

**GOVERNMENT OF PAKISTAN
PRIVATISATION COMMISSION**



ANNUAL REPORT 2019

**IN THE NAME OF ALLAH
THE MOST BENEFICENT
THE MOST MERCIFUL**

ACKNOWLEDGEMENT

Privatisation Commission acknowledges the valuable contribution of Additional Secretary, Officers, Consultants and Officials to the drafting of this Annual Report that comply with the provisions of the Privatisation Commission Ordinance, 2000.

DISCLAIMER

This report contains the Management Report in the meaning of the Section 27 of the Privatisation Commission Ordinance, 2000 (the Ordinance). The Financial Statements in the meaning of the Section 21 of the Ordinance read with the Privatisation Commission, Form and Manner of Budget and Accounts (Accounting Procedure) Rules 2007.

Some of the statements contained in this report that may or may not be historical facts are statements of future expectations and other forward-looking statements based on management's views of the period for which this report is prepared for and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those in such statements. These statements may be identified by words such as 'expect', 'should', 'could', 'shall' and similar expressions. Such forward-looking statements are subject to various risks and uncertainties.

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GLOSSARY

ABL	Allied Bank Limited
ADB	Asian Development Bank
APSEWAC	All Pakistan State Enterprises Workers Action Committee
BESOS	Benazir Employees Stock Option Scheme
BOI	Board of Investment
CCI	Council of Common Interests
CCOP	Cabinet Committee on Privatisation
CDC	Central Depository Company
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CRF	Central Revolving Fund
DCF	Discounted Cash Flow
DFIs	Development Finance Institutions
DISCO	Power Distribution Company
DR	Depository Receipt
ECO	Economic Cooperation Organization
EMG	Employees Management Group
EOI	Expression of Interest
FA	Financial Advisor
FDI	Foreign Direct Investment
FESCO	Faisalabad Electricity Supply Company
FINCON	Financial Consulting Company
FPCCI	The Federation of Pakistan Chambers of Commerce & Industry
GDR	Global Depository Receipt
GENCO	Power Generation Company
GHS	Golden Hand Shake Scheme
GOP	Government of Pakistan
HBL	Habib Bank Limited
HEC	Heavy Electrical Complex
HNWI	High-Net-Worth Individual
IATA	International Air Transport Association
IBA	Institute of Business Administration
ICI	Imperial Chemical Industry
ICP	Investment Corporation of Pakistan
IESCO	Islamabad Electric Supply Company
IMF	International Monetary Fund
INSEAD	Institute Européend' Administration des Affaires (European Institute of Business Administration)

IPO	Initial Public Offering
IT	Information Technology
KAPCO	Kot Addu Power Company
KASB	Khadim Ali Shah Bokhari
KESC	Karachi Electric Supply Corporation
KPK	Khyber Pakhtunkhwa
LESCO	Lahore Electric Supply Company
LLM	Master of Law
LOA	Letter of Acceptance
LPG	Liquified Petroleum Gas
MCB	Muslim Commercial Bank
MBA	Master's in business administration
MPA	Master's in public administration
MRTA	Management Right Transfer Agreement
NBP	National Bank of Pakistan
NDI	National Democratic Institute
NEPRA	National Electric Power Regulatory Authority
NGO	Non-Governmental Organization
NICL	National Insurance Company Limited
NITL	National Investment Trust Limited
NIRC	National Industrial Relations Commission
NPCC	National Power Construction Corporation
NPGCL	Northern Power Generation Company Limited
NPT	National Press Trust
NRL	National Refinery Limited
OGDCL	Oil and Gas Development Company Limited
OGRA	Oil and Gas Regulatory Authority
OIC	Organization of Islamic Conference
PARC	Pakistan Agricultural Research Council
P@SHA	Pakistan Software Houses Association for IT & ITES
PC	Privatisation Commission
PC BOARD	Privatisation Commission Board
PD	Privatisation Division
PIA	Pakistan International Airlines
PICIC	Pakistan Industrial Credit and Investment Company
PKR	Pakistani Rupee
PMDC	Pakistan Mineral Development Corporation
PML(N)	Pakistan Muslim League (Nawaz)
PMTF	Pakistan Machine Tool Factory

PO	Public Offering
PPL	Pakistan Petroleum Limited
PPP	Public Private Partnership
PSE	Public Sector Enterprises
PSMC	Pakistan Steel Mills Corporation
PSO	Pakistan State Oil
PTCL	Pakistan Telecommunications Company Limited
PTDC	Pakistan Tourism Development Corporation
Pvt.	Private
QIB	Qualified Institutional Buyer
R&D	Research and Development
RFP	Request for Proposals
RSOQ	Request for Statement of Qualifications
S&GAD	Services and General Administration Department
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SITE	Sindh Industrial Trading Estate
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprises Development Authority
SNGPL	Sui Northern Gas Pipelines Limited
SOEs	State Owned Enterprises
SOQ	Statement of Qualifications
SPA	Share Purchase Agreement
SPO	Secondary Public Offering
SPV	Special Purpose Vehicle
SSGC	Sui Southern Gas Company
UAE	United Arab Emirates
USA	United States of America
UNICEF	United Nations International Children's Emergency Fund
USD / US\$	US Dollar
UBL	United Bank Limited
VSS	Voluntary Separation Scheme
WAPDA	Water and Power Development Authority
WTO	World Trade Organization
ZTBL	Zarai Taraqati Bank Limited

VISION

To enhance participation of the Private Sector for efficient management of Public Sector Enterprises (PSEs) and to generate finances for debt retirement and poverty alleviation.

MESSAGE OF THE CHAIRMAN

The present government has inherited dismal economic conditions in the shape of high debt servicing and current account deficit. In order to overcome the economic challenges, government has decided to take a number of measures which *inter-alia* include tax reform, ease of doing business, and attracting foreign direct investment and foreign portfolio investment. As a result of concerted efforts, Pakistan has been able to restore confidence of foreign as well as local investors in terms of ease of doing business, transparency and accountability.

Privatisation is considered one of the priority areas in the context of overall macroeconomic policy framework to achieve the dual purpose i.e. to generate resources and to unlock commercial potential of PSEs through enhancing private sector's role in their management. In pursuit of the said objectives, the present Government has approved new Privatisation Programme soon after assuming office. The programme is being reviewed from time to time. Now Ministry of Privatisation is working on privatisation / divestment of nine (09) PSEs pertaining to different sectors i.e. Energy, Banking, Insurance, Hospitality and Industries Sectors, which includes two RLNG Power Plants.

It appears to me that we live in a 'new Privatisation Landscape', which demands that process of privatisation should be in congruence to the international best practices and concluded with high degree of transparency and efficiency. At the same time, the Privatisation process poses risks and challenges in terms of right decision at right time, preparing an entity for smooth transfer to private sector, adherence to the relevant laws and rules, compliances with relevant regulatory requirements etc. To meet the desired objectives, it is imperative that all stakeholders extend needed cooperation and assistance during the process; as Privatisation Commission alone cannot produce results in a timely manner. The present Government is fully committed to provide political backing and confidence in decision making by the concerned functionaries so as to uplift the economic conditions of the country in a coordinated and integrated manner.

Mohammedmian Soomro
Chairman, Privatisation Commission

MESSAGE OF THE SECRETARY

The Privatisation is one of the priority areas of the incumbent Government which has approved the new Privatisation Programme in October, 2018, soon after assuming its Power. The term Privatisation itself is somehow an unpleasant proposition for the entities to be privatized in particular and at mass level in general. In order to make the privatisation an acceptable option for all stakeholders it is of paramount importance to exercise due care in terms of transparency, efficiency and right decision at the right time. Another important measure is advocacy and communication of the benefits of Privatisation, which had been a neglected area. Past experience of Privatisation does reflect successful stories mostly in Banking and telecom sector. Most importantly it has spurred economic growth and improved services because privatized business has cut cost, increased quality and pursued innovation. Through Privatisation the Government role in management of SOEs is reduced, thus it enhances Private Sector's role in the overall economic development of the country. The Government plays the role of a facilitator by creating a level playing field for the business community. At the same time rights of consumers and interest of common people are protected in the overall scheme of things while privatizing SOEs.

Pakistan was one of the first countries in the region to initiate deregulation and liberalization of the economy and start the privatisation process. Between 1991 and 2008, proceeds of PKR 648,972 billion were raised from 167 privatisation transactions. These included important privatisation successes in the industrial, telecom and financial sectors.

The new Privatisation programme contains 09 entities from different sectors and a significant progress has so far been made by engaging external financial advisors to conduct the process in a transparent and efficient manner. It is also expected that more entities would be placed in near future in the active list as a result of PSEs reforms exercise at Government level.

I am confident that Ministry of Privatisation would be able to accomplish the challenging task of privatisation with the support of all stakeholders in an efficient and transparent manner.

Rizwan Malik
Secretary, Privatisation Commission

ORGANIZATIONAL STRUCTURE

PRIVATISATION COMMISSION

Introduction

On 22 January 1991, the Privatisation Commission (PC) was established as a subsidiary of the Finance Division, to implement the privatisation programme of the Federal Government.

Subsequently, on 28 September 2000, the Privatisation Commission Ordinance, 2000 (Ordinance) was promulgated and the Commission was converted into a body corporate, which further strengthened its legal authority for implementing the government's Privatisation Policy.

The Commission is entrusted with the task of privatizing federal government assets such as its shares in banks, industrial units, public utilities, oil, gas and transport companies, and infrastructure service providers in an open and transparent manner. To enhance the private sector's role in the endowment of goods and services, the Ordinance has vested decision making powers to the Privatisation Commission Board (PC Board), consisting of eminent professionals from the public and private sectors. The decisions taken by the PC Board are taken-up with the Cabinet Committee on Privatisation (CCOP) for approval, which are subsequently ratified by the Cabinet.

Functions of Privatisation Commission

The functions and powers of the Commission as enumerated in Section 5 of the Privatisation Commission Ordinance, 2000 (the 'Ordinance') are as under:

- a) recommend privatisation policy guidelines to the Cabinet;
- b) prepare a comprehensive privatisation programme for the approval of the Cabinet;
- c) plan, manage, implement and control the privatisation programme approved by the Cabinet;
- d) prepare and submit reports to the Cabinet on all aspects of the privatisation programme;
- e) facilitate or initiate legislation as approved by the Cabinet, by or on behalf of concerned Ministry in connection with the privatisation programme;
- f) provide overall directions for the implementation of privatisation related activities including, restructuring, deregulation and post-privatisation matters in sectors designated by the Cabinet;
- g) take operational decisions on matters pertaining to privatisation, restructuring, deregulation, regulatory issues including approval of licensing and tariff rules and other related issues pertaining to the privatisation programme approved by the Cabinet;
- h) issue directions and instructions to the management of a business undertaking falling within the purview of the privatisation programme approved by the Cabinet on all major important administrative, financial, reporting and policy matters;
- i) publicize the activities of the privatisation programme;
- j) propose a regulatory framework, including the establishment and strengthening of regulatory authorities, to the Cabinet for the independent and fair regulation of each industry sector falling within the purview of the privatisation programme;

- k) advise the Federal Government in selection and appointment of the head and a member of a regulatory authority;
- l) advise the Federal Government that monopolies are not created in the process of privatisation;
- m) appoint advisors, consultants, valuers, lawyers and such other staff, both local and foreign, on such terms as it may determine to discharge its functions under this Ordinance;
- n) approve and take decisions and perform all acts to implement pre-privatisation restructuring, labor rehabilitation and severance schemes, and all other related matters as approved by the Cabinet;
- o) invite applications for the privatisation and ensure widest possible participation;
- p) evaluate bids received according to the criteria determined by the Commission from time to time and formulate recommendations for consideration by the Cabinet;
- q) recommend for the Federal Government such labor and man-power rehabilitation programmes as may be necessary during privatisation and to develop a roster of such employees who may need rehabilitation;
- r) advise measures to the Federal Government for improvement of public sector units until their privatisation;
- s) assist in the implementation of Federal Government policies on deregulation and privatisation and advise the Federal Government on deregulating the economy to the maximum possible extent; and
- t) perform such other functions that are incidental or ancillary to carry out the privatisation programme approved by the Cabinet.

Composition and Structure of the Privatisation Commission

The Privatisation Commission is a body corporate organization, managed by its Board, which is headed by a Chairman. The Secretary, Privatisation Commission is the ex-officio member of the PC Board and acts as Secretary of the Board.

Human Resource

The Human Resource of the Commission comprises of Civil Servants, Consultants/ Transaction Mangers and other allied Staff.

a) Regular Human Resource

S. #	Designation	Scale	Sanctioned Strength
1.	Chairman	-	1
2.	Secretary	22	1
3.	Executive Director General	21	1
4.	Director General	20	4
5.	Director	19	4
6.	Deputy Director	18	3

7.	Public Relation Officer	17/18	1
8.	Private Secretary	17/18	3
9.	Accounts Officer	18	2
10.	Superintendent	17	4
11.	Sr. Technical Assistant	17	6
12.	Technical Assistant	16	18
13.	Accountant	16	1
14.	Assistant Private Secretary	16	14
15.	Senior Auditor	16	2
16.	Assistant	15/16	8
17.	Upper Division Clerk	11	3
18.	Photostat Machine Operator	7	3
19.	Telephone Operator	9	2
20.	Lower Division Clerk	9	12
21.	Electrician	9	1
22.	Record Sorter	7	1
23.	Staff Car Driver	4	12
24.	Dispatch Riders	4	3
25.	Daftary	3	1
26.	Qasid	2	2
27.	Chowkidar	1	4
28.	Naib Qasid / Farash	1/2	30
29.	Sweeper	1/2	8
Total:			151

b) Contractual Human Resources

S. #	Designation	Grade	Current Strength
1	Sr. Consultant	G-I	6
2	Consultant / Transaction Manager	G-II	6
3	Consultant	G-III	1

REGULATORY AND GOVERNANCE STRUCTURE

a) Board of Privatisation Commission

Section 6 of the Privatisation Ordinance, 2000, provides that “the general management and administration of the Commission shall vest in its Board”.

Currently, the Board comprises of a Chairman, a Secretary and ten (10) Members. The Members represent all the provinces of Pakistan and are known professionals of various disciplines. Detail of the members is as under:

S #	Name	Designation	Place of Domicile	Expertise
1.	Mr. Arsallah Khan Hoti	Member	Khyber-Pakhtunkhwa	Industrialist and marketing
2.	Mr. Ashfaq Yousuf Tola	Member	Sindh (Urban)	Chartered Accountant
3.	Mr. Aziz Nishtar	Member	Punjab	Corporate Lawyer
4.	Mr. Etrat Hussain Rizvi	Member	Khyber-Pakhtunkhwa	Corporate Management Specialist
5.	Mr. Khurram Schehzad	Member	Sindh (Urban)	Capital Market Specialist
6.	Engr. Memon Abdul Jabbar	Member	Sindh (Rural)	Industrialist
7.	Mr. Naseer Ahmad Akhtar	Member	Punjab	Information, Communication and Business development
8.	Mr. Yawar Irfan Khan	Member	Punjab	Industrialist
9.	Mr. Zafar Iqbal Sobani	Member	Sindh (Urban)	Chartered Accountant
10.	Mr. Zafar Iqbal FCA	Member	Punjab	Chartered Accountant

b) Cabinet Committee on Privatisation (CCoP)

The mandate of the CCoP is to guide / advise to streamline the functioning of the Privatisation Commission. It also serves as a forum for taking strategic decisions on privatisation and monitors the privatisation progress. All the major decisions taken regarding the privatisation process are placed for ratification of the Cabinet through this committee i.e. CCoP.

Currently, CCoP comprises of following members: -

*Composition of CCoP**

- | | |
|---|----------|
| i. Adviser to the Prime Minister on Finance & Revenue | Chairman |
| ii. Minister for Communication | Member |
| iii. Minister for Law & Justice | Member |
| iv. Minister for Planning, Development and Reform | Member |
| v. Minister for Privatisation | Member |
| vi. Minister for Power | Member |

- | | | |
|-------|--|--------|
| vii. | Adviser to Prime Minister on Commerce, Textile, Industry & Production and Investment | Member |
| viii. | Adviser to Prime Minister on Institutional Reforms and Austerity | Member |

Terms of Reference

- a) To formulate the Privatisation Policy for approval of the Government / Cabinet.
- b) To approve the State-Owned Enterprises (SOEs) to be privatised on the recommendation of the PC or otherwise.
- c) To take policy decisions on inter-ministerial issues relating to the privatisation process.
- d) To review and monitor the progress of privatisation.
- e) To instruct the PC to submit reports/information/data relating to the privatisation process or any matter relating thereto.
- f) To take policy decisions on matters pertaining to privatisation, restructuring, deregulation, regulatory bodies and the Privatisation Fund Account.
- g) To approve the reference price in respect of the SOEs being privatised.
- h) To approve successful bidders.
- i) To consider and approve the recommendations of the PC on any matter.
- j) To assign any other task relating to privatisation to the PC.

** Issued by Cabinet Division vide notification No 5/1/2000-Com dated 21.09.2004.*

c) Council of Common Interests (CCI)

The Council formulates and regulates policies in relation to matters in Part II of the Federal Legislative List and exercise supervision and control over related institutions.

Decisions of the Council are expressed in terms of opinion of the majority. The public sector entities/ interests etc. contemplated for privatisation are brought before the CCI for its approval before submission of summary to the Cabinet.

Composition

1	The Prime Minister	Chairman
2	The Chief Minister, Punjab	Member
3	The Chief Minister, Sindh	Member
4	The Chief Minister, Khyber Pakhtunkhwa	Member
5	The Chief Minister, Baluchistan	Member
6	Minister for Finance, Revenue and Economic Affairs	Member
7	Minister for Inter Provincial Coordination	Member
8	Minister for Industries & Production	Member

**Issued vide notification No 1(2)/2010-CCI, dated 31.08.2018, respectively*

Approval of Privatisation Program by CCI

The CCI in 1997 and 2006 approved a broad-based privatisation programme including PSEs in various sectors like Banking and Finance, Oil and Gas, Power, Infrastructure, Transport, Industries and Production etc.

Moreover, after the 18th Amendment to the Constitution, the PC also sought approval of the CCI for the privatisation of all power generation companies (GENCOs) and power distribution companies (DISCOs) in 2014. Furthermore, CCI also accorded approval for inclusion of two (02) RLNG Power Plants namely 1223 MW Balloki Power Plant and 1230 MW Haveli Bahadur Power Plant in the Active Privatisation List in January, 2019.

OPERATIONAL METHODOLOGY

Privatisation of a Public Sector Entity is a challenging task, which cannot be implemented in a self-governing manner, as it requires detailed due-diligence, including but not limited to legal, financial, human resource etc. aspects of the concerned business, to be privatised and due collaboration and feedback from all the relevant stakeholders is equally important for successful completion of a transaction activity.

To meet the objectives of privatisation, a comprehensive legal framework is in place to conduct the process starting from hiring of Financial Advisor till conclusion of the transaction.

PRIVATISATION PROCESS

The privatisation process, which is aimed at selling Public Sector Entity (PSE) in an open and transparent way with a view to obtain the best possible price, varies somewhat depending on the nature of the entity being privatised, on the proportion of shares being offered for privatisation, and on whether a transfer of management is involved. The Board of the Privatisation Commission and the Cabinet Committee on Privatisation decides as to what kind of process will be followed after deciding which one of the following modes ^[1] be followed: -

- a) sale of assets and business;
- b) sale of shares through public auction or tender;
- c) public offering of shares through a stock exchange;
- d) management or employee buyouts by management or employees of a SOE
- e) lease, management or concession contracts;
- f) any other method as may be prescribed.
 - i) public offering of shares other than through a stock exchange;
 - ii) sale of shares, assets, business and property to a person that has a pre-emptive right to acquire the same (or any part thereof) subject to fulfillment of conditions attached to such rights.
 - iii) Negotiated sale
 - iv) transfer of Property to a trust for the employees of an enterprise owned or controlled, wholly or partially, directly or indirectly, by the Federal Government on such terms and conditions as may be approved by the Federal Government
 - v) transfer of shares on conversion of exchangeable bonds or any other hybrid debt equity instrument issued by the President, on behalf of the Islamic Republic of Pakistan, provided that the concerned Divisions of the Federal Government under the Rules of Business, 1973 are consulted, where required

[1] Section 25 of PC Ordinance, 2000 read with the Privatisation (Modes and Procedures) Rules, 2001

The Privatisation Process generally comprises of the following steps:

<u>Strategic Sales</u>	<u>Capital Market Transaction</u>
1) Identification of PSE to be privatised	1) Identification of PSE to be privatised
2) Approval of the CCI, where required	2) Approval of the CCI, where required
3) Approval of CCoP	3) Approval of CCoP
4) Hiring of Financial Advisor (FA) or Valuator	4) Hiring of Financial Advisor (FA)
5) Due diligence by FA and PC	5) Due diligence by FA and PC
6) Finalization of Transaction Structure	6) Finalization of Transaction Structure
7) Invitation of Expressions of Interest	7) Fulfilment of regulatory requirements, where required
8) Submission of Statement of Qualifications	8) Preparation of Prospectus and other marketing material
9) Pre-qualification of firms	9) Approval of Floor Price and marketing roadshows
10) Due diligence by potential buyers	10) Book Building and approval of Strike (Final) Price & allocation
11) Sharing of Bid Documents / Instructions with pre-qualified bidders	11) Settlement and Financial Closure
12) Pre-Bid Conference	
13) Approval of Valuation (Reference Price) by PC Board & CCOP	
14) Bidding process (media invited to observe bidding)	
15) Approval of bidding results by PC Board and CCOP	
16) Issuance of Letter of Intent to successful bidder	
17) Execution of Sale Agreement and Receipt of Proceeds	

DESCRIPTION OF ALL STEPS

➤ Identification

The first step is the identification of the entity or list of entities to be privatised. In a typical transaction, the Privatisation Commission, in consultation with the relevant ministry, submits a summary of the proposed transaction to its Board.

After endorsement of the Board, approval of the CCoP is obtained. Approval of the CCI is also obtained, if so required.

➤ Hiring of a Financial Advisor (FA) or Valuator

Hiring of FA or Valuator is made for successful privatisation process. In major transactions, the process to hire a financial advisor is carried out by the PC with the approval of the Board. The process includes the following: -

- ✓ The terms of reference for the FA are finalized,
- ✓ expressions of interest from prospective FAs are solicited,
- ✓ an evaluation team is constituted, and
- ✓ short listed firms are invited to submit technical and financial proposals in a common format.

The Evaluation Committee evaluates the technical proposals and the highest ranked firm based on cumulative technical and financial scores is invited for contract negotiations and signing.

➤ **Due Diligence**

The next step is that the appointed FA conducts legal, technical, and financial due diligence. This is aimed at:

- ❖ Identifying any legal encumbrances,
- ❖ evaluating the condition of the assets, and
- ❖ Examining the accounts of the company in order to place a value on the company.

The Financial Advisor conducts due diligence of the entity being privatised. Thereafter, the FA proposes the appropriate privatisation plan. This may include recommendations on any needed restructuring, in addition to specifying the number of shares or assets to be privatised.

➤ **Enacting any Needed Regulatory and Sectoral Reforms**

For major utility / service provider-based PSEs, the ability to privatise and the quantum of realizable proceeds, depends critically on the level of regulated prices of the enterprise's inputs or outputs and other sectoral or regulatory policies. For many monopolies or quasi-monopolies, the "rules of the game" specifying the competition framework, post-privatisation, the manner and type of regulation, and the institutions regulating them are key to investor interest.

In addition to rules determining prices or tariffs, there may be rules determining standards, penalties for non-compliance, the extent, form and timing of any proposed deregulation, and the evolving structure of the market following liberalization. Clarification of these rules and passage of needed laws and regulations will often be necessary before taking the transaction to market.

➤ **Pricing Mechanism**

In order to obtain an independent assessment of the value of the entity being privatised, the Commission relies primarily on FA's recommendations based on the due diligence conducted and the market appetite. The FA carries out the valuation to obtain a "Reference Price" for the asset.

In case of Capital Market Transaction, the FA recommends 'Floor Price' for divestment of shares of a selected entity, which is based on pricing benchmarks at various assumptions, including regional precedents of discounts offered in similar transactions, past privatisation precedents of discounts offered, if any, recent trend of share price, if listed and comparison with its peers and outcome of road shows, especially investor feedback and indicative demand analysis at various price levels.

In other cases, the Commission contracts with an external valuation firm or accounting firm as specified in the rules on the valuation of property, which can be obtained from the PC website. The methods used for the valuation vary with the type of business and often more than one method is used in determining the value. These include the discounted cash flow method, asset valuation at book or market value, and stock market valuation. Despite using scientific methods, valuation remains more an art than a science. The true value is dependent on many difficult to quantify variables such as country risk, corporate psychology and strategy, and perceptions of future macroeconomic outlook. Therefore, it is important to focus on designing appropriate transaction structures in choosing and implementing appropriate pre-qualification criteria for bidders, and in following an appropriate bidding process to obtain a fair price for the privatisation.

➤ **Bidding Process**

In case of Strategic Sale, Expressions of Interest (EOI) are invited by advertising in the relevant media. The PC Ordinance 2000 spells out the advertising procedures. Depending on the kind of transaction, the EOI describes the broad qualifications that potential bidders must possess. Those submitting an EOI and meeting the broad qualifications are provided with the Request for Statement of Qualifications (RSOQ) package containing the detailed pre-qualification criteria, and other relevant documents. Interested parties then submit a Statement of Qualification (SOQ), which is evaluated to determine whether an interested party meets the requisite qualifications. Pre-qualified bidders are then provided Instructions to Bidders, draft Sale Agreement besides given a specified period to conduct their own due diligence, following which they are invited to a pre-bid conference where their questions and concerns can be addressed. The meeting is useful in explaining the bidding procedure to be followed (for example, open auction, sealed bids, or some combination). The bidding itself is done openly, with all bidders and media invited.

In case of Capital Market Transaction, the Bidding process is preferably conducted through Book Building Exercise as approved by the SECP.

➤ **Post-bid Matters**

Following bidding and identification of the highest bidder, the Board of the PC makes a recommendation to the CCOP as to whether or not to accept the bid. The reference price is a major determinant in the recommendation, although the Board may recommend the sale even if the offer price is below the reference price. Once the bid price and bidder are approved, the PC issues a letter of acceptance or a letter of intent to the successful bidder, indicating the terms and conditions of the sale. The PC then finalizes the sale purchase agreement, collects the sale proceeds, and transfers the PSE. Within 30 days of the financial closure, the PC is required to publish the summary details of the transaction in the official gazette.

In case of Capital Market Transaction, after completion of Book Building ‘Strike Price’ is determined on the basis of the ‘Dutch Auction Method’. The successful bidders are intimated about the strike price and the number of shares allotted to each of them. After receipt of full subscription money, the successful bidders are issued/ transferred shares as per provisions of Offer for Sale Document (OFSD).

PERFORMANCE AND ACHIEVEMENTS**A) Privatisation Transactions**

Since 1991 PC has managed to complete 172 privatisation transactions, as per following table: -

SECTOR	Sale Price 1991 to June 2018	
	Transactions	Amount (Rs. in million)
Banking	7	41,023
Capital Market Transaction	26	303,494
Energy	15	54,273
Telecom	4	187,024
Automobile	7	1,102
Cement	17	16,177
Chemical	16	1,643
Engineering	7	183
Fertilizers	7	40,281
Ghee Mills	24	842
Rice	8	236
Roti Plants	15	91
Textile	4	371
Newspapers	5	271
Tourism	4	1,805
Others	6	158
Total	172	648,972

CURRENT PRIVATISATION PROGRAMME

The government is focusing on PSEs reforms agenda and implementing privatisation programme, duly approved by the Cabinet Committee on Privatisation (CCoP) on 31st October, 2018 and ratified by the Cabinet on 1st November, 2018.

The programme is being reviewed periodically by the Privatisation Commission and the CCoP. At present, Ministry of Privatisation is working on privatisation / divestment of eighteen (18) PSEs and twenty-seven (27) properties/ assets pertaining to various Ministries/ Divisions are also being processed and at advanced stage of privatisation. In addition, there are twenty-eight (28) PSEs in the Phase-II programme pertaining to different sectors like Energy, Mineral, Financial & Insurance, Industries, Telecom and Education.

ONGOING PRIVATISATION

Privatisation of National Power Parks Management Company Limited

The Cabinet Committee on Privatisation (CCOP) in its meeting held on October 31, 2018 directed to initiate process of privatisation of National Power Parks Management Company Limited (NPPMCL) owned 1223 MW Balloki Power Plant and 1230 MW Haveli Bahadur Shah Power Plants. Financial Advisory Services Agreement (FASA) for processing privatisation of the company was signed with M/s Credit Suisse, on April 30, 2019. Due Diligence of the entity by FA and PC is under process.

SME Bank Limited

The Cabinet Committee on Privatisation (CCOP) in its meeting held on October 31, 2018 included SME Bank in the Active Privatisation List. Financial Advisory Services Agreement (FASA) for processing privatisation of the bank was signed with AKD Securities, RIAA Barker Gillette and Riaz Ahmad & Co. on June 18, 2019. Due Diligence of the entity by FA and PC is under process.

Services International Hotel

The Cabinet Committee on Privatisation (CCOP) in its meeting held on October 31, 2018 included Services International Hotel in the Active Privatisation List. Financial Advisory Services Agreement (FASA) for processing privatisation of the hotel was signed with Colliers Pakistan (Pvt) Limited, Elixir Securities Pakistan (Private) Limited and Mohsin Tayebaly & Co. in July, 2019.

Jinnah Convention Centre

The Cabinet Committee on Privatisation (CCOP) in its meeting held on October 31, 2018 included Jinnah Convention Centre, Islamabad in the Active Privatisation List.

During November 2018 to May 2019, after a thorough consultative process with Capital Development Authority and other stakeholders, regarding title of Jinnah Convention Centre,

pursuant to the approval by the Prime Minister and Economic Coordination Committee of the Cabinet approved supplementary grant of Rs. 1.140 billion for payment to CDA regarding transfer of title.

REVIVAL OF ENTITY

Pakistan Steel Mills Corporation

The Cabinet Committee on Privatisation (CCOP), in its meeting held on October 31, 2019, while delisting the entity from privatisation programme directed Ministry of Industries & Production (MoIP) to submit viable recommendations / plan for operationalization of Pakistan Steel Mills to CCOP within 45 days.

Accordingly, on April 08, 2019 MoIP constituted Expert Group submitted its findings/conclusions to the ECC of the Cabinet, inter alia recommending that PSMC should not be privatised and GoP should seek capital investment for revival of PSMC on PPP basis.

However, the ECC on May 03, 2019 agreed to the proposal of MoIP for placing PSMC on Privatisation list and directed MoIP to make a formal proposal to CCOP.

Subsequently, the CCOP, in its meeting held on June 17, 2019, directed the Privatisation Commission (PC) to immediately advertise for the recruitment of a transaction advisor for PSMC i.e. to bring in a party for the revival of the Pakistan Steel Mills without transfer of full ownership.

DIVESTMENT OF SHARES / CAPITAL MARKET TRANSACTIONS

Mari Petroleum Company Limited

Mari Petroleum is an integrated exploration and production company, currently managing and operating Pakistan's largest gas reservoir at Mari Gas Field, Daharki, Sindh. With 18% market share, Mari Petroleum is the second largest gas producer in the Country with cumulative daily production of 100,000 barrels of oil equivalent.

The Company's exploration and production assets are spread across all the four provinces of Pakistan. The Company enjoys the highest exploration success rate of 70%, much higher than industry average of 33% (national) and 14% (international). At the same time, it is the most cost-efficient E&P Company in the Country with lowest operational cost of only 10% of the gross sales.

To its credit, Mari Petroleum has the unique record of maintaining uninterrupted gas supply to its customers from Mari Field for the last fifty years without availing even the permitted outages.

Government of Pakistan intends to divest its residual shares (18.39%). Under the terms of Participation and Shareholders Agreement, the original Shareholders i.e. Fauji Foundation, GoP and OGDCL (JV Partners) have the pre-emption right to purchase the shares if offered for

sale by any of the three parties.

Accordingly, Transfer Notice has been issued to JV Partners. The JV Partners have requested for Auditor's Certificate for fair price determination. MPCL is actively working on the same. Presently, Petroleum Division is considering opening the Dividend Cap, before divestment of shares. Further process will be carried out after removal of Dividend Cap by the Petroleum Division.

State Life Insurance Corporation (SLIC)

The Life Insurance Business in Pakistan was nationalized during March 1972. Initially Life Insurance business of 32 Insurance Companies was merged and placed under three Beema Units named "A", "B" and "C" Beema Units. However, later these Beema Units were merged, and effective November 1, 1972 the Management of the Life Insurance Business was consolidated and entrusted to the State Life Insurance Corporation of Pakistan (SLIC).

The Cabinet Committee on Privatisation (CCoP) on June 18, 2019 approved inclusion of SLIC in the Active Privatization Programme through IPO by divesting up to 20% GoP shares.

The Commerce Division has been requested to initiate Corporatization Process of the entity to facilitate divestment of shares process.

ADDITIONAL ASSIGNMENT

Sale of Properties / Assets Owned by Federal Government Organizations

The Federal Cabinet on February 26, 2019 and March 07, 2019, directed all Ministries / Divisions for identification of three (03) properties each, free of all encumbrances for the purpose of their disposal.

Moreover, an Inter-Ministerial / Asset Management Committee (AMC) was constituted to oversee the Identification and Privatisation of Federal Government properties.

After a thorough consultative exercise, 32 properties of 09 Ministries/ Divisions/ Organizations were selected by AMC for disposal in Phase-I having estimated value of PKR 10 billion.

In compliance to the Federal Cabinet of June 03, 2019, Privatisation Commission hired the top ranked interested party M/s Riaz Ahmad & Company consortium as Financial Advisor after completing procurement process of PPRA and PC.

INSTITUTIONAL REFORMS

Privatisation Commission believes in creating a robust working environment for achieving its targets efficiently and effectively, within timelines.

Regulatory Reforms

In order to achieve the privatisation targets entrusted to PC by the Government of Pakistan, PC has streamlined its processes/procedures and has reduced the timeframe for conducting privatisation transactions, from over 02 – 03 years, in case of strategic sales transactions to less than 1 year, resulting in improving efficiency (in terms of reduction in cost & time) and transparency. Moreover, PC is bound to follow the provisions of Law, as provided in the Privatisation Commission Ordinance, 2000, and Rules & Regulations made thereunder, and Rules & Regulations of Public Procurement Regulatory Authority. Apart from that privatisation of an entity is also dependent upon the market conditions and the advice of Financial Advisor.

The procedure for Hiring of Financial Advisors has been simplified, effective and transparent in line with the Public Procurement Rules and international best practices. In this regard, Privatisation Commission (Hiring of Financial Advisers) Regulations, 2018, has been Notified in the Official Gazette in January, 2019. Moreover, in order to facilitate the hiring process, PC has standardized Financial Advisory Services Agreement (FASA) and Request for Proposals (RFP) Document & Technical Evaluation Criteria. Subsequent, to such initiatives, PC has successfully hired services of Financial Advisors (FAs) for its eleven (11) privatisation transactions, whereas, cases for other FAs is at an advanced stage.

Human Resource Reforms

In order to implement the privatisation programme continuous capacity building of PC through hiring of professionals is also being carried out. Accordingly, PC has assessed requirements of Consultants/Professionals for conducting privatisation transactions and hired requisite Consultants/Professionals relating to Legal, Energy, Finance and Media Sectors. Moreover, the management of Privatisation Commission has also been further strengthened by creation of post of Executive Director General (PC-21), respectively, to oversee the activities.

In addition, the inhouse capacity building at other levels has also been reviewed by a Human Resource Committee, comprising Board Members and Officers of the Commission.

The said Committee, after thorough review of the said HR matters, after several meetings, submitted its recommendations to the PC Board in November 2019. The Board after through deliberations on the recommendations, inter alia, approved the following: -

- i) Privatisation Commission Discipline Regulations for PC Employees;
- ii) Revision of Pay Scales of Consultants;
- iii) Regularization of service of Special Service Agreement (SSA) Employees and Technical Assistants (G-IV) of PC;
- iv) Inclusion of Previous Service, Upon Regularization of contractual employees of PC;
- v) Re-designation / Career path of Various Cadres, including Superintendent, Assistants, UDC

etc.

vi) and other related matters.

Public Awareness and Interaction – Proactive Communication Strategy

To promote better understanding of privatisation programme and processes amongst masses and other stakeholders, PC has established interaction through Official Website, Print & electronic media including Social Media.

Moreover, Roadshows and Investor Conferences have been conducted for attracting Investors for the Privatisation Transactions. A Workshop on “Privatisation Program (Prospects & Opportunities)” was successfully conducted at Karachi, in September, 2019, wherein, over 200 personnel from top management of prominent Institutions, Banks, Advisory Organizations, Investors etc. participated.

PICTORAL REVIEW







**FINANCIAL STATEMENTS
AND
AUDITORS REPORT**

*(Accounts and Report
will be uploaded / included
as and when available*