progress on the construction as well as commencement of erection of the remaining four 600MW units. In addition to current undrawn part of project debt, the lead lender has approved entire additional overrun debt funding of over $700+ million, with participant banks to complete further confirmations.

Once transmission constraints have been lifted enabling the supply of 1.2GW, it is anticipated that KSK Mahanadi operating at an 80% PLF would produce annual gross generation in excess of 8TWh. The resulting annual revenues of approximately $560 million and estimated EBITDA of $260 million would provide a very significant scale up in the Company's power generation operations and cash flows. Approximately $150 million of annual interest cost is estimated to be currently attributable to the operating units of 1.2GW for FY16 against estimated EBITDA of $166 million to $281 million based on level of asst utilisation achieved as tabulated below:

KSK Mahanadi	PLF	50%	60%	70%	80%	85%
EBITDA	3.5c	166	199	232	265	281
Interest (Est)		150	150	150	150	150
TOTAL	$ million	1.10	1.32	1.55	1.77	1.88

With the first 1.2GW of the project and requisite common power plant infrastructure having achieved completion, the project becomes eligible for appropriate refinancing, with the debt repayment schedule being aligned with the asset life. Such refinancing would not only allow flexibility in the repayment schedule, it is also expected to provide additional cash accruals to be available to support the equity requirement for the completion of the remaining units.

While work continues on a number of major initiatives in this regard, further capital expenditure commitments on KSK Mahanadi will be, as far as practicable, appropriately modified to match both the visibility and availability of suitably priced coal and access to the transmission corridors thereby allowing the Company to deliver power to its utility consumers. The decision to proceed with the construction of each of the additional units will be concluded after due consultation with project lenders. When these matters are fully addressed, the Company has every confidence that it will secure the necessary further funding required to complete the remaining capital expenditure programme.

KSK Mahanadi continues to be an intrinsically valuable investment as a large green field asset, with significant common infrastructure for the entire facility already created and long term PPAs at competitive tariffs executed. The management team continues to persist with efforts to explore other potential collaboration opportunities to address the strategic requirements of the project.

KSK Mahanadi - Ancillary Infrastructure

The additional infrastructure projects of water, rail and mining required to support the 3.6GW power plant, which were expected to require additional capital expenditure of $500 million, have only been part completed to date. This infrastructure is currently for the exclusive use of KSK Mahanadi, and the debt servicing requirements for these projects are expected to be met by the

KSK Mahanadi project and have been secured with appropriate arrangement in consultation with KSK Mahanadi's project lenders. As regards incremental capital expenditure from the current levels, these will be determined upon further visibility of access to coal supplies from the Gare Pelma coal mine.

Sai Wardha - increased asset utilisation and potential reduction in fuel cost

The 540MW station consists of two phases, an IPP phase of 270MW and Captive Power Plant (CPP) phase of 270MW. As regards the CPP phase, during the period additional PPA commitments of 40MW to 50MW with industrial customers has been undertaken and the necessary documentation is currently being finalised. It is anticipated upon grant of open access for these consumers, as well as the renewal of open access for the existing consumers, asset utilisation at this phase is expected to increase. Further, PPAs with a number of government owned new industrial customers with direct offtake from the Sai Wardha power plant are under discussion. These agreements, once concluded, could also provide support for enhanced asset utilisation at Sai Wardha

As regards the IPP phase, the company has successfully won an appeal at APTEL that resulted in the local state utility being directed to afford the opportunity for the execution of the long term PPA awarded from the competitive bid participated by Sai Wardha in 2009. Execution of the PPA and commencement of energy supplies would enable asset utilisation in the IPP phase and result in Sai Wardha achieving an improved and sustained PLF.

As regards the potential reduction of fuel cost at Sai Wardha, despite the positive landmark ruling by the Honourable Competition Commission of India (CCI) and the Company's efforts over the last four months, only limited progress has been achieved so far. Amendments undertaken to the Fuel Supply Agreement restricts changes to (1) enabling controlled third party sampling procedure, (2) limited waiver of performance incentive clause, and (3) relaxation on financial risk requirements for mine immoveable assets. Western Coal Fields and Coal India Limited are on appeal at Competition Appellate Tribunal currently against the CCI Order.

Sai Wardha will continue in its pursuit to remedy the unfairness embedded in the pricing formulae for coal. Once the distortion in the sale price is finally corrected Sai Wardha's financial performance will start to improve. Until such time, Sai Wardha's dependence on high priced coal continues and this will be reflected in its operating results.

VS LIGNITE POWER PRIVATE LIMITED

The project has access to a dedicated lignite mine, Gurha (E) that meets the entire fuel requirement for the 135MW power plant. In compliance with the recent directive from the state government, the Company is currently in the process of executing long term PPAs with the local distribution companies for all the power supplies on a regulated basis.

ARASMETA CAPTIVE POWER COMPANY LIMITED (ACPCL):

With KSK Mahanadi under obligation to provide 225MW to Chhattisgarh (the host state), an arrangement has been agreed, following consent by the state as well as project lenders at KSK Mahanadi, whereby 75MW would be fulfilled from Arasmeta enabling the surplus power at KSK Mahanadi to be disposed at higher tariffs to other utilities. This project is also under transition with the entire power supply dedicated to the local utility under the long term PPA. While this was approved by the Regulatory Commission in May 2014, the Company awaits compliance by the procurer for enhanced generation and supply.

Therefore, enhanced scheduling at Arasmeta is likely to occur as the second 600MW unit at KSK Mahanadi commences operation. As a result, the Company, having had reduced utilisation levels during FY2015, anticipates plant utilisation, power generation and revenue from the Arasmeta plant to increase significantly during FY2016.

SAI REGENCY POWER CORPORATION PRIVATE LIMITED (SRPCPL):

With the continuous supply of gas and the efficient operation, the plant has produced an operational and financial performance, which the Company expects to continue in the future.

SITAPURAM POWER LIMITED (SPL):

Although the fuel cost for the period under review has increased due to an increase in coal prices from the Singareni Collieries Company Limited, as well as from open market purchases, the energy generated in the period has been supplied to the captive consumers in accordance with the provisions of the PPA, with the balance of power sold to other customers.

SAI MAITHILI SOLAR POWER PROJECT:

The 10MW PV solar power generation plant is located in the state of Rajasthan, operating under the Jawaharlal Nehru National Solar Mission.

RENEWABLE POWER GENERATION:

The Company continues to pursue specific wind power generation initiatives as well as work on the hydro project portfolio for appropriate collaboration opportunities. In response to the continuing initiative of the Indian Government, the Company is seeking to develop an additional 250MW of solar power generation projects in the medium term. Necessary progress has been made and procurement advances have been paid for equipment at competitive prices.

Efforts are also underway to execute a PPA and begin construction of a 50MW solar power project in the state of Tamil Nadu. The Tamil Nadu Electricity Regulatory Commission has stipulated the necessary tariff arrangement in this regard.

Key Strategy Moving Forward

With an operating base rising to over 2GW, the Company's immediate objective would be to enhance the PLF across the various projects over the next few months. This would produce a substantial increase in the gross generation, and provide a much larger operating base with which to absorb the related costs as well as deliver the requisite incremental cash flows to meet Company requirements.

OUTLOOK

With unfulfilled demand for power generation in India expected to continue to grow through the coming decade, coupled with the high quality of the Company's expanding asset base, a proven execution capability, and an increasingly efficient business structure, KSK is well positioned to address the Indian power generation opportunities. The Company anticipates further growth upon securing fuel supplies pursuant to the new statute. As outstanding issues are resolved, and with the successful phased completion of the remaining units of the 3.6GW KSK Mahanadi power project being added to the Company's existing portfolio over the next few years, the Board believes KSK will be one of India's leading suppliers of power.

Commenting on the results, T. L. Sankar, Chairman of KSK said:

"The Company's management has continued its efforts to address the various challenges in its operating projects. Results are expected to further improve upon clarity emerging in the regulatory environment and the Company addressing the on-ground situations to co-ordinate planned generation with fuel supplies for the assets and transmission corridor access.

At the country level, power generation is also anticipated to play a central role in supporting the revival of the overall economic growth in the country over the next few years. With KSK's underlying assets, associated performance and opportunities, the Company is well positioned to be one of the more stable, valuable and sustainable players on the Indian power generation landscape.

KSK's performance during the period was only possible with the valuable and appreciated support of the various investors in the Company who have enabled us to pursue appropriate business opportunities in these challenging times."

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