



**USAID/PRICEWATERHOUSECOOPERS
EGYPT PRIVATIZATION IMPLEMENTATION PROJECT (“PIP”)**

Contract PCE-I-00-98-00017-00, Task Order #821
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QUARTERLY REPORT TO USAID FOR THE SECOND QUARTER OF 2002

MAY 9 - JUNE 30, 2002

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1. MAJOR EVENTS DURING THE SECOND QUARTER 2002

Due to the extended period recorded for Quarter 1 (Jan 1 – May 8, 2002) and reported in our Quarter 1 Report, the second quarter covered here covers the subsequent seven week period to June 30th.

Major events during this period were:

- The sale of Egyptian Glass Company was concluded, with the winning bid being submitted by an investor which PIP had introduced to the deal. The investor, Khoraffi Group of Kuwait, submitted a winning bid of LE 176 share, whereas the second bidder, Pilkington, made an offer of LE 175 per share. At LE 176 per share the government's portion of the purchase price was approximately LE 308 million. The deal was executed on Monday, June 10th.
- PIP met with the new director of the PEO, Mr. Hamdy Rashad, who expressed his desire to rethink the privatization strategy of the GoE by first identifying the GoE's objectives for the program. He has embarked on a campaign to discuss the issue with the HC Chairmen as well as more senior levels of the GoE.
- On April 2, 2002, PIP received a letter from the PEO Director dated February 28, 2002. The letter indicated that the PEO was conducting an "evaluation" of the Privatization Implementation Project and requested information about technical assistance delivered to the Holding Companies, as well as a list of Project deliverables. After consulting with USAID, PIP provided the PEO with a list of deliverables completed since the commencement of the project.
- PIP completed and delivered its Real Estate Market Study to the PEO. This report surveyed the extensive real estate (developed and under development) assets owned by the companies in the PIP portfolio. The objective of the study was to develop a focused packaging proposal for the GOE's diverse real estate assets that would most effectively result in timely privatization at the best prices. Real estate is an asset that is locale-specific, and is most effectively sold by dedicated real estate professionals in a different and broader market than the market for business investment. While we have made recommendations concerning more efficient ways to hold and sell real estate assets, we also expect substantial institutional resistance to implementing any major restructuring of how real estate is owned and disposed.
- **INVESTOR OUTREACH**
- PIP followed up on its contacts made with Gulf investors during its trips to Dubai, Abu Dhabi, Bahrain and Kuwait City during the first 5 months of 2002. Significant events during the May 8 – June 30 period were as follows:
 - Kuwaiti Investment Promotion Company (KIPCO) expressed its interest acquiring an Egyptian bank and began to consider MAIB and CFEB as potential candidates. KIPCO stopped its ongoing discussions with Al Watany Bank during this period and requested more information on CFEB and MAIB. KIPCO, which is owned by Kuwaiti Foreign Minister Sheikh Ahmed Al Sabah, would make this acquisition through its subsidiary, Burgan Bank of Kuwait.

- Global Investment House, a large privately-held Kuwaiti company, sent a letter to Banque de Caire (BdC) on June 3 expressing its interest in both CFEB and MAIB, and requesting additional information on both banks. Their inquiry was made after PIP had sent them company profiles on both banks. PIP contacted BdC to get their authorization to release the draft information memoranda on both banks, but this authorization had not been received by June 30th. Mohamed Abd El Latif, Chairman of CFEB and Board member of BdC, who gave us this authorization on behalf of BDC to provide an information memorandum in draft form.
- PIP made a major effort to market four companies in its portfolio to pre-selected investors. These investors were generally direct competitors or industry players in the sectors represented by the SOEs, as follows:
 - Misr Dairy: PIP contacted 12 companies, including Nestle and all of Misr Dairy's competitors in Egypt, and took many of them to tour the Misr Dairy facilities.
 - Misr Brick: PIP contacted five industry players who were already very familiar with the company, but none of these investors wished to pursue this opportunity.
 - National Housing: PIP contacted 6 investors, including the Accor Group which continues to be interested in the property. The other 5 investors determined that the recent signature of a new 10-yr management contract made the investment unattractive. PIP had cautioned against signing a new management contract as it would limit marketability; PIP was not informed of the new contract until well after it was signed.
 - Edfina: PIP contacted 12 potential investors for this company, one of which is Migop, a Saudi Industrial Group who is currently negotiating with the Holding Company for Food for the purchase of Edfina as well as Kaha.
- PIP met with major foreign business associations in Cairo to plan a one-day event in the Fall of 2002 where the privatization portfolio could be presented to a selection of potential investors. These business association representatives expressed enthusiasm for the initiative and have agreed to host the event in one of their existing conference facilities. The business associations are the following:
 - Egyptian Businessmen Association
 - British Egyptian Businessmen Association
 - American Chamber of Commerce
 - French Chamber of Commerce (CAFÉ)
 - Arab German Chamber of Commerce
- PIP met with 9 of the 42 investment promoters short-listed by the PEO to try to reactivate their interest in the privatisation program and encourage them to represent the GoE on the sell side. These interviews will continue until all of the large investment promoters have been interviewed. At that point a comprehensive report will be produced to summarize the findings and recommendations. Preliminary findings indicate that the reluctance of the investment banks to participate in the privatisation program is due to four main factors: (1) lack of a good and sustainable "product" flow for investors, (2) reluctance of the HCs to pay sufficient retainer or success fees on transactions, (3) lack of centralized decision-making in the

- transaction process, delaying transactions and creating too much uncertainty as to their ultimate success, (4) competition from the investment banking arms of three large State-owned banks who reportedly offer their services free of charge, and (5) a tendency to overvalued offerings.
- Preparation of outreach strategy for the September-December period including Gulf States: Kuwait, Saudi Arabia, UAE and embassy commercial attaches e.g. UK, Germany, Denmark, France, Italy.

2. TRANSACTIONS STATUS

During the May 8 – June 30 period, the PIP continued to assist the Ministry of Public Enterprises (MPE) and the Ministry of Economy and Foreign Trade (MOEFT, now the Ministry of Foreign Trade) to prepare and promote a number of companies for privatization.

PIP transaction support was provided to twenty four companies, as agreed with USAID under a modified scope of work. The following is a summary of the status of these companies, divided into (1) transactions completed, (2) transactions awaiting final Ministerial Committee approval, (3) second quarter tender announcements, (4) other transactions which could be completed by year end 2002, (5) transactions unlikely to close by year end 2002 and (6) companies which should be removed from PIP's portfolio and considered for asset sale or liquidation.

TRANSACTIONS COMPLETED

One transaction was completed during the seven weeks from May 9th, 2002 to June 30th, 2002 (2nd Quarter), despite PIP's expectation that up to 6 could be completed if the GOE were to take necessary steps. This one transaction is in addition to the 9 transactions that were reported in the PIP 1st Quarterly Report for 2002.

- 1. Egyptian Sheet Glass Company.** On March 1, 2002, the National Bank of Egypt (NBE) announced a tender for the Egyptian Glass Company. The tender was conducted publicly using the "open tender" procedures established by the Capital Markets Authority. The winning bid being submitted by an investor, which PIP had introduced to the deal through its shareholder, National Industry of Kuwait. The investor, Khoraffi Group of Kuwait (KGK) submitted a winning bid of LE 176 share, whereas the second bidder, Pilkington, made an offer of LE 175 per share. Guardian, which had originally agreed to submit a joint bid with Khoraffi, eventually pulled out when the pricing increased. At LE 176 per share the government's portion of the purchase price was approximately LE 308 million. The deal was executed on Monday, June 10th.

TENDERED TRANSACTIONS AWAITING MINISTERIAL COMMITTEE OR GENERAL ASSEMBLY APPROVAL

- 2. SABI Company (also known as Precision Industries).** A question raised in the April MC meeting has been resolved. GA approval is considered highly likely, although no progress was made in the May 9 – June 30th period.

TENDER ANNOUNCEMENTS DURING THE QUARTER

No new tender announcements were made during the May 9 – June 30th period.

OTHER TRANSACTIONS WHICH COULD CLOSE BY DECEMBER 31, 2002

3. **Delta Fertilizers.** The Chemicals Holding Company conducted a successful tender that generated expressions of interest from eight anchor investors, two of which submitted bids. The Holding Company has since requested that the bidders increase their offers and two offers were received. The next step is for the Chemicals Holding Company to assess the last two offers received.
4. **Cairo Far East Bank (CFEB).** Five financial institutions from the Gulf have expressed interest in the bank. PIP is following up with these investors to provide them with more information. One potential investor has completed due diligence (Kuwait Finance House). PIP finalized the valuation of the bank and presented it to BdC, which accepted the range of values as reasonable. Although a public tender would be difficult to complete by year end 2002, it is possible that BdC could do a private placement of the GoE's shares since they only hold a minority share. BdC currently has a one-year agreement from the Korean shareholders to negotiate the sale of the bank on their behalf; this agreement should run through the first quarter of 2003.
5. **Misr Iran Textile Company (Miratex).** Both the Egyptian and Iranian shareholders are willing to sell their shares. PIP is completing the valuation and information memorandum. PIP is also in the process of retaining a sub-contractor to seek US based textile company investors, which have been closing US plants due to the changing competitive economics of textile production worldwide.
6. **Shedwan Village Red Sea Resort.** PIP provided tender documents in Arabic and English for investment promoters. PIP is also conducting a valuation.
7. **Alexandria Cooling.** The Trade Holding Company has decided to sell the company to an investor rather than to an ESA. Pricing negotiations between the HC and the investor are underway between the Vice Chairman of the HC, Dr. Mahmoud Salem, former Director of the Public Enterprise Office, and the prospective investor. The employees of the company have opposing this sale, and have been offered a settlement. The HC is attempting to add the cost of the settlement to the purchase price, which is being resisted by the potential investor, who maintains that the purchase agreement doesn't provide for the additional payment sum.
8. **Misr Clay Bricks.** Year 2001 financial results indicate this business should be liquidated. PIP has been assured by the Minister of Public Enterprise that the Ministry of Construction that the next General Assembly will approve liquidating the company. As agreed with the company's management, PIP awaiting 2nd Quarter financials in order to make a final recommendation on liquidation.
9. **Al Fayoum for Food Security.** Recently, the Governate of Al Fayoum provided assurance to the Minister of Public Enterprise that land required by a potential and

interested buyer would be made available. Awaiting the approval of the Pricing Committee of the Governate in mid August in order to proceed with the transaction.

- 10. Misr Aswan Company for Fishing and Fish Production.** A Gulf investor is prepared to bid, but recent interest by the Ministry of Defence in the possibility of acquiring the company is still delaying the transaction. There appears to be a personal relationship between the Min of Defence and the Chairman of the company.
- 11. Edfina.** Migop is currently negotiating with the Holding Company for Food for the purchase of both Edfina and another SOE, Kaha, which is reverting back to the HC after it's new owner failed to honour the terms of his purchase agreement.
- 12. Sinai Managnese.** The Chemical Holding Company has decided to liquidate and the General Assembly needs to approve the transaction. An investor has expressed an interest in purchasing one of the company's assets. PIP expects the liquidation decision to be made before year end 2002.
- 13. Misr Hotels.** International investors have made offers for this hotel company, which owns the Nile Hilton and the Hilton Dahab. Reports indicate that this transaction is being delayed due to continued adjudication of a disputed tax liability, and the inability of the government entities involved to resolve the issues among themselves. There appears to be no reason why this transaction could not close immediately if the GoE truly wanted to make it happen.

OTHER TRANSACTIONS UNLIKELY TO CLOSE BY DECEMBER 31, 2002

- 14. Ismailia Misr Cooling and Storage Company.** On February 6, 2002, Banque Misr announced a tender for the sale of 70% of Ismailia Misr Cooling and Storage Company to an anchor investor. Two investors expressed interest in the company, but no bids were submitted. It is unlikely that a new deal could be done by year end.
- 15. Helnan Shepheard Hotel.** An offer was received from a brand name hotel chain, but was not pursued due to issues relating to the existing management contract as well as the valuation. At the recent request of the HC, PIP prepared tender documents and a translation of the information memorandum to English. Although a tender has been announced, the management contract and pricing issues in all likelihood need to be resolved before a transaction will occur.
- 16. Arab Company for Tourism and Hotel Investment (Semiramis Hotel).** The majority owner made an offer for the minority shares held by the Housing, Tourism and Cinema Holding Company. PIP prepared a valuation and submitted it to the Holding Company in early fall 2001. According to the Holding Company, the valuation was not reviewed by the Central Audit Agency, as required; it is thus outdated.
- 17. Misr America International Bank (MAIB).** As a result of the recent PIP visit to the Gulf, a Kuwaiti institution has renewed its interest in acquiring MAIB. This investor is being supplied with additional information on the bank, and if he wishes to proceed, PIP will update the valuation, previously submitted, with 2001 financial results.

- 18. Delta Spinning and Weaving.** PIP is exploring the feasibility of a management contract with option to buy. Both the Ministry of Public Enterprise and Delta's management team are in favour of pursuing such an option. Delta's management would like to put together a bid. In another development, a consortium including Werner and Perla Group have been discussing the possibility of leasing 6-7 spinning and weaving companies from the HC, and have identified Delta, STIA and Damietta as 3 of these 6-7. According to the HC, this consortium will do a feasibility analysis in September/October to determine whether or not to pursue. It appears that the HC may consider a lease (as part of the comprehensive Werner/Perla overture) for Delta rather than a management contract.
- 19. National Housing for Professional Syndicates (Meridien Heliopolis).** Bank Misr, the shareholder representative, is prepared to tender this company, but the transaction is complicated by a management contract with Meridien Hotels, which has just been extended for another 10 years. PIP was only informed of this extension after the fact. The asset is readily saleable without the encumbrance of the Meridien management contract, but less so with it.
- 20. National Company for Hotels and Tourism (Cairo Sheraton and Conrad hotels).** A pricing difference between the majority investor and the Housing, Tourism and Cinema Holding Company is delaying this transaction.
- 21. Kuwaiti Egyptian Investment Company.** The Kuwaiti shareholders who own 50% of the company's shares are interested in purchasing the Government's 50% of shares. PIP's valuation was reviewed by the National Investment Bank, and a revised version prepared which is now being reviewed again by NIB. It appears that the chairman of the company opposes the sale, which could delay the transaction.
- 22. Misr Real Estate Investment and Tourism.** A lawsuit over land title is complicating and delaying the sale of this investment company. PIP needs to better understand the lawsuit in order to determine whether this company should remain on the PIP companies list.
- 23. October Development.** An update of the valuation based on year 2001 figures is being prepared. Based on the results, PIP may recommend that this company be prepared for tender

COMPANIES IN PIP'S PORTFOLIO WHICH SHOULD BE CONSIDERED FOR LIQUIDATION AND/OR ASSET SALE

- 24. Misr Dairy.** Based on the company's operating performance and forecasted negative cash flows, PIP recommended and initiated the Holding Company to prepare an asset appraisal valuation. PIP met with the HC to discuss a sales strategy and marketing plan and contacted 12 dairy industry companies to assess their degree of interest in the company. None of these potential investors expressed interest in acquiring any of the assets of the company, due to the obsolescence of the technology. At best, the company may be able to sell its brand name.
- 25. Omar Effendi.** Although numerous investors have indicated an interest in purchasing this Egyptian brand name company, various issues including price have prevented the sale for over one year. PEO should consider an asset sale for the company,

letting investors decide which stores to purchase, with or without the brand name which can be valued separately.

26. Al Nasr Electrical Apparatus (NEEASAE). The Engineering Holding Company received three inquiries from potential investors for this light bulb manufacturer. The EU published a call for expressions of interest for the company in early 2002, then PIP conducted extensive market outreach which did not result in any serious interest. PIP had discussions with Philips who indicated that they would only be interested in the company if the GoE were to continue to protect the market from imports, since the company cannot compete with Asian producers. Although another potential investor is currently reviewing the possibility of an investment, it is unlikely that the company could attract investors due to the absence of long-term viability of its core business.

3. DELIVERABLES COMPLETED DURING THE 2ND QUARTER OF 2002¹

No.	Type of Deliverable	Title	Date
1.	Company Profiles	NEEASE (updated)	June 2002
2.	Diagnostic Reports & Analyses	Report on GOE Real Estate Assets	May 2002
3.	Valuation Reports	Kuwaiti Egyptian Investment Company (final draft)	June 2002
4.		Cairo Far East Bank (final)*	May 2002
5.		Kuwaiti Egyptian Company for Plastic Pipe Production (Eslon)**	June 2002
6.	Marketing & Investor Outreach	Translation of GOE "Incentive Package" into english	June 2002
7.		Bidding Information Package for Shedwan Hotel	June 2002
8.		Bidding Information Package for Sheppard's Hotel (English and Arabic)	June 2002
9.		Tender Announcement NCH	May 2002
10.		Bidding Information Package for NCH	May 2002
11.		Egyptian Investment Promoter Outreach – Findings from preliminary meetings	May-June 2002
12.		United Company for Textiles Production: Payment Terms for ESA	May 2002
	Policy Memoranda		
	Sector Studies		

* This deliverable contains sensitive and confidential information. Copies are available upon request.

** This company was valued as part of KEIC; the valuation was attached to the KEIC valuation report

4. DELIVERABLES COMPLETED TO DATE

Type of Deliverable	Number
Information Memoranda	15
Company Profiles	50
Diagnostic Reports	65
Valuation Reports	25
Training and Capacity Building (documents and events)	27
Marketing and Investor Outreach (documents and events)	57
Policy Memoranda	35
Sector Studies	4

¹ Soft copies of most deliverables are included in the CD-ROM version of this report.

5. PROGRESS VERSUS BENCHMARKS

Based on our understanding of the coming Task Order amendment, the following benchmark is to replace the nine benchmarks in the task order.

Benchmark 1: **Successful tendering, offer, or ESA sale of Law 203 and joint venture firms.**

Measure: PIP will provide all necessary assistance to the GOE to lead to the successful privatization of the 29 target firms, as measured by the number of companies officially offered or tendered by the GOE, the number of investors who conduct due diligence, the number of bids received for each company, and successful divestitures to Employee Share Associations.

Progress: Significant and substantial progress has been made in the successful tendering of Law 203 and joint venture firms by the GOE. There has been considerable investor interest (27 of the 32) in these companies and the GOE has officially offered or tendered 18 of which 16 have received offers.

The following table summarizes progress for the 32 target companies in the benchmark measures: investor interest, companies officially offered or tendered by the GOE, investors who conduct due diligence, offers received for each company, successful divestitures to Employee Share Associations, and completed privatizations. Note that the number of target firms in the task order increased from 29 to 32, which represents replenishments for early privatizations.

	Company Name	HC / GOE Rep	Investor interest	Officially tendered	Investor due diligence	Offers received	ESA	Completed privatizations
1	United Textiles Trading Company**	Trade	Y	Y	Y	Y	Y	Y
2	Arab Textiles Trading Company**	Trade	Y	Y	Y	Y	Y	Y
3	Misr Ameraya Spinning & Weaving	Banque Misr	Y	Y	Y	Y		Y
4	Al Nasr Glass & Crystal	Metallurgy	Y	Y	Y	Y		Y
5	Gharbeya Rice Mills	Food	Y	Y	Y	Y	Y	Y
6	Abou Zabaal Fertilizers	Chemicals	Y	Y	Y	Y		Y
7	Helwan Portland Cement	Metallurgy	Y	Y	Y	Y		Y
8	Misr Import Export	Trade	Y	Y	Y	Y	Y	Y
9	SABI (Precision Industries)**	Engineering	Y	Y	Y	Y		
10	Cairo Metallurgical Products Company**	Engineering	Y	Y	Y	Y		
11	Egyptian Glass Company	National Bank of Egypt	Y	Y	Y	Y		Y
12	Alex Cooling	Trade	Y	Y	Y	Y		
13	Misr Clay Brick Company	Ministry of Housing	Y		Y			
14	El Fayoum for National Food Security**	Banque du Caire	Y	Y	Y			
15	Misr Aswan Company for Fishing and Fish Production	Bank of Alexandria	Y			Y		
16	Sinai Manganese**	Chemicals	Y					
17	Delta Fertilizers	Chemicals	Y	Y	Y	Y		
18	Misr Hotels	Tourism	Y	Y	Y	Y		
19	Ismailia Misr Cooling and Storage Company	Banque Misr	Y	Y	Y	Y		
20	Helnan Shepherd Hotel	Tourism	Y	Y	Y	Y		

Company Name	HC / GOE Rep	Investor interest	Officially tendered	Investor due diligence	Offers received	ESA	Completed privatizations
21 Arab Co. for Tourism & Hotel Invest (Semiramis)	EGOTH	Y		Y	Y		
22 Cairo Far East Bank	Banque du Caire	Y		Y			
23 Misr America International Bank	Banque du Caire	Y					
24 Delta Spinning and Weaving	Textile Industries						
25 Misr Iran Spinning & Weaving ("Miratex")	Textile Industries	Y					
26 Misr Dairy Products	Food						
27 Al Nasr Electrical Apparatus (NEEASAE)	Engineering	Y					
28 National Housing for Professional Syndicates (Meridian Heliopolis)	Banque Misr	Y					
29 National Co. - Hotels & Tourism (100% Cairo Sheraton, 10% Conrad)	EGOTH	Y	Y	Y	Y		
30 Kuwaiti Egyptian Investment Company	National Investment Bank	Y					
31 Misr Real Estate Investment and Tourism	Misr Insurance						
32 Omar Effendi	Trade	Y	Y	Y	Y		
Totals		29	19	22	20	4	9
**Added to the original list as replenishment for early privatizations							