



15<sup>th</sup> June 2011

Mr. Muhammad Ali  
Chairman,  
Securities and Exchange Commission of Pakistan,  
National Insurance Corporation Building, Jinnah Avenue,  
Islamabad-44000,

Fax No. (92-51) 9205692, 9204915

**Sub: Complaint Against M/s Pakgen Power Limited-Offer for Sale of Shares**

Dear Sir,

Transparency International Pakistan has received complaint against M/s Pakgen Power Limited and underwriters on allegation of non disclosures of facts related to performance of AES Pak Gen Company Limited, as well as against SECP for approving the premium of RS 5.17 based on insufficient due diligence reports.

It is reported that the company is seeking public subscription of 13.89% shares from total issued shares of 372mn on Jun14-15'11. Pakgen's total transaction size is 51.69mn shares, where 14.5mn shares were privately placed while 37.2mn shares are being offered to the general public. Offer for sale is being done at a price of PKR 19/share which is inclusive of a premium of PKR 9/share, and that the successful subscribers will be eligible to receive dividend of PKR 1.00/share announced earlier.

The complainant has reported that the following issues must have been mitigated by SECP prior to approving Rs 9 per share premium;

1. The Company was reportedly bought by Nishat Group at rate of Rs 13.87 per share only 9 months ago.
2. The disclosure an Risk Factors in Para 4.9 does not includes following alleged risks;
  - i) Previous reports indicate that Pak Gen incur fuel losses of 14 gms/KWh, whereas comparable Nishat Power Ltd and Nishat Chunian Power Ltd experience fuel saving of around 6 gms/KWh. This factor alone may cause a loss of around Rs 5.27 per share at current furnace oil rate of Rs 65,000 per ton.
  - ii) According to the Pak Gen's management, the plant has been incurring fuel losses since its inception and the gap cannot be bridged.
  - iii) That new fuel efficient IPP will shift the utilization of load plant to new plants.
  - iv) That the dividend of comparable IPP mentioned in prospectus Hubco and Kapco, distributes all cash flow as dividends, whereas Pak Gen has been shifting dividends in past to reserve fund which is around Rs 9 billion, and the new



management also empowered directors to decided about the dividend distribution.

- v) It is alleged that there may not be any dividend from power generation, which is and will incur loss, and dividend if any may come from the earning of the Rs 9 billion reserve funds, and this fact is reflected for the information of public.

Transparency International Pakistan request SECP to please examine the complaint and respond on the basis of approving the premium and non disclosure of all the risks in the prospectus, if the complaint is determined by SDEC to be correct.

With regards,

  
Syed Adil Gilani  
Chairman