

# **2003 Second Quarter Progress Report**

GBTI Task Order No. 845

April 1 – June 30, 2003



*Privatization Implementation Project  
With the Government of Egypt*

Implemented by IBM Business Consulting Services  
Funded by USAID

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## INTRODUCTION

The purpose of this document is to report activities and progress towards achieving benchmarks as required by Section 1.4 of GBTI Task Order 845. The Privatization Implementation Project (PIP) for the Government of Egypt is a follow-on activity to the Privatization Implementation Project that began July 1, 2000 and terminated September 30, 2002, which was also implemented by IBM. The current PIP began on October 1, 2002 and continues through April 30, 2004 as extended by option exercised effective April 1, 2003.

The following provides details on the activities by tasks to include past and future actions and a summary of activities by task; the progress toward reaching the benchmarks and the goals for the next two quarters; a list of the deliverables during the quarter; and a list of team members and tasks assigned.

## TASKS

Below is a summary of the activities performed under each of the four tasks in the Task Order Statement of Work: (1) transaction support; (2) general policy and advisory assistance; (3) public awareness, political advocacy, and constituency support; and (4) monitoring and reporting on public enterprises and privatization. These activities represent a summary of the project's efforts during the second quarter of 2003 towards successfully achieving the benchmarks required by 30 June 2003 as established in the Task Order.

### **Tasks One and Two: Transaction Support and General Policy and Advisory Support.**

PIP provides advice to support the Government of Egypt's (GOE) privatization program in the areas of both transactions and general policy. The transactions support is related to marketing the government's privatization program generally, as well as support for individual transactions. (As described in PIP's task order, work related to individual transactions must in each case be approved by USAID and the Public Enterprise Office Executive Director.) General policy advice is intended to strengthen the decision-making process and to promote market-based valuation and privatization criteria, and is being led by a long-term US expatriate specialist in privatization policy. The activities of Task One and Task Two are closely associated and often overlap; consequently, these activities are described together in this report.

<b>Highlights</b> – Eight investment promoter agreements were finalized and work well underway on re-capitalization and privatization of eight Law 203 firms.
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***Specific Transaction Support.*** During the first quarter and continuing into the second quarter PIP provided specific transaction support related to privatizing eleven companies. No additional companies have been added to the approved list.

In addition to the eight companies selected for Privatization-by-Capitalization, PIP has been assisting holding companies to progress the sale of one Law 203 company (Alexandria Refractories), one Law 159 company (Misr Iran Textile (Miratex)), and one joint venture bank (Cairo Far East Bank (CFEB)).

***Alexandria Refractories.*** PIP assisted and continues to assist in preparing a cash flow valuation for Alexandria Refractories, which valuation was presented to the Metallurgical Holding Company for review. During the review, the Holding Company informed PIP for the first time that Alexandria Refractories has a technical problem relating to the

original construction of its furnaces that will require substantial reconstruction. The technical problem will probably result in reducing the valuation below book value and perhaps below paid in capital, we are told. PIP has also completed a first draft information memorandum for Alexandria Refractories. PIP's assistance with the valuation also serves to train HC and affiliate personnel to undertake their own valuations.

**Miratex.** Progress on the privatization of Miratex had earlier been delayed due to the death of the Chairman of the company and the process of choosing his replacement. More recently, the PEO has indicated that the sale of Miratex will be further postponed due to political considerations relating to the (Iranian) minority shareholder.

**Cairo Far East Bank.** The privatization of CFEB (51% owned by Banque du Caire) was delayed due to the Chairman's appointment as Chairman of Bank of Alexandria and his consequent resignation from the CFEB board. More recently, the new banking law, which provides for a minimum of LE 500 million in capital, has called into question the feasibility of privatizing this small bank. Nevertheless, from news reports and some second hand reports, we understand that there is one investor sourced by PIP that is interested in pursuing this acquisition and apparently willing to substantially increase the bank's capital in the process.

**Figure 1: Status of companies approved for specific transaction assistance**

Ref	Company Name	Activity from	Activity to	Months with activity	Status
1	Cairo Far East Bank	Oct-00	Jun 03	33	Banque du Caire is negotiating with one investor brought to the table by PIP
2	Alexandria Refractories	Jul-02	Jun-03	12	The HC for Metallurgical Industries requested a valuation and information memo for the company. During quarter, PIP completed a draft valuation report and is updating a company profile. A technical problem relating to furnaces has been introduced and will affect the valuation. The HC is reviewing and will recommend an adjustment relating to this issue.
3	Misr Iran Spinning & Weaving ("Miratex")	Jan-02	Jun-03	18	Both the Egyptian and Iranian shareholders had been willing to sell their shares. PIP has updated the valuation and information memorandum. PIP has prepared the company's fact sheet, diagnostic report, company profile, info memo, valuation report, and part of the data room. However, the PEO indicates there is a political issue relating to the Iranian partners, which is holding up sale.
4	NEEASAE	Jan-03	Jun-03	6	Profile complete and investment promoter retained
5	NARUBIN	Jan-03	Jun-03	6	Profile complete and investment promoter retained. Info memo prepared and submitted to HC for approval
6	Car Engineering	Jan-03	Jun-03	6	Profile complete and investment promoter retained
7	Kom Hamada	Jan-03	Jun-03	6	Profile complete and investment promoter retained
8	El Mahmodeya	Jan-03	Jun-03	6	Profile complete and investment promoter retained. Info memo prepared and submitted to the HC for approval
9	EDFINA	Jan-03	Jun-03	6	Profile complete and investment promoter retained
10	SEMAF	Jan-03	Jun-03	6	Profile complete and investment promoter retained
11	Dyestuffs	Jan-03	Jun-03	6	Profile complete and investment promoter retained

### ***Eight Companies Selected for Privatization-by-Capitalization***

During the second quarter investment promoters began work relating to the companies selected for Privatization-by-Capitalization, and attended the two local conferences arranged with the EBA and EFI. PIP's direct work relating to these companies is completed except for assisting the promoters generally and continuing to research and provide lists of first-cut potential investors.

#### **Status of Companies Selected for Privatization by Capitalization**

<b>Company</b>	<b>Promoter Retained</b>	<b>Status</b>
EDFINA for Preserved Foods	Ernst & Young	Due diligence begun; info memo being prepared
El Nasr Electric & Electronic Apparatus SAE - NEEASAE	Egyptian Abroad	One prominent local investor specialized in this field expressed initial interest in the Co.
El Nasr Rubber Products - NAROUBIN	Global Capital – OSAF	Have not yet received interest from investors
Automotive Engineering Manufacturing Company - AEMC	Cairo Capital Group	Five local Investors have expressed initial interest in the Co.
Dyestuff and Chemicals	PKF – Delta	Several local investors expressed initial interest in the company.
The General Egyptian Company for Railway Wagons and Coaches - SEMAF	TIIA/ZAROUK BDO/NBE	One international investor visited the site and submitted a letter of intent. Also received tentative offer from a local consortium with foreign partner.
Kom Hamada Spinning and Weaving	Compu Egypt	Interested investors. Received one tentative offer from local investor
Mahmoudeya Spinning and Weaving	Global Capital – OSAF	Several investors have expressed interest

PIP also obtained and submitted a “first cut” list of potential Egyptian and foreign investors for the eight companies identified for Privatization-by-Capitalization.

**Marketing.** Marketing initiatives previously arranged during the first quarter to take place during the second quarter were initially postponed due to the events leading up to and including the war in Iraq. As the outcome of the war in Iraq was resolved during the early second quarter of 2003, privatization program marketing recommenced.

**Highlights** – Local marketing conferences arranged and carried out with EBA, EFI and AmCham.

**Local Investor Conferences.** During the second quarter, privatization conferences were held with the Egyptian Businessmen’s Association (EBA), the Egyptian Federation of Industry (EFI) as well as the American Chamber of Commerce in Egypt (AmCham). These conferences had been postponed earlier due to the war in Iraq. The purpose of the conferences was to re-ignite local investor interest and to better attract offshore investors by demonstrating local investor interest.

As in the first quarter, during the second quarter the Public Enterprise Office focused on eight under-performing Law 203 companies selected for Privatization-by-Capitalization for which investment promoters have been retained. The turnout for these conferences was excellent with the EBA conference attracting approximately eighty interested investors, and the EFI conference attracting approximately sixty-five interested investors. The AmCham conference was more general and was sponsored by AmCham’s Investment Committee. The session covered the progress in privatization of the government-owned banks, as well as general discussion of the Privatization-by-Capitalization scheme. About sixty people attended the AmCham meeting.

At the EFA conference, the Public Enterprise Office Executive Director provided an overview of the new technique related to re-capitalizing certain companies, and each of the investment promoters (recently retained) presented the companies each is promoting. The Egyptian General Company for Tourism and Hotels was represented by its privatization advisor, who presented twenty tourism assets selected for privatization.

Former Prime Minister Aziz (currently Chairman of Suez Steel) spoke at the EFI conference, along with the Minister of Public Enterprise and the Public Enterprise Office Executive Director. At the EFI conference, the Minister indicated that far too much emphasis has been placed on valuations and that the valuation process and unrealistically high valuations should not impede the pace of privatization. The former Prime Minister made a strong plea for the government to promote a more favourable climate for private investment in Egypt. The PEO Executive Director explained the Privatization-by-Capitalization concept and the pricing formula to be employed by the government, and indicated that the government would be flexible in negotiating price and terms, following which individual HCs held discussions with interested investors.

**Gulf Marketing.** During May, PIP representatives travelled to the Gulf states to generate a high level audience at a planned PIP-initiated privatization conference, to re-ignite investor interest in new privatization opportunities in Egypt, and to assure arrangements for the forthcoming conference. PIP met investors, government officials and banks to which PIP presented and promoted the privatization portfolio and investment opportunities in Egypt. Meetings were held with the Egyptian Consulate, the Executive Office of Sheik Mohamed bin-Rashid Al Maktoum, Emirates Bank International, Dubai 2003, Dubai Chamber of Commerce and Industry, Department of Economic Development, Government of Dubai, BMG Middle East/North Africa, Egyptian Consulate.

<b>Highlights</b> – Gulf investor outreach produced significant investor interest, particularly in the Emirates.
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It is clear that Gulf investors are seeking good investment opportunities in Egypt. The most significant outcome of this marketing initiative is that potential investors in Abu Dhabi (the family of Sheik Zayed) indicated an interest in reviewing up to ten privatization opportunities. In early June, PIP informed the PEO about this real opportunity for involving Gulf investors in the privatization program, and recommended that the PEO select qualified candidates to present to Gulf investors. More recently, PIP recommended a number of Law 203 and Law 159 companies, many of which have not

heretofore been offered. Since the government's focus appeared to continue to be on the Privatization-by-Capitalization initiative, PIP met with the Minister of Public Enterprise to request his support and provided him with a list of the recommended companies. The Minister indicated that he would support this effort and coordinate the promotion of and any subsequent negotiating and tendering for these companies with the Egyptian Ambassador to the Emirates.

**EU Marketing.** During late June PIP accompanied the PEO to the Investment Promotion Conference in Dublin, Ireland. The conference was attended by fifty-three Irish companies. PEO, Hamdy Rashad and a representative of the Cotton and Textile Holding Company addressed the conference. A request was received for investing in a Greenfield project in the dyeing and finishing industry, which will be explored relating to the Greenfield concept being promoted by PIP explained further in this report.

<b>Highlights - EU Marketing Conference</b> attended by PEO, Cotton and Textile Holding Company and PIP.
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**Pricing Policy and Valuation.** Earlier, the Cabinet approved a pricing formula based on adjusted book value ("formula") for issuing new shares under the Privatization-by-Capitalization program. For the first time in the privatization program, prices would be set (using the formula) and during this quarter the PEO indicated that the formula would be publicized. Although announcing a *formula* for pricing in this way isn't equivalent to announcing a reserve price, it is a step in the right direction.

The public announcement of a reserve price is an improvement that PIP has recommended to the PEO and has worked to implement across the board. The PEO indicated that it supports this improvement. During April 2003, PIP obtained a legal opinion that public announcement of reserve price for Law 203 affiliates and JVs is not prohibited by law, although as a business practice Law 203 holding companies may have rules, which prohibit publication. However, while the government has been willing to publicize its formula for pricing new shares, the Cabinet declined to publish the numerical price, even though the change in policy was advocated by the MPE.

PIP has had numerous discussions with the Public Enterprise Office on the subject of pricing and valuation, and has advised that valuation, if not realistic, is a barrier to privatization. In the cases of many weak companies (such as many of those selected for Privatization-by-Capitalization) this often leads to a prolongation -- and a worsening -- of direct and indirect costly subsidies. Consequently, valuation is a continuing focus of privatization policy efforts, with the effort turning increasingly to application of earlier stated principles to specific cases.

The valuation and pricing emphasis in the Quarter was on the Privatization-by-Capitalization candidates. For strictly internal use of the PEO to support its eventual pricing decisions, confidential valuation summaries were prepared and refined for most of the Privatization-by-Capitalization candidates.

In particular, the "costs of not privatizing" and the economic value of a firm to a seller (as a starting point for reserve pricing) were emphasized. Work was initiated on a major paper to estimate the costs of not privatizing at the macroeconomic as well as at the micro level.

It is worth restating that accounting book value, or some adjustment thereof, should not be confused with economic value. Accounting focuses on the past, while investors focus on the future. It should not be surprising that a company that is losing money and that requires substantial new investment to turn around will normally have a value to a

prospective investor that is well below book value. Historically based accounting data does not reflect, for example, major new investment that will be required in the near future; the amount of such required investment appears on no balance sheet, yet it is very real to the investor.

Value is not the same as price and if a buyer and a seller are to agree on a price it is obvious that they must “disagree” on value. The range for potential agreement on price can be quite large, and the seller must rely on generating competition among buyers if he wants to achieve a price in the higher end of that range. A competitive tender process is therefore the appropriate vehicle for price determination. Prices should not be set on the basis of accounting data alone.

Accounting is a language, and good business decisions are no more inherent in accounting data than great literature is inherent in any language. Accounting, like language, is an essential building block, but nothing more.

**Pricing Flexibility Related to Privatization-by-Capitalization.** The PEO is well aware that its pricing formula for new shares, based on balance sheet items, will not equate to a market price, being naturally either above market or below market. Thus, the PEO is prepared to utilize all available flexibility relating to negotiating price and other provisions. For example, the PEO has concluded that for three of the eight selected companies, the formula-determined price is likely to be far lower than the market price and has thus removed the formula for use in setting the price for two of these companies, SEMAF and Edfina for Preserved Foods. Additionally, two particular areas have been identified by several potential investors as requiring flexibility by the sellers: company obligations going forward relating to (1) the amount of labour to be retained and (2) the amount of bank debt. This would appear to indicate that prices resulting from the pricing formula are too high in some cases, which isn’t unexpected.

**Highlights –**  
Negotiating flexibility is inherent in the pricing formula approval for recapitalizing selected companies.

Furthermore, it appears that in at least several cases, investors would prefer to purchase a combination of existing and new shares or even all-existing shares. The approved pricing formula applies only to new shares, and it is undetermined at this point how the government will price existing shares, other than by the time consuming and inherently off-market methodology currently employed. On the other hand, there appears to be an expectation that the Cabinet could approve reserve prices for existing shares, which may resolve this issue.

**Total Bid Package Concept.** Related to the Privatization-by Capitalization concept, it is also significant that the Ministerial Committee recognizes that in many cases new investment in an affiliate is far more important than the price the holding company receives for its shares. This will be true for most low profitability or money-losing affiliate companies. PIP has been encouraging the PEO to support reserve pricing for under-performing businesses (which the GOE prefers not to liquidate) on the basis of the value of the enterprise to the state, which because of losses is often negative on a discounted cash flow basis.

**New Pricing Formula for JVs Approved by Ministerial Privatization Committee.** A major policy change relating to these joint venture interests occurred during the first quarter 2003, providing further evidence that the GOE recognizes that the process for establishing realistic reserve prices needs to be

**Highlights –** Market-based reserve pricing formula approved for thirty-two joint venture interests.

improved. Rather than follow time-consuming procedures for discounted cash flow valuations that must be reviewed by the Central Audit Agency (and which are inherently out of date by the time they become effective), the Ministerial Privatization Committee approved establishing reserve prices based on estimating “suitable” market-based price/earnings multiples. The technique will be developed by the MPE and re-submitted to the Committee for approval and implementation. PIP is working with the PEO to develop this technique, the usefulness of which will be determined by the degree to which it leads to a *minimum* reasonable current market price. In order to develop a selling price as approved by the Ministerial Committee, for traded companies, the new formula averages the last five years price/earnings multiples and adjusts the result in cases where shares sold enable an investor to attain control. We are told by the PEO that the adjustment will be made at the discretion of the PEO. If so, this is a major milestone in delegating pricing responsibility to the MPE.

The pricing formula has not yet been employed in practice. However, such formulas inevitably set prices at either above or below market, rather than on market, and are inherently a poor proxy for current market price. By employing the formula as a reserve price, the government may overprice, since when current market price is below the reserve price (i.e. current market is below historic market), the government is unlikely to sell. Witness the application of the formula for Law 203 Privatization-by-Capitalization companies; when the formula resulted in a price clearly below expected market (in the cases of SEMAF and Edfina), the formula was withdrawn. As noted earlier, the government continues to equate reserve prices with prices it might expect as a selling price. In the case of joint ventures also, PIP has recommended not using a reserve price, but rather relying on competitive bidding to assure a fair market price.

PIP has been recommending that the government rely more on a competitive bid process than trying to estimate current market and set its base prices accordingly. The latter technique tends to overprice transactions. Furthermore, if it intends to set a reserve price, the government would be well advised to set its reserve price according to the value of the business enterprise to the government, which in some cases, particularly for unprofitable companies, is negative due to continuing requirements for new cash to cover operating losses and interest, to repay outstanding debt and to pay future labour expenses. The government appears to be unwilling to acknowledge the hole it has dug in such cases. While in some cases, because of the recent significant devaluations of the Egyptian pound and other factors, companies are achieving better operating results, high interest costs, large amounts of outstanding debt and the labor overhang, will not be resolved by enhanced operating performance. Such enterprises are caught in a downward spiral with mounting cash obligations and no means to modernize the business. In these cases some degree of financial restructuring is mandatory.

While considerable progress has been made toward setting an effective pricing policy to bring buyers and sellers together, there is still a long way to go. In the privatization process, the political leadership continues to be reticent to resolve serious issues and to rely on market forces to set prices. For example, in the tourism sector, there have been a number of tenders for profitable assets and many offers, but no closed transactions. Related to pricing, a case in point is Misr Hotels (a large and desirable asset), which has been on open tender for approximately two years and has received offers, but for some unexplained reason has not been privatized. Lately, a sale has been postponed, we understand, until October. Likewise substantial efforts have been made to promote and sell fertilizer companies, only to be nixed after the fact by social policy concerns about

pricing domestic sales of fertilizers. PIP has prepared or helped prepare 18 valuations, which have resulted in only one sale transaction.

***Current Companies Tendered for Sale***

The following Law 203 companies and assets were tendered for sale (or were on continuing open tender) during the second quarter 2003.

<b>Law 203 companies and assets</b>	<b>Bid Opening/Open</b>
El Mansoura Resins and Chemical Industries	August 12, 2003
Misr Hotels	Opened bids, decision postponed until October
Tanta Flax and Oil	August 5, 2003
15 Touristic Assets owned by EGOH *	Open Process
Ornamental glass and tableware factory, Yassin – El Nasr Glass and Crystal	June 23, 2003 ** One bid above reserve price
Medical Ampoules factory, Mostorod – El Nasr Glass and Crystal	July 21, 2003
Glass Bottles Factory & Medical Ampoules, Mostorod – El Nasr Glass and Crystal	August 11, 2003

\* The 15 tourism assets owned by EGOH are:

<b>HOTELS</b>	1.	Helnan Shepheard <sup>1</sup>
	2.	Amoun
	3.	Kalabsha
	4.	Mercure Luxor
	5.	EGOTH Oberoi El Arish
	6.	Helnan Dahab
<b>Floating Hotels</b>	7.	Tut
	8.	Anni
	9.	Atob
	10.	Hotob
<b>Lands</b>	11.	Beau-Lac Land (Thomas Cook) – Cairo
	12.	Magawish Land – Hurghada
	13.	Sultana Malak Land – Luxor
<b>Projects Under</b>	14.	El Gezira Elephanten Hotel and

<b>Construction</b>		Aswan Oberoi Hotel Projects
	15.	Sidi Abdel Rahman Project and Alamin Hotel

<sup>1</sup> The opening of bids for Helnan Shepheard Hotel affiliated with EGOH was on June 15, 2003. The company gave the bidders one-week extension to increase their values as offers received were below reserve price. By June 22<sup>nd</sup>, offers were re-submitted, and apparently were judged as too low.

\*\* Out of two offers received, one offer with a value higher than the reserve price was accepted. A memorandum is currently being drafted for the HC board of directors' approval.

**Thirty-two Joint Venture Interests Selected for Sale.** During the second quarter, the Ministerial Privatization Committee designated 32 Law 159 joint venture companies for privatization by employing a new valuation formula, as noted previously in this report. Law 203 Holding Companies (HCs) have interests in each of these joint ventures, which under new procedures designed to streamline the tendering process, enables the HC in question to price and sell all the government shares, even those owned by other government entities like banks. However, lately it appears banks and insurance companies have indicated that overall portfolio considerations may prevent them from selling. For example, one bank recently claimed, not unreasonably, that its equity stake and resulting board seat, permits it to monitor more effectively its proportionately much larger loan. Consequently, it is apparent that each of the joint venture circumstances involving government-owned banks and insurance companies will need to be addressed individually. The designated joint venture interests are as follows:

<b>Company</b>	<b>Shareholders</b>	<b>% Of Ownership</b>	<b>Total Public Ownership</b>
<b>PHARMACEUTICAL SECTOR</b>  Medical Profession Company for Medicines	Industrial Development Bank	13.9%	26.1%
	Pension Fund of Medical Professions Union *	10.7%	
	Suez Canal Authority	1.5%	
<b>FOOD SECTOR</b>  El Dakahleya for Sugar	Shark Insurance*	16.0%	100.0%
	Misr Insurance	16.0%	
	Banque Du Caire	15.0%	
	Banque Misr*	15.0%	
	National Bank of Egypt	11.3%	
	Bank of Alexandria	10.0%	
	Sugar & Industries	8.8%	
	National Insurance Company*	8.0%	

National Company for Corn Products	Banque Misr	34.9%	55.8%
	National Bank of Egypt	6.1%	
	Banque Du Caire	5.9%	
	Bank of Alexandria	5.6%	
	Industrial Development Bank	2.7%	
	Nasser Social Bank*	0.6%	
Egyptian Food Company- Bisco Misr	Food Holding Company	36.3%	50.3%
	Misr Insurance	6.8%	
	Ministry of Islamic affairs *	5.1%	
	Bank of Alexandria	0.9%	
	Educational Professions Syndicate	0.6%	
	National Authority for Social Insurance *	0.6%	
Egyptian Starch & Glucose	Food Holding Company	39.0%	58.6%
	Banque Misr	10.8%	
	Public & Private Sectors Employees' Social Fund *	5.0%	
	Egyptian Reinsurance Company	1.7%	
	National Bank of Egypt	1.2%	
	National Investment Bank	0.5%	
	Misr Insurance	0.4%	
	National Insurance Company *	0.0%	
Delta for Sugar	Sugar & Industries	52.8%	87.9%
	Shark Insurance	13.0%	
	Egyptian Awkaf Authority	6.4%	
	Bank of Alexandria *	6.3%	
	Kima	6.3%	
	Nasser Social Bank*	3.1%	
	Misr Insurance	0.03%	
<b>HOUSING SECTOR</b>			
Nasr City for Housing & Development	National Construction	25.1%	25.1%
El Shams for Housing & Development	National Construction	44.5%	78.9%
	Misr Insurance	23.1%	
	National Insurance Company *	5.2%	

	Shark Insurance	5.0%	
	Egyptian Reinsurance Company	1.1%	
United for Housing & Development	Misr Insurance	16.7%	26.6%
	Maadi for Development & Urbanization	4.4%	
	Legal Guardianship Liquidation Authority	2.5%	
	National Insurance Company *	2.0%	
	Contribution for Cotton Trade	0.2%	
	Holding Company of Housing & Tourism	0.1%	
	Nasser Social Bank *	0.6%	
Zahraa El Maadi for Investments & Development	Maadi Urbanization	59.5%	93.8%
	Arab Investment Bank	20.3%	
	Nasr Housing	6.4%	
	Mamora	6.3%	
	National Insurance Company *	1.3%	
Arab Contactors for Investments	Arab Contractors	88.0%	88.4%
Arab Investments Co. for Development	National Investment Bank	37.6%	37.6%
<b>CHEMICAL SECTOR</b>			
Paints & Chemical Industries (Pachin)	Chemical Holding Company	38.3%	44.2%
	Public & Private Sectors Employees' Social Fund *	4.0%	
	Misr Insurance	1.1%	
	Shark Insurance	0.8%	
Egyptian Financial & Industrial Co	Metallurgical Holding Company	25.3%	38.8%
	Banque Misr	5.8%	
	National Investment Bank	0.7%	
	National Authority for Social Insurance *	6.3%	
	Misr Insurance	0.6%	
	Egyptian Reinsurance Company	0.1%	
Abu Kir Fertilizer Co	Egyptian Public Oil Authority	11.9%	53.6%
	Public Manufacturing Authority	7.9%	
	Bank of Alexandria	7.5%	
	National Bank of Egypt	5.1%	

	Banque Du Caire	4.6%	
	Banque Misr	4.6%	
	Nasser Social Bank *	3.7%	
	Egyptian Reinsurance Company	3.2%	
	National Insurance Company *	3.1%	
	Kima	1.7%	
	Misr Insurance	0.4%	
Egyptian Fertilizer (US \$)	National Investment Bank *	10.0%	46.0%
	Banque Misr*	10.0%	
	Misr Insurance *	10.0%	
	Chemical Holding Company	5.0%	
	Bank of Alexandria*	5.0%	
	Metallurgical Holding Company	2.5%	
	Nasr Cook	2.5%	
	Egyptian Reinsurance Company *	1.0%	
<b>METALLURGICAL SECTOR</b>			
Alexandria Co for Petroleum Products	Alexandria for Oil	20.0%	84.4%
	Cooperative Society for Oil	10.0%	
	Misr Petroleum	10.0%	
	National Bank of Egypt	5.2%	
	Shark Insurance	5.2%	
	Bank of Alexandria	5.2%	
	Bank Du Caire	5.2%	
	Banque Misr	5.2%	
	Misr Insurance	5.2%	
	Insurance Fund of Government Sector Employees *	4.5%	
	Insurance Fund of Business Sector Employees *	4.5%	
	Nasser Social Bank *	4.2%	
Arab Co for Porcelain - Aracemco	Metallurgical Holding Company	31.2%	38.0%
	Chinaware & Porcelain	3.7%	
	Nasser Social Bank *	3.1%	
Alexandria National Co for Iron & Steel - Dekheila	National Investment Bank	8.1%	44.8%
	Banque Misr	6.9%	

	Misr Insurance	6.8%	
	National Bank of Egypt	5.7%	
	Egyptian Public Oil Authority	4.7%	
	Metallurgical Holding Company	4.5%	
	Bank of Alexandria*	3.9%	
	Executive Authority for Industrial Projects	2.0%	
	Egyptian Reinsurance Company	1.2%	
	Banque Du Caire	1.1%	
Gas Misr Co.	Egyptian Public Oil Authority	80.0%	80.0%
Alexandria Mineral Oil - AMOC	National Bank of Egypt	26.3%	100.0%
	Alexandria for Oil	20.0%	
	Banque Misr	20.0%	
	Misr Insurance	10.0%	
	Cooperative Society for Oil	5.0%	
	Insurance Fund of Government Sector Employees *	5.0%	
	Insurance Fund of Business Sector Employees *	5.0%	
	Misr Petroleum	5.0%	
	Shark Insurance	3.7%	
Egyptian Co for Prefabricated Concrete	Segort	40.0%	40.0%
<b>Maritime Transportation Sector</b>			
El Suez Cargo Co	Red Sea Harbours Authority	30.0%	38.1%
	Maritime Transportation Holding Company	6.8%	
	Suez Governorate *	1.3%	
<b>Textile Sector</b>			
Arab & United Co. for Spinning & Weaving UNIRAB	Spinning Holding Company	32.5%	34.3%
	National Insurance Company *	1.2%	
	Misr Insurance	0.5%	
	Shark Insurance	0.1%	

<b>Electrical Contracting Sector</b>			
Misr Mechanical & Electrical Projects Co - Kahromica	National Construction	39.0%	39.0%
<b>TOURISM SECTOR</b>			
Rowad El Wahat for Tourism Development	Tourism Fund (rep: National Bank of Egypt)	10.8%	17.4%
	Egypt Hotels	6.7%	
Misr Co. for Tourism & Real Estate Investments	Misr Insurance*	95.0%	98.6%
	Egyptian Reinsurance Company*	3.6%	
Arab Co. for Tourism & Hotels Investments	EGOTH	71.3%	100.0%
	Cairo International Airport Authority*	17.1%	
	Arab Investment Bank	11.6%	
Semiramis Company for Hotels	EGOTH	28.9%	28.9%
Rowad Misr for Tourism Investments	Egypt Hotels	25.0%	48.3%
	Services & Development Fund-South Sinai	8.3%	
	National Insurance Company *	7.5%	
	Shark Insurance	7.5%	
Egyptian Co for Tourism Projects - Tulipe	Banque Du Caire	10.0%	22.0%
	Tourism Fund (rep: National Bank of Egypt)	7.1%	
	EGOTH	4.9%	
Tourism Development	EGOTH	71.5%	71.5%

### ***Strengthening the Privatization Decision-making Process and Enhance Transparency***

***Tender Criteria and Evaluation.*** In anticipation of the tender of the eight Privatization-by-Capitalization candidates, work proceeded during the Quarter in cooperation with the PEO on the development of tender criteria and a tender evaluation scheme. In Privatization-by-Capitalization, the amount of new capital to be invested in the firm is an important criterion of investor selection. In the cases of weak or unprofitable firms where new investment is essential to survival, capitalization may be much more important than the price offered for existing shares.

Moreover, the Privatization-by-Capitalization tenders are intended to be flexible, with investors having the option of purchasing *only* newly issued shares. That is, investors are not required to purchase any minimum amount of existing shares, subject to the constraint

that at the conclusion of the transaction the investor must hold more than 50% of the *total* outstanding shares.

***Sectoral Privatization - Textile Companies.*** Egypt can anticipate greatly expanded market access for its textiles in the near future, thanks to new agreements with the EU; the expiry of textile quotas worldwide (most important, in the EU, USA, and Canada) from 2005; and the growing likelihood of a Free Trade Agreement with the USA.

To take advantage of these opportunities, particularly in the largely state-controlled cotton textile sector, Egypt must rapidly modernize its stock of capital equipment and invest in new marketing. The existing public sector companies, their cash having been drained by the employment of excess labour, are making only modest new investments.

**Highlights** – Greenfield investment arrangement proposed by PIP to resolve labour issue and attract new investments.

Consequently, privatization in the textile sector must focus on filling the need for renewing the capital assets of the firms to be sold, and the amount of new capital committed to these companies will often be the principal criterion of investor selection.

Many investors will prefer to make a Greenfield investment rather than to acquire an existing company. One possible arrangement anticipates that a Greenfield textile plant, presumably housed in a new legal entity, be established near an existing public sector textile plant. We envisage a mutually attractive arrangement by which the public sector company would substantially reduce its production, or even close completely, in exchange for the greenfield investor agreeing to select nearly all its employees from among the workers of the facilities to be closed. The investor would acquire experienced employees, while its competition would be reduced. Moreover, the Greenfield investor would be in a strong position to sell to the former customers of the closed plant.

To apply the sectoral approach to the public sector textile companies, discussions were begun during the Quarter with two groups of major Asian investors. Those discussions are continuing. Other marketing efforts sought to promote interest in the textile sector, in particular a trip was arranged during the Quarter to Ireland and the UK to participate in conferences sponsored by Egypt's General Authority for Investment & Free Zones (GAFI), and in which textiles was one of the four highlighted industries.

***Debt Resolution for Law 203 Affiliates.*** The MPE has proposed a structure for resolving a significant amount of the debt overhang for Law 203 affiliates and has initialled an agreement with the Holding companies and five state banks, including the National Investment Bank. The proposal is being reviewed by the Ministry of Finance. A resolution to this issue could enhance not only the possibilities for sale of the Law 203 affiliates, but also has the potential to improve the financial health of state banks, which would also provide a beneficial step toward privatising the state-owned banks.

**Highlights** – Law 203 debt resolution agreement initiated by MPE, HCs and five government banks; awaits MoF and cabinet approval

The Minister of Public Enterprise indicated to PIP that this proposal should be approved by the Minister of Finance and Cabinet by the end of July.

***Significance of Trade Agreements on Public Enterprises.***

At the request of the PEO, PIP recommended a study to be undertaken by IBM to assess the potential impacts of various trade agreements on specific public enterprises, specifically the eight companies identified for privatization-by-capitalization. In recent meetings with the PEO, the PEO indicated that it would prefer to pursue the possibility of carrying out this study within its own organization.

**Highlights** – Tasks One and Two. The High Ministerial Committee selected thirty-three joint venture interests to be sold.

*Next quarter* – Tender one JV under MPE authority.

Consequently, the feasibility of PIP performing Task 2.5 in the Statement of Work should be reviewed and probably amended.

**Figure 2:** Transactions completed ending June 30, 2003

During the second quarter 2003, there were no sales completed although as noted previously in this report several companies and assets were tendered during the quarter. During the period between task orders and the nine-month period ending 30 Jun 2003, there have been three asset sales, a company sale, a lease with purchase obligation and one liquidation. For the purposes of this report, we included five transactions for a total compensation of LE 331.7 million (LE 340.2 million – LE 8.5 million).

Type	Company Name	Method	Buyer	Date	Value LE million
Law 203	Cairo Metallurgical Products – Shobra Armenian Factory	PA	Alexandria Investment Co.	Jun-02	8.5
Law 203	Alex Cooling	Liquidation	-	Aug-02	33.0
Law 203	National Plastic Company – liquid batteries factory	PA	United Batteries Co.	Nov-02	1.2
Law 203	National Plastic Company – bags factory	Lease with purchase	-	Nov-02	2.0
JV	Gezira Sheraton Hotel*	Shares	ACCOR Co.	Nov-02	279.0
Law 203	EGOTH Assets: Isis and Osiris	PA	Saudi investor	Mar-03	16.5
<b>TOTAL</b>					<b>340.2</b>

\* Previously reported estimate value of Gezira Hotel transaction increased by LE 97.7 million as a result of obtaining more information. Before the update, the transaction was reported as LE 181.3 million.

PA = Purchased Asset

**Information Management System/Database.** PIP is assisting the PEO to improve its current practice of data collection and management of information. Currently, the PEO uses a series of MS Excel spreadsheets to manage information and create reports and would like to develop a more flexible and adaptive system, such as employing MS Access and other SQL applications. In addition to assisting in the development of an application system, PIP has negotiated with a local company to provide training for PEO staff on data entry as well as application building and maintenance – the audience and course names to be delivered until April 2004 are as follows:

Audience	Course Name
<b>Using Access Basic Level</b>	Using Microsoft Access XP
<b>Advanced User Training</b>	Advanced Microsoft Access XP and MS SQL Query
<b>Professional Staff Training</b>	Windows 2000 Network & Operating System, Windows 2000 Advanced Server, Windows 2000 Network Infrastructure, Windows 2000 Directory Server, MS Exchange 2000, ISA, IIS, SQL Query, SQL Programming, and SQL Administration, as well as website designing and development. .

During the first phase of the training program, 13 participants have completed successfully the MS Access course with very satisfactory results. Out of the 13

participants 11 will be taking the Advanced MS Access and SQL Query during the month of July and August.

Moreover, there are 6 technical IT personnel who have started training in Network and SQL 2000 Server track since June.

**Activities planned for the next quarter – Tasks One and Two:**

- Complete outreach in London in early July.
- Complete outreach for IMF-World Bank meeting in Dubai in September.
- Meet with Minister of Public Enterprise to obtain support for Gulf Marketing Program including the tendering of at least ten attractive companies and joint venture interests.
- Assist PEO with the development of a plan for resolving the Law 203 debt problem with government banks.
- Assist PEO with financial feasibility models and preliminary analyses for at least ten companies selected for privatization in connection with Gulf marketing.
- Continue to develop lists of potential investors for companies to be privatized by issue of new shares.
- Continue to develop and promote techniques for developing reserve prices that represent a reasonable value to the seller, as well as including non-price factors such as commitments to contribute new capital and overall benefits of privatization. Update and complete draft report on valuation and pricing. This report will be presented to the PEO.
- Involve holding company personnel in development of valuations as a form of training.
- Advocate announcing the “total investment package” of privatization transactions, not simply price, but also debt remaining with the enterprise, new capital investment and potential increased tax revenues.
- Quantify the cost of not privatizing, particularly in the cases of weaker candidates and expand to a more comprehensive analysis of the cost of not privatizing.
- Continue to review and assess the investment climate and as appropriate initiate road shows in Egypt and the Gulf region
- Follow-up with marketing and promotional efforts with donor agencies, embassies, chambers of commerce (e.g. American, British, French, Indian and Japanese), business associations, and ministries (Agriculture and Tourism)

**Highlights – Tasks One and Two**  
 Either El Mansoura Resins and Chemicals or Tanta Flax and Oil bid accepted (bids close early August)

**Highlights – Tasks One and Two**  
 Select and obtain approval to market aggressively at least five attractive assets among Law 203 and JV interests

**Highlights – Tasks One and Two**  
 Tender initiated for at least one company under re-capitalization program.

- Implement the concept to promote companies en masse by sector – a sectoral approach to privatization, with particular attention to the textile sector. The concept is being developed in conjunction with the new issue offer for Kom Hamada and El Mahmodeya textile companies.
- Continue efforts to improve the program and obtain additional funding to engage investment promoters, especially relating to sale of existing shares (as contrasted with sales of new shares relating to privatization by capitalization)

### **Task Three: Public Awareness, Political Advocacy, and Constituency Support**

During the second quarter of 2003, the public awareness program has continued to work closely with the PEO to prepare the first two messages for production and distribution. In collaboration with the PEO, PIP has taken the basic concepts prepared during the last quarter for the media messages and developed television spot story-lines, radio announcements and newspaper inserts.

Other activities in progress are the Journalist Workshops, Parliamentary Workshops, Study Tour, and In-Company Newsletter.

#### **Media Messages**

Recognizing the importance of this program, the PEO agreed to meet with the Minister of Public Enterprise, Mokhtar Khattab. A meeting has been confirmed for mid-July. With the Minister's approval of the full campaign and PIP's recommended timeline, production will begin on the first two messages.

#### **Message 1, Egypt – Becoming an Economically Competitive Nation.**

The original message was written by PIP then edited and revised by the PEO with the final draft prepared inclusive of comments by USAID. Message 1 is the introduction for the follow on messages, which explore specific issues regarding privatization. Using an antique watch to symbolize the Egyptian economy, one of the broken gears prevents the watch from keeping time. The television message explains that by replacing this one small part with privatization, the rest of the economy can continue functioning. This message conveys that economic competitiveness is necessary to bring prosperity to Egypt.

#### **Message 2, Why Implement Economic Reforms.**

The second message demonstrates the layers of obstacles the Egyptian economy faces. The viewer sees a series of padlocks interlocked within one another. They represent issues such as foreign investment, skilled and incentivized management, corporate governance, inefficient allocation of government funds, long term employment, and quality products and services. The television spot shows that the key, privatization, can open the top lock and the attached locks will open subsequently.

#### **Journalist Workshop**

A participant list and suggested speakers for the journalist workshops has been prepared for the PEO's review and comment. The purpose of these workshops is to coach Egyptian journalists the best practices of reporting about privatization actions, which have been documented from other country's successful experiences. PIP recommends that the journalist workshops coincide with the broadcast of the television and radio messages. By coupling these activities, the meaning will have a strong impact on the public.

## **Study Tours**

PIP has suggested several potential destinations to the PEO for a study tour for journalists. After some deliberation and cost estimates, the trip would include short visits to both Hungary and Morocco. The purpose of the event is to expose Egyptian journalists to a professional association where they can learn how to focus on the real issues, the economic rationale, and how to share such information with their audiences.

## **Privatization Newspaper**

PIP conducted an initial interview with the Spinning and Weaving Holding Company as recommended by the PEO. The idea was well received by the Spinning and Weaving Holding Company and discussions revolved around the topics to be included and the arrangement for interviews with specific key people such as Head of Labor Union Organizations, company management, etc. The Company's management were very cooperative and enthusiastic about the idea. Accordingly, after this first meeting, PIP developed a plan for subjects and topics to be covered in the first newspaper.

## **Culture Palaces Seminars**

PIP also recommends an additional activity, which could be conducted in various governorates cultural palaces. The seminars will be planned on a monthly basis, focusing on the topics currently broadcasted through the message of the month. Speakers will be from the PEO or influential advocates of privatization selected by the PEO. The aim is to reach and cover as many governorates as possible throughout Egypt at a minimum cost with maximum impact.

## **Activities planned for the next quarter – Task Three**

- Meet with Minister Khattab and with his approval of the Public Relations Campaign and specifically the content of the messages as well as the production of the first two messages.
- With Minister's Khattab's assistance, secure government provided airtime and reduced print rates. Broadcast messages 1 and 2 through television, radio and print.
- Draft the third and fourth messages and submit to the PEO for comment.
- Prepare and implement the first journalist workshop to involve the dissemination of best practices of reporting privatization taken from the experience of another country that has successfully undergone a similar privatization process.
- Conduct one on one discussion with members of Parliament and other important politicians.
- Prepare for a journalist study trip to Morocco and Hungary, where success has been achieved with their privatization efforts. The purpose of the event is to expose Egyptian journalist to a professional association where they can learn how to focus on the real issues, the economic rationale, and how to share such information with their audiences.
- Continue to hold visits with holding companies to draft the content of an In-company Newsletter for the purpose of communicating privatization achievements to employees.

- Coordinate the additional widespread workshop within local governorates using influential, respected speakers.

#### **Task Four: Monitoring and Reporting on Public Enterprises and Privatization**

PIP provided limited monitoring and reporting of privatization activities for public enterprises to include:

- Scheduled updates to the project’s website ([www.egyptpip.com](http://www.egyptpip.com)) continues to be implemented during the second quarter. The site provides regularly updated data on companies being offered through the PEO, activity reports of the program, summarized newsprint articles, and limited historical information of the privatization program.

A statistical report of the project’s website, for the period March 1st, 2003 to June 30, 2003, indicates that the number of hits and requests on the site has almost doubled since last quarter. . During the period the site had 73,155 hits, 12,572 requests, and 4,431visits, with 2.84 average number of requests per visit and an average visit duration of 3:08 minutes. Refer to deliverable for more details on the website usage.

- Prepared and posted a quarterly privatisation program report to its website for the period January to March 2003. A report for the second quarter is currently being finalized and should be posted by end of July 2003.
- Prepared and disseminated more than 265 summarised articles from local newsprints (Al Ahram, Al Ahram Weekly, Al Akhbar, Al Alam Al Youm, Al Gomhorya, Al Wafd, and Benou Al Youm) that focuses on privatization topics to include the MPE, PEO, HCs and its affiliates, as well as industries and sectors, such as banks and insurance companies.

#### **Activities planned for the next quarter – Task Four**

- Prepare and disseminate the third quarter privatization program report for 2003.
- Propose and develop ideas for the publicity and promotion of the project’s website to increase its audience and usage.

#### **SUMMARY OF ACTIVITIES BY TASK**

This table provides a summary of the activities by task during the fourth quarter and activities planned for the next quarter.

	<b>2nd Qtr 2003</b>	<b>Next Qtr</b>
<b>Task One: Transaction Support</b>		
1.1 Provide specific transaction assistance including: marketing/promotional assistance, advertising, international road shows, valuation assistance, data rooms, company profiles, information memoranda, prospectus, legal and bid documents – approved in advance on a case-by-case basis up to thirty transactions.	<p>Provided financial sensitivity analyses for 8 companies on the list and deliverables provided – refer to deliverables section</p> <p>Worked on revision of Alexandria Refractories valuation as a result of new information.</p> <p>Requested to add ten companies, met with Minister of PE;</p>	Obtain approval for at least ten additional companies, which have been identified and have obtained informal approval of MPE and PEO. Implement approved work.

	2nd Qtr 2003	Next Qtr
	companies under consideration.	
1.2 Provide general transaction support: prepare quick diagnostics, financial analyses, and sector studies on the remaining public enterprises to identify strategic privatization opportunities - at varying levels of analysis, ranging from calculation of basic financial and operational ratios to more in-depth examination of the company.	Using market soundings, recommended thirteen additional firms to be given top priority for privatization.  Recommended certain areas of flexibility in pricing, including labor and debt restructurings. Flexibility publicly announced by PEO at investor meetings.	Work with PEO to prioritize a list of at least 10 new names for privatization.
1.3 Provide general transaction support: advise on, guidance, and limited training to the PEO, HCs, and JV shareholders on how to develop tenders, fact sheets, company profiles, information memoranda, data rooms, valuations, and bid documents.	Work with HCs begun by discussing schedule and content of assistance.	Begin valuation training with Housing, Tourism and Cinema Company
1.4 Provide general transaction support: advisory assistance to the PEO, HCs, and JV shareholders to help them procure the services of investment promoters on a fee basis - develop guidelines before the end of 2002 for selecting and hiring investment promoters, review promotional plans, and monitor progress.	All seven IPs retained with fees defined.  Reserve price proposal submitted to Ministerial Privatization Committee.	One informal offer received for privatization by capitalization  At least one reserve price announced in tender document
1.5 Provide non-transaction-specific promotional support (marketing campaigns and road shows) that advances the general goals of the privatization program or specific sectors, especially as they support the individual activities of investment promoters working on specific transactions - also, provide a list of possible international, regional, and local investors for all cases in which an investment promoter has been retained.	In Ireland participated in investment conference for Egyptians.  Program marketing carried out in Gulf, in Egypt (EBA, EFI and AmCham)  Discussed and drafted plan for road-show in Gulf during next quarter	Road-show scheduled for September in the Gulf along with the IPs, PEO, and MPE  Participate in investment conference in London
1.6 Provide general transaction support: monitor the strategic importance and sectoral impact of transactions, particularly the size and the role of a public enterprise to be privatized, and the impact of privatization on the sector.	Provided draft paper on a Sectoral approach to privatization in the textile sector.	
1.7 Provide general transaction support: track/report all Law 203 and JV privatization pipeline activity as measured by the number of tenders and offers, bidders purchasing bid documents and conducting due diligence, and bids received.	On-going	Continue to monitor

	2nd Qtr 2003	Next Qtr
Task Two: General Policy and Advisory Assistance		
2.1 Examine the legal, financial, and economic feasibility of recapitalizing companies through capital increases offered to the private sector – alternative options that consider the total value of a proposed privatization transaction, such as explicitly valuing the investment plan of bidders in lieu of strictly cash bids, should also be considered.	Continued to work with PEO to implement flexibility inherent in pricing formula approved by Cabinet.	Obtain at least one offer for a company designated for privatization-by-capitalization  Expand concept to include existing shares, and develop new criteria for bid considerations relating to expanded factors with necessary flexibility to result in rational choices.  Provide draft to PEO of tender evaluation criteria that explicitly incorporates bidders' investment plans in to the evaluation criteria
2.2 Investigate the feasibility of separating privatization decision-making authority from the operating management of the public enterprises and JVs.	Ministerial Committee approved reserve pricing based on historic price/earnings multiples; operating managements thus less involved in valuations for Law 203 JV interests.	Prepare a policy paper recommending actions to correct current problems. The cost of not privatizing study will provided additional support to the recommendations.
2.3 Propose and advocate strategies to compensate private sector investment promoters, paying particular attention to the different ways that retainer and success fees could be financed.	HCs retained 8 investment promoters  Submitted critique of draft contract proposed by PEO to IP's and detailed lessons learned from recent exercise in hiring investment promoters	Based on PIP's recommendation for improvement in selection process used for retaining the first eight investment promoters, PIP assists PEO in retaining a second group of investment promoters.
2.4 Propose and advocate strategies to increase the incentives for owners of public enterprises to advocate and support privatization more strongly.	Mareketed with Japanese and Indonesian investors Greenfield investment arrangement to relieve labor constraint to privatization. Pursuing with PEO and MPE	Identify investor interests and promote the focus of privatization efforts on companies that conform to the interests, thereby creating a more market-driven privatization program.
2.		
2.6 Facilitate discussions, conduct a study, and advise the GOE on the liquidation of selected companies, while compensating fairly the employees and resolving debts in an economically and socially responsible manner, if requested.	Prepared outline for a study on the costs of not privatizing.	Begin work on study on the costs of not privatizing.  Discuss and provide advice to PEO on proposals for resolving the Law 203 affiliate debt overhang.

	2nd Qtr 2003	Next Qtr
2.7 Work with the Central Audit Agency and other appropriate GOE authorities to achieve more flexible valuation and pricing policies, and more importantly, gaining greater acceptance of the importance of attracting investment capital and management expertise.	MPE is initiating and promoting other methods of setting reserve prices, e.g. using p/e multiples.  Discussed with PEO the notions of using value to seller as reserve valuation and relying on competitive bidding to set price.	1. Assist PEO to develop realistic earnings multiple as a partial basis for reserve pricing. Sell notion that reserve pricing should be minimum market, and in fact should reflect consideration of value to the seller.  2. Conduct training sessions in valuation techniques for holding company staff.  3. Promote economic and realistic valuation criteria in case-by-case evaluations of investor bids.
Task Three: PR		
3.1 Design a public awareness and public relations plan to increase the level of political and popular support for privatization.	Completed 2002 4th quarter.	Refer to 3.4 below.
3.2 Develop plan in consultation with the PEO and delivered to the GOE before the end of 2002.	Completed	Refer to 3.4 below.
3.3 Launch program in early 2003.	Program launch delayed until late July-2003 due to approvals needed from MPE	Rescheduled for August-2003
3.4 Obtain input and agreement on the basic approach of the plan from either the Minister of Public Enterprise, Ministerial Privatization Committee, or office of the Prime Minister.	Concepts worked into television and radio messages with PEO input for first two messages.	Produce and broadcast first two messages as well as draft the content of the third and fourth messages.
3.5 Conduct seminars and focus groups, and dissemination of information to targeted audiences.	Completed focus groups February 2003; first journalist workshop pending Minister approval of full campaign.	Prepare and implement the first journalist workshops; prepare and implement first governorate workshops.
3.6 Conduct meetings/focus groups with key constituencies (GOE, labor groups, HCs, industry & sector representatives)	Conducted first interview with PEO-selected HC for In-company Newspaper addressing Privatization	Continue visits and interviews to additional HCs; develop articles for In-Company newsletter.
Task Four: Monitoring and Reporting		
4.1 Provide limited monitoring and reporting for public enterprises and privatization activities, covering primarily activities of the MPE, PEO, HCs and affiliate companies, JVs, other public enterprises, and banks and insurance companies.	Reported on HC and JV privatization activities as well as other relevant activities to include laws, transactions, economic and financial overview	Continue monitoring and reporting of privatization activities  Update report format and content, as needed
4.2 Regular (at least weekly) translation and electronic dissemination of press articles.	Summarized and disseminated more than 265 newsprint articles	Continue with process to summarize and disseminate than newsprint articles
4.3 Quarterly privatization review disseminated via email and posted on a website.	Prepared and disseminated 2003 First Quarter program report on website	Prepare and disseminate 2003 Second Quarter program report with changes to the reporting of transactions

#### BENCHMARKS

Progress towards the benchmarks has been active and significant steps have been taken to increase the probability of achieving, if not, exceeding all five.

Benchmarks	To be achieved Oct 1, 2002 to Mar 31, 2003	Progress during period Oct 1, 2002 to June 30, 2003
<b>Policy Benchmarks</b>		
Increased separation of privatization decision-making authority from public enterprise management. Overall, improved decision-making authority for transactions.	Identification of specific steps to make the transaction management and decision-making process easier and more successful.	Responsibility of selling more than 79 JV companies transferred to the MPE/PEO  Promoted the concept of pricing problem assets at adjusted book value on a case-by-case basis; promoted notion of setting reserve price at minimum market which was accepted by PEO
Increased acceptance by the GOE to use private sector investment promoters, especially to pay retainer fees.	At least three cases of investment promoters being retained by the GOE.	LE 2 million fund approved by Cabinet to support fees to retain IPs  Seven investment promoters selected and retained by HCs (8 by April 7, 2003)
<b>Political Support Benchmarks</b>		
Broad, high-level public relations plan, designed to increase public and political support for privatization, should be developed and delivered to the GOE.	Plan approved by the GOE, and rolled out.	Final draft of messages 1 and 2 prepared and ready for production.
<b>Transaction Benchmarks</b>		
Number and value of transactions, including the total value of cash, instalments, investment, debt resolution, and employee considerations included in the purchase agreement should increase.	At least seven transactions with a total transaction value of at least LE 250 mn.	5 transactions closed estimated at LE 331.7 million*
Strategic importance and sectoral impact of transactions, particularly the size and the role of the public enterprise in each particular sector, and the impact of privatization on the increasing role of private enterprises in that sector.	Role of public sector in key sectors identified, calculated, and analyzed.	Analyzing data on public enterprise (Law 203 and JV) companies in 27 identified sectors

\* Estimated value of five transactions increased by LE 97.7 million as a result of obtaining more information of a previously reported Gezira Hotel transaction. Before the update, the total would have been LE 234 million.

## DELIVERABLES

The following deliverables were prepared and disseminated to HCs, affiliates, and the PEO.

Company Name	Document	Date	Linked Document
Engineering Automotive Manufacturing Company (EAMC)	Company Profile	03-Apr-03	EAMC-CP .doc
Edfina for Preserved Food	Company Profile	21-Apr-03	EDFINA .doc
DyeStuff	Company Profile	23-Apr-03	DyeStuff .doc
NEEASAE	Company Profile	23-Apr-03	NEEASAE.doc
Alex Refractories	Company Profile	04-May-03	AlexRefractoriesCompanyProfile2.doc
Arab Bolivara Spinning & Weaving	Company Profile	25-Jun-03	Bolivara.doc
Delta Cotton Ginning Co	Company Profile	30-Jun-03	Draft Delta Cotton Ginning Co.doc
South Egypt Drug Industries Company (SEDICO)	Diagnostic Report	03-Apr-03	SEDICO-DR.doc
joint ventures	Diagnostic Report	7-May-03	joint ventures diagnostics.xls
Misr Mechanical & Electric Projects (Kahromica)	Diagnostic Report	08-Jun-03	KAHROMICA-DR.doc
Paints & Chemical Industries (PACHIN)	Fact Sheet	16-Apr-03	PACHIN-DR.doc
Arab Co. for Tourism & Hotel Inves (Semiramis)	Fact Sheet	08-May-03	Semiramis Hotels Co - FS -.doc
Arab Company for Tourist & Hotel Investment (ASHTI)	Fact Sheet	08-May-03	ACHTI - FS - .doc
Arab Investment Company for Developments	Fact Sheet	08-May-03	Arab Investment Company for Developments F.S .doc
Egyptian Fertilizers Company	Fact Sheet	08-May-03	Egyptian Fertilizers - FS -.doc
Gas Misr	Fact Sheet	08-May-03	Gas Misr F.S.doc
National Company for Corn Production	Fact Sheet	08-May-03	National Company for Corn Products F.S.doc
Tourism Development	Fact Sheet	08-May-03	Tourism Development F.S.doc
Delta Sugar	Fact Sheet	08-May-03	Delta Sugar (8 May).doc
Arab Bolivara Spinning & weaving	Fact Sheet	08-May-03	UNIRAB - FS - .doc
Abu Qir Fertilizers	Fact Sheet	11-May-03	Abu Qir Fertilizers FS.doc
Alexandria for Petroleum Products Company	Fact Sheet	11-May-03	Alexandria Petroleum Products Company F.S .doc
Alexandria Mineral Oil	Fact Sheet	11-May-03	Alexandria Mineral Oils F.S.doc
Alexandria National Iron & Steel Co. (Dekhila)	Fact Sheet	11-May-03	Dekhila FS.doc
Arabic Ceramic Company (ARACEMCO)	Fact Sheet	11-May-03	Aracemco F.S.doc
Bisco Misr	Fact Sheet	11-May-03	Bisco Misr- FS.doc
Egyptian Financial and Industrial Company	Fact Sheet	11-May-03	EFIC F.S .doc
Medical Professions Company for Medicines	Fact Sheet	11-May-03	Medical Professions -FS.doc
Misr Company for Tourism and real Estate Investments	Fact Sheet	11-May-03	Misr investment FS.doc
Nasr City Housing	Fact Sheet	11-May-03	Nasr City Housing-FS.doc
Rowad Misr for Tourism Investments Company	Fact Sheet	11-May-03	Rowad Misr FS .doc
South Egypt Drug Industries	Fact Sheet	11-May-03	SEDICO F.S .doc

Company Name	Document	Date	Linked Document
Company (SEDICO)			
United Co. for Housing & Development	Fact Sheet	11-May-03	United Housing FS .doc
Zahraa El Maadi	Fact Sheet	11-May-03	Zahraa' el Maadi-FS.doc
Dar May for Publishing	Fact Sheet	02-Jun-03	Dar May FS.doc
Egyptian Company for Starch and Glucose	Fact Sheet	25-Jun-03	Egyptian Starch and Glucose Company F.S.doc
Alex Refractories	Information Memorandum	16-Jun-03	Alex. Refractories.doc
Marketing & Investor Outreach	Letters	17-Apr-03	Sumitomo Fujita.doc
Edfina for Preserved Food	Letters	29-Apr-03	Edfina_ErnstandYoungLtrr.doc
DyeStuff	Letters	30-Apr-03	Dyestuffs_PKF_Ltrr.doc
Engineering Automotive Manufacturing Company (EAMC)	Letters	04-May-03	EAMC_CairoCapital_Ltrr.doc
NEEASAE	Letters	04-May-03	Neeasae_EgyptianAbroad_Ltrr.doc
Al Nasr Company for Rubber Products (NARUBIN)	Letters	06-May-03	Narubin_GlobalCapitailOsaf_Ltrr.doc
Marketing & Investor Outreach	Letters	24-May-03	Bundakji letter.doc
Marketing & Investor Outreach	Letters	24-May-03	Dubai consulate letter.doc
Marketing & Investor Outreach	Letters	25-May-03	Executive Office Dubai.doc
Engineering Automotive Manufacturing Company (EAMC)	Letters	26-May-03	2_EAMC_CairoCapital_Ltrr_5_26.doc
Marketing & Investor Outreach	Letters	28-May-03	Economic Development Dept.doc
Al Shark Insurance	Letters	04-Jun-03	Shark letter .doc
Alexandria National Iron & Steel Co. (Dekhila)	Letters	04-Jun-03	PEO National Steel .doc
Ismailia Misr Poultry Company	Letters	04-Jun-03	PEO lette2.doc
Ismailia Misr Poultry Company	Letters	04-Jun-03	peo letter.doc
Sinia Manganeez	Letters	04-Jun-03	PEO Sinai letter .doc
Marketing & Investor Outreach	Letters	05-Jun-03	GAMCO.tif
Marketing & Investor Outreach	Letters	08-Jun-03	GAFI.doc
Marketing & Investor Outreach	Letters	09-Jun-03	KHOORY Eg.doc
Marketing & Investor Outreach	Letters	09-Jun-03	Mograby Eg.doc
JVs	Letters	11-Jun-03	PEO2 - .dot - بيانات الشركات المشتركة
Marketing & Investor Outreach	Letters	15-Jun-03	EG Ambassador letter.doc
Abu Zabaal Fertilizers	Letters	16-Jun-03	Letter To Delta Investor.doc
Marketing & Investor Outreach	Letters	22-Jun-03	Sinno.doc
Marketing & Investor Outreach	Letters	24-Jun-03	Indonesia Mennawi.doc
Marketing & Investor Outreach	Letters	26-Jun-03	Inv Promoters - lessons learned.doc
Marketing & Investor Outreach	Letters	30-Jun-03	Marketing policy.doc
American Chamber	Minutes of Meetings	01-Apr-03	ABN Amro.doc
P.E.O	Minutes of Meetings	02-Apr-03	Agenda proposed .doc
P.E.O	Minutes of Meetings	02-Apr-03	Memo of meeting.doc
Marketing & Investor Outreach	Minutes of Meetings	03-Apr-03	Sumitomo report.doc
P.E.O	Minutes of Meetings	09-Apr-03	Agenda proposed .doc
P.E.O	Minutes of Meetings	16-Apr-03	Agenda proposed.doc
Kom Hamada Spinning	Minutes of Meetings	16-Apr-03	Kom Hamada S & W - MM -.doc
Kom Hamada Spinning	Minutes of Meetings	21-Apr-03	Kom Hamada S & W - MM - .doc
P.E.O	Minutes of Meetings	23-Apr-03	Agenda proposed.doc
Kom Hamada Spinning	Minutes of Meetings	23-Apr-03	Kom Hamada S & W - MM -.doc

Company Name	Document	Date	Linked Document
P.E.O	Minutes of Meetings	07-May-03	Agenda proposed.doc
Kom Hamada Spinning	Minutes of Meetings	14-May-03	Kom Hamada S & W - MM - .doc
EBA	Minutes of Meetings	12-May-03	EBAagenda.doc
P.E.O	Minutes of Meetings	14-May-03	Agenda proposed.doc
P.E.O	Minutes of Meetings	01-Jun-03	PEO Meeting.doc
Marketing & Investor Outreach	Minutes of Meetings	05-Jun-03	GAFI meeting.doc
P.E.O	Minutes of Meetings	11-Jun-03	PEO Meeting.doc
Kom Hamada Spinning	Minutes of Meetings	12-Jun-03	Kom Hamada S & W - MM - .doc
P.E.O	Minutes of Meetings	26-Jun-03	Agenda proposed.doc
Marketing & Investor Outreach	Other	07-Apr-03	proposal valuation Summery.doc
Marketing & Investor Outreach	Other	21-Apr-03	Egyptian Investors - light bulbs.doc
Marketing & Investor Outreach	Other	21-Apr-03	Promotion Investors.doc
Studies	Other	30-Apr-03	Egypt Imports Statistics.doc
Others	Other	02-Jun-03	Companies screening factors table.doc
Marketing & Investor Outreach	Other	30-Jun-03	greenfield London talk.doc
Marketing & Investor Outreach	Presentation	23-May-03	UAE Trip, May 23 – 29,.ppt
PR	Public Awareness	23-Jun-03	Junepresentation.ppt
PR	Public Awareness	23-Jun-03	Message1.ppt
PR	Public Awareness	23-Jun-03	Message2.ppt
PIP	Tender Document	23-Jun-03	Tendered companies.doc
Kom Hamada Spinning	Valuation Reports	03-Apr-03	CF Assumptions .doc
Edfina for Preserved Food	Valuation Reports	13-Apr-03	Edfina.xls
NEEASAE	Valuation Reports	15-Apr-03	Valuation Summary.doc
NEEASAE	Valuation Reports	15-Apr-03	Valuation Main Assumptions.doc
NEEASAE	Valuation Reports	15-Apr-03	NEEASAE Valuation model2.xls
NEEASAE	Valuation Reports	15-Apr-03	NEEASAE DCF1 .xls
Dyestuffs	Valuation Reports	19-Apr-03	Dyestuffs forecast Assumptions.doc
Dyestuffs	Valuation Reports	21-Apr-03	DYESTUFFS Valuation model DCF LAST.xls
Mahmoudia Spinning and Weaving	Valuation Reports	22-Apr-03	Mahmodeya DCF Draft.xls
Dyestuffs	Valuation Reports	28-Apr-03	Valuation Summary of Dyestuffs.doc
JVs	Valuation Reports	02-Jun-03	JVs valuation procedure .doc
Kom Hamada Spinning	Valuation Reports	19-Jun-03	Kom Hamada Valuation.xls
Egyptian Company for Starch and Glucose	Valuation Reports	25-Jun-03	Draft PE valuation EC Starch and Glucose.xls
Rakta	Valuation Reports	15-July-03	Rakta Spreading.xls

Summary			
Company Profile	7		
Diagnostic Report	3		
Fact Sheet	26		
Information Memorandum	1		
Letters	27		
Minutes of Meetings	19		

Company Name	Document	Date	Linked Document
Other	6		
Policy Memorandum	0		
Pre-diagnostic Report	0		
Presentation	1		
Tender document	1		
Pre-Valuation Reports	14		
Public Awareness & Investment Outreach	3		
Total	108		

#### BUDGET PIPELINE

A separate report provides an analysis of estimated costs accrued and billed to include a breakout of the estimated level of resources allocated to Task One – Transaction Support. This report will be communicated in a separate report, available August 15, 2003.

#### TEAM MEMBERS AND THEIR RESPECTIVE TITLES AND TASKS

The following is a list of all employees and their relationship to active tasks during the quarter. The organizational chart provides an overview of the project's structure.

First Name	Last Name	Title	LT/ST/ Admin	Start date	Primarily supports	
Mr.	Richard	Moss	COP	LT	10/1/2002	COP
Mr.	Monty	Palmer	Project oversight	ST	10/1/2002	Project Mgt
Mr.	Richard	Burns*	Privatization / IB Specialist	ST	10/1/2002	Project Mgt
Ms.	Tessie	San Martin*	Project oversight	ST	10/1/2002	Project Mgt
Mr.	David	Cameron*	Investment Banker	ST	1/29/2003	Task 1
Mr.	Hisham	El Adl	Privatization Specialist	LT	10/1/2002	Task 1
Mr.	Mahmoud	Soheim	Privatization Specialist	LT	10/1/2002	Task 1
Mr.	Said	Mostafa	Privatization Specialist	LT	10/1/2002	Task 1
Mr.	Sherif	Korayem	Privatization Specialist	LT	10/1/2002	Task 1
Mr.	Mohamed	Rabie	Privatization Specialist	ST	10/1/2002	Task 1
Mr.	Richard	Dangay	Privatization Specialist	ST	11/10/2002	Task 1
Mr.	Ayman	Taha	Privatization Specialist	LT	1/29/2003	Task 1
Mr.	Emad	Moursy Mohamed	Privatization Specialist	LT	10/1/2002	Task 1 & 2
Mr.	Fouad	Abdel Wahab	Privatization Specialist - Senior	LT	10/1/2002	Task 1 & 2
Ms.	Hend	Taha	Privatization Specialist	LT	10/1/2002	Task 1 & 2
Ms.	Laure	Darcy**	Privatization / IB Specialist	ST	10/1/2002	Task 1 & 2
Mr.	Mohamed	Ragui	Privatization Specialist	LT	10/1/2002	Task 1 & 2
Mr.	Bruce	MacQueen	Privatization Advisor	ST	10/15/2002	Task 2

First Name		Last Name	Title	LT/ST/ Admin	Start date	Primarily supports
Ms.	Hoda	Howeidy***	Public Awareness Specialist	LT	10/1/2002	Task 3
Mr.	Chris	Homan	Public Relations Specialist	ST	10/27/2002	Task 3
Ms.	Hala	Helmy	Public Relations Specialist	ST	11/21/2002	Task 3
Ms.	Dalia	Wahba	Public Awareness Specialist	ST	10/1/2002	Task 3
Ms.	Rania	Rashed**	Public Awareness Specialist	ST	1/29/2003	Task 3
Mr.	Torence	Holmes	Chief Operations Officer	LT	10/1/2002	Task 3, 4 & Mgt
Ms.	Nevine	Lotfi	Privatization Specialist	LT	10/1/2002	Task 4
Ms.	Safaa	Sabry	Database Manager	LT	10/1/2002	Task 4
Ms.	Sarah	Mubarak	Intern	LT	10/1/2002	Task 4
Mr.	Ahmed	Mohamed Adam	Driver / Messenger	Admin	10/1/2002	Operations
Mr.	Yasser	Youssry Al-Sayed	Driver / Messenger	Admin	10/1/2002	Operations
Mr.	Sayed	Abdel Gawad	Driver / Supervisor	Admin	10/1/2002	Operations
Ms.	Heba Tellah	Adel Hashish	Executive Secretary	Admin	10/1/2002	Operations
Mr.	Sherief	El-Banna	Logistics Administrator	Admin	10/1/2002	Operations
Mr.	Mohamed	Mostafa	Network (IT) administrator	Admin	10/1/2002	Operations
Mr.	Adel	Said Ahmed	Office Assistant	Admin	10/1/2002	Operations
Mr.	Nader	Ahmed Aly	Office Assistant	Admin	10/1/2002	Operations
Mr.	Taha	Aboul Saoud Fahmy	Office Assistant	Admin	10/1/2002	Operations
Ms.	Wessam	El-Niazy Hammad	Project Accountant	Admin	10/1/2002	Operations
Ms.	Rasha	Reda Farid	Project Administrator	Admin	10/1/2002	Operations
Mr.	Ahmed	Rashad Mohamed	Security / Office Assistant	Admin	10/1/2002	Operations
Mr.	Tarek	Mohamed Mahmoud	Security / Office Assistant	Admin	10/1/2002	Operations
Ms.	Rebecca	Rishty	Chief Operations Officer – replace Torence Holmes	LT	4/1/2003	Task 3, 4 & Mgt
Mr.	Constantin	Abarbieritei	Privatization / IB Specialist – replace Tessie San Martin	ST		Project Mgt

\* Left the firm during or after the quarter

\*\* Approved to work on project but did not bill during quarter

\*\*\* Maternity leave for most of the quarter

June 30, 2003

