Investment in Pakistan
Investment in Pakistan

An Introduction

Investment in Pakistan is a publication prepared by KPMG Pakistan to provide information on a number of subjects relevant for investment planning or doing business in Pakistan.

The guide includes an overview of the economy and a summary of various investment opportunities in identified sectors which could be of interest for investors.

This guide provides a summary of the rules, regulations and tax laws applicable in Pakistan. Although covering many relevant areas, it should not be considered as exhaustive since it has not been designed to provide complex and detailed information required for decision-making in relation to investments.

This publication incorporates the regulations effective as of 31 August 2013.

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Glossary

BOI  Board of Investment
CY  Calendar year
FCY  Foreign Currency
FDI  Foreign Direct Investment
FY  Fiscal year ended 30 June
GDP  Gross Domestic Product
GoP  Government of Pakistan
KSE  Karachi Stock Exchange
PKR  Pakistan Rupee
SBP  State Bank of Pakistan
SECP  Securities & Exchange Commission of Pakistan
USD  United States Dollar
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1. Overview of the Economy

History

Pakistan emerged as an independent sovereign state on the 14th of August, 1947. It is the sixth most populous country in the world, having a population size of over 180 million as of 2012-13.

Pakistan symbolizes “the land of pure” and has been the centre of the great Indus Valley civilization dating back at least 5,000 years. Excavations of historical sites at Taxila, Harappa, and Mohenjo-Daro dating back to 3,000 BC speak volumes about the country’s rich heritage.

Geography

Pakistan is strategically located at the crossroads of Asia, with China (523 km) as its neighbour in the North, India (2,912 km) in the East and Iran (909 km) and Afghanistan (2,430 km) in the West.

Pakistan covers 796,095 sq km and constitutes five provinces; Sindh in the South East; Punjab in the North East; Baluchistan in the West, Khyber Pakhtunkhwa (KPK) in the North West and Gilgit-Baltistan in the North of Pakistan.

Geographically, Pakistan is adorned with snow-covered peaks, fiery deserts, fertile mountain valleys and irrigated plains. The mountainous North serves as the juncture for three of the world’s largest mountain ranges: Hindu Kush, Karakoram and the Himalayas. The coastline of the Arabian Sea in the South stretches about 1,000 km long, while the West boasts of the Baluchistan Plateau. The East is given life by the Indus River along with its network of tributaries journeying 3,200 km from Tibet, through the mountainous North and inundating the Indus Plains before merging with the Arabian Sea of the Indian Ocean.

Climate of Pakistan

With the exception of the temperate coastal region, most of Pakistan’s climate varies considerably with seasonal extremes of temperature.

From June to September, Pakistan has its monsoon season, with warm weather and heavy rainfall in some areas. The temperatures drop significantly in December through February, while spring tends to be very warm and dry.

The Karakoram and Hindu Kush mountain ranges are snowbound for much of the year, due to their high altitudes. While, even at lower elevations, temperatures may drop below freezing during the winter, summer highs of 40°C (104°F) are not uncommon. The record high is 55°C (131°F).
Population and demographics

Pakistan is the sixth most populous country in the world, with an estimated population of over 180 million at a growth rate of 2%. The median age in Pakistan is 22 years, which means Pakistan is a young country. This vast population is unevenly distributed, with most people living in rural areas.

In recent years, many rural residents have been migrating to cities in search of better paying jobs. If the current pattern of urbanization continues, the urban population of Pakistan will cross the figure of 122 million by 2030, which is 50% of total population.

### Major Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Population in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karachi</td>
<td>20.9</td>
</tr>
<tr>
<td>Lahore</td>
<td>8.0</td>
</tr>
<tr>
<td>Faisalabad</td>
<td>3.2</td>
</tr>
<tr>
<td>Islamabad &amp; Rawalpindi</td>
<td>3.1</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>2.85</td>
</tr>
</tbody>
</table>

### Age structure

- **0-14**: 51% (Female), 49% (Male)
- **15-24**: 48% (Female), 52% (Male)
- **25-54**: 52% (Female), 50% (Male)
- **54-64**: 50% (Female), 53% (Male)
- **over 65**: 53% (Female), 47% (Male)

Source: Monthly Economic Review

### Pakistan’s Government Structure

- **President (Head of state)**
  - Prime Minister
  - Federal Cabinet
  - Minister/Divisions:
    - Attached Departments
    - Autonomous Bodies
    - Semi-Autonomous Bodies
  - PM Secretariat
  - Cabinet Division
  - Establishment Division
  - Senate:
    - 100 Members
    - 22 from each province, 8 from FATA and 4 from Federal Capital
    - 17 seats reserved for women
  - National Assembly:
    - 342 members
    - 272 General seats, 60 for women and 10 for non muslims

Source: www.pakistan.gov.pk

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### Country snapshot

<table>
<thead>
<tr>
<th>Official name</th>
<th>Islamic Republic of Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital city</td>
<td>Islamabad</td>
</tr>
<tr>
<td>Form of state</td>
<td>Federal parliamentary democracy</td>
</tr>
<tr>
<td>Main cities</td>
<td>Islamabad, Karachi, Lahore, Peshawar, Quetta, Rawalpindi, Hyderabad, Faisalabad, Multan and Sialkot</td>
</tr>
<tr>
<td>Population</td>
<td>180 million (Estimated)</td>
</tr>
<tr>
<td>Religion</td>
<td>Islam 95%, other (includes Christian and Hindu) 5%</td>
</tr>
<tr>
<td>Adult literacy rate</td>
<td>54%</td>
</tr>
<tr>
<td>Climate</td>
<td>Sub-tropical; cold in the highlands</td>
</tr>
<tr>
<td>Currency</td>
<td>Pak. Rupee (PKR) =100 paisa</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>As at 30 September 2013: PKR 107.1:USD 1</td>
</tr>
<tr>
<td>Fiscal year</td>
<td>01 July – 30 June</td>
</tr>
<tr>
<td>Central bank</td>
<td>State Bank of Pakistan</td>
</tr>
<tr>
<td>Major industries</td>
<td>Textiles, cement, fertilizer, steel, sugar, electric goods, shipbuilding, mining, IT Industry</td>
</tr>
<tr>
<td>Exports</td>
<td>Cotton, textile goods, rice, leather items, carpets, sports goods, handicrafts, fish and fish preparation and fruit</td>
</tr>
<tr>
<td>Imports</td>
<td>Industrial equipment, chemicals, vehicles, steel, iron ore, petroleum, edible oil, pulses and tea</td>
</tr>
<tr>
<td>Major crops</td>
<td>Cotton, wheat, rice, maize and sugarcane</td>
</tr>
<tr>
<td>Natural resources</td>
<td>Land, natural gas reserves, petroleum, coal, iron ore, copper, salt, limestone chromite, marble, bauxite, gold</td>
</tr>
<tr>
<td>Geographic coordinates</td>
<td>30 00 N, 70 00 E</td>
</tr>
</tbody>
</table>

Source: www.pakistan.gov.pk
Economic Survey 2012-13
Economy

Pakistan’s economy is closely linked to the rest of the world due to its strategic geographical position and high external sector exposure via the resource potential. Contraction or stagnation in economic activity in the global economy can potentially affect the level of exports, FDI and home remittances.

Pakistan’s economy continues to face numerous domestic and external shocks from 2007 onwards. Economic performance was affected by devastating floods and rains, internal security hazards, and the energy crisis. The economy over the last five years grew on average at the rate of 2.9% per annum. In spite of dire scenarios, the economy stays afloat by continuing remittances from abroad, massive informal economy and consumption-oriented society.

Pakistan had also recently undergone its general election. Two elected governments impose solidarity in business and policy continuity. Domestic and foreign investment will gain confidence to initiate new business activities on a peaceful democratic transition that aims to increase production, employment and stability in the economy.

GDP

The framework for economic growth approved by the GoP in FY11 identified a coherent approach to growth that targets public service delivery, productivity, competitive markets, innovation and entrepreneurship. The strategy was based on sustained reform that builds an efficient and knowledgeable governance structure, and markets in attractive and well-connected location.

Pakistan’s service sector is currently the largest contributor to the nation’s GDP, followed by agriculture.


Sources: Business Monitor International
Foreign reserves

Pakistan’s foreign exchange reserves amounted to USD 11.01 billion in June 2013 as compared to USD 15.29 billion, at the end of June 2012. The depletion in foreign exchange reserves were mainly due to repayments made to IMF during the period.

Charitable donations in foreign currency and worker’s remittances from abroad are not only a primary source of income for families left behind here but significantly supports Pakistan’s balance of payment. Furthermore, it improves the standard of living, increases domestic demand and indirectly plays a role in reducing unemployment. Overseas Pakistanis remitted an amount of USD 13.92 billion during 2012-13 as against USD 13.19 billion last year, an increase of 5.6%.

Foreign trade

Exports during the fiscal year 2012-13 amounted to USD 24.8 billion as against USD 24.7 billion in the same period last year. The major positive contributors to exports were the food group (increased by 12.3%), textile group (6.1%) and other manufacturing groups (8.7%). Imports, decline by 0.4% amounting to USD 40.3 billion in 2012-13 against USD 40.5 billion last year resulting in a marginal improvement in trade account balance.

Recent key economic developments

Iran - Pakistan gas pipeline

According to the agreement, Iran will supply 21.5 million cubic meters gas for 25 years. This would likely enable Pakistan to generate almost 4,000 MW of electricity and ease its energy crisis to a great extent.

Gwadar

Gwadar is situated near the Strait of Hormuz and all the associated regional shipping lanes. Nearly 17 million barrels of oil (or 20% of the world’s oil) pass through the Strait daily. Gwadar is also the nearest warm-water seaport to the landlocked Central Asian Republics and Afghanistan.

In comparison to Gulf ports, especially Dubai, Gwadar can potentially handle more cargo and trade because it is a deep sea port. Gwadar is also located at the mouth of the Gulf and is a gateway to both Central Asia and China.

On January 30, 2013, the Pakistani cabinet approved the transfer of Gwadar port from PSA International to the state-owned Chinese company Overseas Ports Holding Company Limited.

Thar Coal

Thar coal reserves are estimated to be 175 billion tonnes, the second largest proven coal reserves in the world, spread over 9,100 sq km located, in the Thar region of Pakistan.

Privatization

As part of its privatization plan, the Government will sell 31 enterprises, worth billions of dollars and belonging to sectors such as oil and gas, banking and finance, power industries and real estate.
Foreign Direct Investment inflows

Foreign Direct Investment (FDI) has emerged as a major source of private external flows for developing countries around the globe including Pakistan. FDI plays an important role vis-à-vis technology development, assisting human capital formation, contribution to international trade integration, helping in creating a more competitive business environment and promoting enterprise development.

Pakistan has one of the most liberal foreign investment regimes in South Asia. 100% foreign equity is permitted in the manufacture and infrastructure sectors as the country has a more market-oriented economy, with a rapidly growing private sector.

Pakistan has a very fruitful market and a large consumer base of more than 180 million people. There is great potential in the power, infrastructure and natural resource sectors. There is also scope for investment in hydel and coal based power projects. Furthermore, there is a need for world class education systems and mechanization of industries that, if exploited efficiently, can generate wealth for foreign investors.

Pakistan’s net FDI inflow stood at USD 1,447.3 million during 2012-13 compared to USD 820.6 million last year, posting an increase of 76%. Oil & Gas Exploration remained the major target of investment for foreign investors.

Net FDI’s Inflows

<table>
<thead>
<tr>
<th>Year</th>
<th>USD in billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>1.52</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.52</td>
</tr>
<tr>
<td>2006-07</td>
<td>5.14</td>
</tr>
<tr>
<td>2007-08</td>
<td>5.41</td>
</tr>
<tr>
<td>2008-09</td>
<td>3.72</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.15</td>
</tr>
<tr>
<td>2010-11</td>
<td>1.63</td>
</tr>
<tr>
<td>2011-12</td>
<td>0.82</td>
</tr>
<tr>
<td>2012-13</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Sources: www.sbp.org.pk Economic Survey 2012-13

Sectorwise employment share - 2012-13

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>45%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21%</td>
</tr>
<tr>
<td>Service</td>
<td>34%</td>
</tr>
</tbody>
</table>

Source: Monthly Economic Review

Workforce

Pakistan has the 9th largest labour force in the world. According to labour force survey 2010-11, the total labour force in the country was 57.24 million. Out of this, 3.4 million people are unemployed.

The working population is 110 million, 60% of total population. The adult population (15-59) is considered as the wealth of a nation in terms of human resource. Adult population has increased from 104 million in 2011 to 110 million in 2013.
Investment in Pakistan

Transforming the domestic market

Rise in Per Capita Income
Per capita income has grown at a nominal rate of 3.4% in 2012-13 and increased to USD 1,368.

Urbanization
Pakistan is currently facing rural-urban migration causing rapid urbanization. The urban population comprises 36% of the total population in 2013.

Demographic Positives
Pakistan’s population can be majority categorized as “youth” (according to United Nation’s definition of youth). An estimated 110 million Pakistanis, or 60% of the population, is working population. The Youth Literacy Rate (age 15 years and above) is estimated to be 81%.

Sources: Pakistan Economic Survey 2012-13
2. Sector Outlook

Agriculture has been the key driver of Pakistan’s economy with a contribution of 21.4% to GDP, employing 45% of the total labour force in 2012-13.

Services sector has played a vital role in sustaining economic activities in Pakistan during recent years, contributing 57.7% to GDP in 2012-13.

Sectors such as IT, telecom, financial services, textile and power generation etc. have shown high growth opportunities and capacity to progress supported by a young-demography nation. During recent times, there is rising trend of youth entrepreneurship in Pakistan, which has great potential to cause paradigm shift of the economy.

This chapter aims at identifying key business sectors in Pakistan, considering their investment determinants in the light of current market as well the opportunities they hold.

![Sectorwise GDP contribution](image)

**Source:** Economic Survey 2012-13

![Sector-wise GDP growth rate (%)](image)

**Source:** Economic Survey 2012-13
The Market

Agriculture

- Pakistan’s total land under cultivation is watered by one of the largest irrigation systems in the world, covering around 25% of Pakistan’s total land area.

- Pakistan is the fourth largest cotton producing country in the world, after China, India and U.S.A.

- Pakistan produces some of the world’s best fruit varieties that are exported to over 40 countries. Recently, Pakistan has started export of mangoes to Australia.

- Guar and guar product exports from Pakistan was USD 29 million in 2006-07, which rose to USD 152 million in 2011-12. Guar, primarily used as animal feed and a natural fertilizer also has industrial applications ranging from making ice cream and beverages to textile manufacturing, and oil & shale fracturing.

Livestock and Poultry

- Livestock’s share in agriculture is much more than the combined share of all other subsectors of agriculture, accounting for 55.44% of agricultural value addition. The gross value addition of livestock sector increased from PKR 735 billion in 2011-12 to PKR 756 billion in 2012-13.

- Pakistan earned USD 722 million from leather exports and USD 151 million from meat export in 2012-13.

Forestry

- During the year 2012-13, the share of forestry subsector in agriculture was 2.03%, having main components of forestry, timber and firewood.

Fishery

- Fisheries, as a sub-sector, play a significant role in the national economy and towards the food security of the country, as it relaxes the existing pressure on mutton, beef and poultry demand.

- During 2012-13 the total exports of fishery products were 103,822 million tonnes generating an earning of USD 232.4 million.
Industry Snapshot

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Growth (%)</th>
<th>Contribution in GDP (2012-13)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011-12</td>
<td>2012-13</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Livestock and poultry</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fishery</td>
<td>3.8</td>
<td>0.7</td>
</tr>
</tbody>
</table>

The Opportunity

- The All Pakistan Fruit & Vegetable Association has set a target of USD 60 million through exporting 175,000 tons of mangoes.
- Pakistan expects a harvest of guar exceeding 250,000 tons in 2013-14, the highest in 18 years.
- Recently, the European Parliament permitted duty-free imports of cotton from Pakistan. EU is one of the country’s largest trading partners, accounting for more than 30% of Pakistan’s total exports.
- The EU has decided to allow imports of Pakistani fish products to its 27 nation block, giving a boost to Pakistan’s export and potential fishery market.
- Pakistan and the United States have agreed to enhance the scope of scientific research in the agricultural sector so that it benefits from modern technology.
Manufacturing

Textile

The Market

- Pakistan is the fourth largest producer of cotton, and has the third largest spinning capacity representing 7.6% in Asia (after China and India) and 5% of the global spinning capacity.

- The development of a textile industry making full use of its abundant resources of cotton has been a priority area towards industrialisation. At present, there are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 other small units that produce textile products.

- During 2013, the cotton crop was cultivated on an area of 2.8 million hectares, showing an increase of 5% as against last year.

- In 2012, the production of cotton reached a record level of 14.8 million bales breaking the previous record of 14.3 million bales in 2005.

- 80% of total cotton and synthetic production is exported in the form of yarn, cloth, knitwear, bed wear and readymade garments.

Industry Snapshot

<table>
<thead>
<tr>
<th>Total exports</th>
<th>USD 9.7 billion in 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP contribution</td>
<td>8% in 2012-13</td>
</tr>
<tr>
<td>Employment</td>
<td>40% of industrial labour force.</td>
</tr>
<tr>
<td>Cotton cropped area</td>
<td>2.8 million hectares</td>
</tr>
</tbody>
</table>

Composition of textile export

Source: Economic Survey 2012-13
The Opportunity

- Pakistan has emerged as one of the major cotton textile product suppliers in the world market, with a share of world yarn and cotton fabric trade of about 30% and 8% respectively, maintaining the sector as a backbone of industrial activity for the country.

- The annual volume of total world textile trade is USD 18 trillion which is growing at 2.5%, but Pakistan’s share is less than 2%.

- EU has supported Pakistan’s effort to integrate itself with the global economy by granting Pakistan’s export reduced tariffs under the EU Generalised System of Preference (GSP) during the year 2013-14. This will allow almost 20% of Pakistani exports to enter the EU at zero tariffs while a further 70% is allowed to enter at preferential tariff.

- The five year Textile Policy 2009-2014 targets exports of USD 25 billion by the end of the policy tenure. Two of the significant announcements of this policy were the establishment of Textiles Investment Support Fund and Technology Upgrade Fund. The objective of these desired funds was to remove infrastructural bottlenecks by facilitating technology upgrade and new investments.

- Apart from the above mentioned policy, the Textile Ministry has taken some steps to support the sector:
  - Reduced sales tax rates are applicable on local supplies of textile raw materials and finished goods. Ongoing Textile PSDP projects – Textile City at Karachi, Garment Cities at Karachi, Lahore and Faisalabad.
  - R&D support is also available for the exports of dyed / printed fabrics and White Home Textile at 3% and Dyed / Printed Home Textiles at 5%.

- GoP has allowed duty- free and tax- free imports of textile machinery, if not being manufactured in Pakistan, to encourage capital investment in textile sector.

- The Cotton Crop Assessment Committee (CCAC) has estimated that Pakistan will produce around 13.255 million bales (170 kg each) in 2014.
Pharmaceutical

The Market

- Total pharmaceutical market size is PKR 220 billion and is a highly regulated industry, having highly skilled manpower. The sector ranks sixth in the world.

- The local industry meets around 70% of the country’s demand of finished medicine in terms of volume and some 55% in terms of value.

- The industry provides direct employment to over 70,000 and indirect employment to around 150,000 people across the country.

- Cumulative annual growth rate of pharmaceutical industry has been 12% during the last three years.

- During 2008 to 2012, around 2,956 products have been launched by local companies as compared to 193 products by multinational companies.

### Health expenditure by sector

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014(F)</th>
<th>2015(F)</th>
<th>2016(F)</th>
<th>2017(F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>71%</td>
<td>70%</td>
<td>69%</td>
<td>69%</td>
<td>68%</td>
</tr>
<tr>
<td>Gov</td>
<td>29%</td>
<td>30%</td>
<td>31%</td>
<td>31%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: Business Monitor International

### Industry Snapshot

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td>400 pharmaceutical manufacturing units, 25 multinationals</td>
</tr>
<tr>
<td>Major market players</td>
<td>Abbott Laboratories, Sanofi Aventis, Bosch pharmaceutical, Glaxo SmithKline Pakistan, Getz pharma, Johnson &amp; Johnson, Merck Marker, Novartis, Pfizer Laboratories, Reckitt &amp; Benckiser, Roche, Zafa pharmaceutical.</td>
</tr>
<tr>
<td>Domestically produced drugs</td>
<td>Pain killers, anti-stress and anti-depressants, anti-infective, penicillin, herbal medicines, homeopathic, etc.</td>
</tr>
<tr>
<td>Imported products</td>
<td>Antibiotics, vaccines, analgesics, tranquillizers, drugs for treating cardiovascular diseases &amp; cancer.</td>
</tr>
<tr>
<td>Import markets</td>
<td>US, UK, Germany, Switzerland, Japan, Netherlands, France, China and Indonesia.</td>
</tr>
</tbody>
</table>
The Opportunity

- Volume of pharmaceutical export potential was worth PKR 300 billion at present at a growth rate of 17%.

- The World Bank (WB) has approved a USD 100 million loan to finance reforms in the health sector of Punjab, as part of the Millennium Development Goals. The reform program is aimed at enhancing the number of people who have access to high quality health services.

- In 2012, drug expenditure in Pakistan reached a value of PKR 189.21 billion (USD 2.03 billion). By 2017, it is forecasted that the market will be valued at PKR 311.86 billion (USD 2.91 billion).

- Healthcare spending in Pakistan is expected to increase from PKR 521.91 billion (USD 5.59 billion) in 2012 to PKR 986.53 billion (USD 9.20 billion) in 2017. Spending on healthcare as a percentage of GDP in 2012 was 2.59%.

- Pakistan's rapidly expanding population means there are exciting opportunities in the consumer healthcare segment, the generic medicines market and in patented medicines.

- Pakistan has a high population growth rate, rising life expectancy and consequent rise in older age group, yet Pakistan has more than 50% of its population below the age of 19 years. Infant mortality is high, as is maternal mortality. All these factors along with increasing urbanization, number of doctors and private investment in new hospitals and clinics should stimulate demand for pharmaceutical products and health care services.

Pharmaceutical sector - Sales

![Graph showing sales and percentage of GDP for pharmaceutical sector]

Source: Business Monitor International
Automotive

The Market

- The sector provides employment to 3.5 million people and plays a pivotal role in sustaining a blossoming vendor industry. It contributed 2.8% to GDP in 2012, with turnover of over PKR 300 billion.

- The sector recorded a positive growth in Jeeps and SUVs (67.1%) and Tractors (34.5%) during 2012-13 as compared to last year. However, cars, light commercial vehicle, buses, and trucks posted a negative growth, with the fall in the production of locally produced cars during 2012-13, primarily due to major shift in the policy in order to favour import of used cars.

- Pakistan producing 70 cc motorcycles, and now, even new 125 cc bikes are also being exported. The industry has achieved 95% localization through latest technology transfer, a large amount of rupee worth of investment and hundred thousand skilled workers.

- The subsectors, accessories and part manufacturers have 3,200 units for automotive industry with an investment of PKR 9.2 million, employing 1.8 million people and producing annually around 2 million parts for motorcycles and vehicles.

Market share of Passenger's car

Motorcycle production and % change YoY

Source: Economic Survey 2012-13

Sources: Economic Survey 2012-13

Business Monitor International
The Opportunity

- The number of passenger cars per 1,000 people will reach 14 by 2017, up from 12.6 in 2012. Pakistan’s penetration rates are thus lower than those prevailing in other countries in the region. For example, in India, the number of passenger cars per 1,000 populations is forecast to rise from 18.4 to 27.8 in the same period. This shows potential in this sector of Pakistan.

- Vehicle loans will continue to make up a significant proportion of consumer lending, and will thus play a significant role in the expansion of car ownership in Pakistan. Nearly one half of new car sales in the country are financed by leasing companies or bank loans.

- The motorcycle sector has progressed tremendously over the years due to consistent policy of the government, while it gave protection to local investors to expand the businesses locally as well as globally.

- Pakistan is only a minor emitter of CO2 in the global context, being responsible for less than 1% of the world’s greenhouse gas emissions; and expects Pakistan to remain well down the list of countries in terms of CO2 emissions.

- The GoP decision to allow exemption of customs duty and other taxes on import of Hybrid Electric Vehicles (HEVs) having engine capacity up to 1,200 cc, which would lead to a trimmed oil import bill besides promoting pollution-free environment in the country. For import of HEVs having engine capacity from 1,201 cc to 2,500 cc, concession of customs duty and other taxes are also allowed.
Industrial & Commercial Machinery

The Market

- Industrial sector contributed 20.9% to Pakistan’s GDP in 2012-13.
- The sector mostly imports machinery, usually reconditioned, either in part or full.
- Import of plant & machinery currently has the second highest share in Pakistan’s import bill, after petroleum products.
- Major sectors using industrial machinery are manufacturing, mining, gas distribution, engineering, construction and fertilizer.
- During 2012-13, power generating machinery worth USD 977 million, electrical machinery worth USD 823 million, textile machinery worth USD 387 million, construction and mining machinery of USD 158 million and office machinery worth USD 254 million was imported.

Industry Snapshot

<table>
<thead>
<tr>
<th>Machinery imports</th>
<th>USD 5.79 billion during 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market players</td>
<td>Ados Pakistan Limited, Descon Engineering, Heavy Mechanical Complex, Pakistan Mining and Exploration Inc, Siemens Pakistan</td>
</tr>
</tbody>
</table>

The Opportunity

- Great opportunity exists for manufacturers of power generating units (both industrial & commercial), due to the power shortage prevailing in Pakistan.
- The engineering industry is ready to present its credentials at the international level in areas including machinery and equipment for chemical and fertilizer plants, given due support by both the GoP and investors.
- The Ministry of Petroleum and Natural Resources is considering the proposal for import of used machinery for the upgrade of refineries.
Electronics & Other Electrical Equipment

The Market

- Pakistan’s consumer electronics market - worth USD 2 billion in 2012 - is expected to grow by an annualised average of about 13.3% to USD 3.3 billion by 2016.

- Home appliances like deep freezers and refrigerators grew at the rate of 1.17% and 7.99% respectively in 2012-13.

- Pakistan’s domestic audio/visual device market was worth USD 724 million in 2012 and is expected to grow at an average annual rate of about 13% to almost USD 1.2 billion by 2016.

- Pakistan’s domestic market computer hardware sales (including notebooks and accessories) of USD 334 million in 2012 and is expected to grow by an average of about 8% per annum over the next five years.

- Mobile handset sales are expected to grow at a compounded annualized growth rate (CAGR) of 13% to 32 million units by 2016, as mobile subscriber penetration reaches 77%.

Industry Snapshot

<table>
<thead>
<tr>
<th>Market size</th>
<th>USD 2 billion in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market players</td>
<td>Dawlance, Haier, LG, Mitsubishi, National, Orient, Panasonic, PEL, Philips, Samsung, Sony, Waves</td>
</tr>
</tbody>
</table>

The Opportunity

- Pakistani home appliances industry has freight advantage over Chinese competitors in the Middle East and African markets. The existing export markets of Pakistani home appliances products are Afghanistan, UAE, Sri Lanka and Iraq. Potential also exists to expand further in Middle Eastern markets, and create new markets for South Asia and Africa.

- Pakistan’s electric fan manufacturers could generate more revenues by focusing on neighbouring countries.

- The Greenhouse Gas Emission and Low-Carbon certifications issued by the Korea Environmental Industry and Technology Institute rewards manufacturers for creating products with lower carbon footprints.

- The awarding of 3G licences, expected later this year, should boost the high-end segment of the mobile handset market.

- Expensive imported electronic products due to increase in rate of excise duty and depreciation of the Pakistani Rupee are a great attraction for companies willing to set up electrical manufacturing units in Pakistan.
Investment in Pakistan

Infrastructure and Real State

Power Generation

The Market

- Pakistan’s total power generation capacity was 23,538 MW in 2012, whereas at any given time available capacity remained less than 14,000 MW.

- In order to meet the current and future energy demand, GoP is working on different power generation projects that are expected to contribute an additional power supply of 16,800 MW by the end of 2015-16.

- As of March 2013, the number of consumers has increased to 21.7 million from 20.8 million in 2012, due to rapid expansion of electric network to villages and other previously unelectrified areas.

- The GoP is planning to shift electricity generation from the costly diesel and furnace oil to coal in order to generate 9,800 MW cheaper electricity over the next three years.

- CK Solar Korea has signed a Memorandum of Understanding with the Baluchistan government to set up a 300 MV solar power project near the province’s largest city, Quetta.

- Tesla-PV Solar Panel manufacturing plant has a capacity of generating 4 MV and plans to increase the capacity to 10 MV by 2014. Telsa-PV will be producing 100, 150, 200, 250 Watt Mono and Poly Solar Panels that will be made available all over Pakistan.

- The bulk of expansion in hydropower capacity during the forecast period will take place in 2017-20, when the Diamer-Bhasha dam is due to be completed. WAPDA is executing, on priority basis, projects such as 969 MW Neelum Jhelum and 4,500 MW Diamer-Bhasha hydropower projects.

- Pakistan and Afghanistan are moving towards joint management of common rivers starting with construction of a 1,500 MW hydropower project on Kunar River.

- Pakistan’s first private Hydel power project (New Bong Escape Hydro Power project) in Azad Kashmir is expected to generate 84 MW of electricity and is expected to save about 135,000 tonnes of imported oil costing over USD 100 million.

![Pakistan’s Electricity generation, consumption and distribution loss](image)

![Power generation capacity - 2012](image)

Source: Economic Survey 2012-13

Source: NEPRA
The Opportunity

Pakistan has large, economically viable resources in wind, solar, biomass, waste, geothermal and hydel power, waiting to be harvested.

Hydro

- The total hydro power resources in the country have been estimated at over 50,000 MW. Most of the resources lie in the North of the country, which offer sites for large scale (100 MV to 7000 MV) power projects whereas smaller sites (less than 50 MW) are available throughout the country.

Coal

- Pakistan enjoys abundance in coal reserves estimated at over 186 billion tonnes, including 175 billion tonnes identified at Thar, in the Sindh province, having a potential of generating 100,000 MW of electricity.

- GoP plans to increase the share of coal in the energy mix from 10% in fiscal year 2012-13 to 18% by 2017-18.

Wind

- The wind map of Pakistan identifies that the country has a potential of about 340,000 MW.

- The Gharo-Keti Bander wind corridor, in the South of Pakistan, having an approximate potential of 50,000 MW, is the most attractive for investors at this point due to good resource potential as well as its close proximity to major load centres and the National Grid.

Solar

- Solar Village Electrification Program was initiated under Prime Minister’s directive. 3000 Solar Home Systems have been installed in 49 villages of district Tharparkar, Sindh. Another 51 villages in Sindh and 300 villages in Baluchistan are approved for electrification using solar energy.

Nuclear Energy

- The GoP has mandated Pakistan Atomic Energy Commission for the installation of 8,800 MW nuclear power capacities by the year 2030.

- The construction of Chashma Nuclear Power Plant Unit C-3 and C-4 is in progress.
Construction

Residential & Commercial Construction

The Market

- Housing & Construction Sector is among the identified sectors by the GoP as the driver of economic growth. A spurt in activity in this sector unleashes a chain reaction in other allied industries.

- Construction and material industry has grown at a pace of 5.2% in the fiscal year of 2012-13 as compared to 3.2% in last year. This sector also contributes 11.42% in the overall industrial sectors.

- Pakistan is among the top 20 leading cement producers and top 5 leading exporters of cement in the world.

- The cement industry has continued to grow and posted over 10% growth in the fourth quarter of 2012-13.

Industry Snapshot

<table>
<thead>
<tr>
<th>Contribution to GDP</th>
<th>2.4% in 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports of construction</td>
<td>USD 32.7 million in 2012-13</td>
</tr>
<tr>
<td>and mining machinery</td>
<td></td>
</tr>
<tr>
<td>Employed labour force</td>
<td>7% in 2013</td>
</tr>
</tbody>
</table>

The Opportunity

- Substantial investments are pouring in from international investors in UAE, Singapore, Malaysia, China, etc. that have committed for USD 43 billion on two islands of Bin Qasim, USD 68 billion on a New City Project in Hawkes Bay, Karachi, and are also executing mega housing projects in Lahore, Gwadar, Mangla & Defence Housing Authority (Karachi and Islamabad).

- The sector has the potential to export services worth USD 1 billion per year to Saudi Arabia, Central Asian States and other Middle Eastern countries.

- The total cement production for the year 2012-13 was 35 million tonnes, with operational capacity of around 44.6 million tonnes.

- Rising level of urbanization projected to increase from 34.9% in 2005 to 50% by 2030, provides ample development opportunity in the sector.

- There is an annual shortfall of 270,000 housing units at present, while the backlog of around 7 million units is in addition.
Telecom & IT

The Market

- Pakistan is fast becoming the destination of choice for a significant number of international IT/ITeS companies looking to relocate their operations offshore. The ready availability of skilled professionals, an appropriate IT infrastructure, and affordable rates for connectivity result in considerable time and cost-savings for investors.

- Currently, Pakistan’s IT industry’s global share is estimated at USD 2.8 billion: With a skilled workforce of 110,000 English-speaking IT professionals in the economy, of which 24,000 are engaged in exports.

- Telecom sector of Pakistan has attracted substantial investment after deregulation. For the last seven years, more than USD 12 billion has been invested in the telecom infrastructure and new technologies.

- In 2012, telecom sector contributed PKR 133 billion to the National Exchequer in term of taxes, regulatory fees, activation fees and other charges.

- The total international traffic (incoming and outgoing) reached an all-time high of 20.2 billion minutes during 2012.

- Universal Service Fund - as the apex telecom development fund - has subsidised laying down of more than 4,250 km of optic fibre cable to connect un-served tehsils and towns, provided basic telephony and data services in more than 3,600 small villages, and offered broadband services in 260 second and third tier cities and towns.

- Broadband growth has been exceptional in last few years, as subscriptions increased from a meagre 168,082 in June 2008 to 2.35 million in December 2012.

Teledensity

<table>
<thead>
<tr>
<th>Year</th>
<th>Wireless local loop</th>
<th>Cellular Mobile</th>
<th>Local loop</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2.2</td>
<td>58.2</td>
<td>1.6</td>
</tr>
<tr>
<td>2010</td>
<td>2.1</td>
<td>60.4</td>
<td>1.6</td>
</tr>
<tr>
<td>2011</td>
<td>1.9</td>
<td>64.8</td>
<td>1.6</td>
</tr>
<tr>
<td>2012</td>
<td>1.7</td>
<td>68.3</td>
<td>1.7</td>
</tr>
<tr>
<td>2013</td>
<td>1.7</td>
<td>70</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Economic Survey 2012-13
Industry Snapshot

<table>
<thead>
<tr>
<th>Telecom</th>
<th>Market size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cellular Subscribers: Over 121 million.</td>
<td><strong>Telecom</strong></td>
</tr>
<tr>
<td>Broadband Subscribers: Over 2.5 million.</td>
<td><strong>Information technology</strong></td>
</tr>
<tr>
<td>USD 2.8 billion Global Share</td>
<td>USD 2.8 billion Global Share</td>
</tr>
<tr>
<td>1,500 registered IT companies including 2 listed on the Karachi Stock Exchange, 2 on the NASDAQ and 1 on the Dubai International Financial Exchange. 7 MNCs have ‘Development Centres’ in Pakistan</td>
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</tr>
<tr>
<td>Internet Subscribers: Over 30 million in 2013</td>
<td>Internet Subscribers: Over 30 million in 2013</td>
</tr>
</tbody>
</table>

**Cellular market players**
- Mobilink (29.8%), Telenor (25.2%), Ufone (19.3%), Zong (15.4%) and Warid Telecom (10.4%).

**Emerging technologies**
- 3G/4G; WiMAX, EvDO, VDSL2

**The Opportunity**

- GoP has plans for stretching the broadband services further in un-served and underserved areas of the country.
- The 3G services are expected for launch in current year and should usher significant investment in the cellular mobile sector in coming years.
- The GoP has provided a reliable IT infrastructure and its package of incentives has been instrumental in the industry’s development. These incentives include:
  - Income Tax exemption till 2016 for income from export of computer software or IT services or IT enabled services.
  - Over 85% of telecommunication infrastructure is on fibre-optic cables.
  - Internet access is available in over 2000 cities/towns across Pakistan.
  - 100% ownership of equity allowed with 100% repatriation of profits permitted to IT companies.
  - Reduction in cost of 2 Mbps connection to USD 500 from USD 700 per month.
- The cumulative investment in the electronic media industry reached nearly USD 4 billion by the end of 2012-13 from USD 3 billion in 2011-12. This expansion in investment creates job opportunities for skilled media personnel, advertising agencies, and proliferation of the performing arts.
Transportation

The Market

- Pakistan has a reasonably developed transport infrastructure. The country generates a total domestic transport load of around 300.4 billion passenger km and 153 billion ton km annually. The growth in demand for transportation services is considerably higher than the growth in GDP.

- The road network of Pakistan carries over 96% of inland freight and 92% of passenger traffic.

- Pakistan’s economic developments also depend on improvement / modernization of its transport sector, which accounts for 11% of GDP and 16% of gross fixed investment. The transport system consists broadly of roads, railways, air transport and ports shipping services.

- GoP allocated PKR 50.7 billion for NHA’s development projects in PSDP 2012-13 that comprises of 33 national highways, motorways, expressways, strategic roads, etc. Current length of this network is 12,131 km.

- Total road network in Pakistan is about 263,415 km, comprising of 9,324 km. (3.53%) of National Highways and 2,280 km of Motorways (0.87%), Strategic roads and Expressways contribute 262 km and 100 km respectively i.e. (0.10%), carries 80% of Pakistan's total traffic.

- The network of Pakistan Railway comprises of 7791 route km, 515 locomotives, 1,901 passenger coaches and 17,543 freight wagons.

Industry Snapshot

<table>
<thead>
<tr>
<th>Road network</th>
<th>263,415 km which caters services to twenty one million vehicles of all type.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High type roads</td>
<td>182,900 km</td>
</tr>
<tr>
<td>Low type roads</td>
<td>80,515 km</td>
</tr>
<tr>
<td>Revenue</td>
<td>Pakistan Railway: PKR 12,730 million</td>
</tr>
<tr>
<td></td>
<td>PIA: PKR 112 billion</td>
</tr>
<tr>
<td></td>
<td>PNSC: PKR 8,211 million</td>
</tr>
<tr>
<td>Railway network</td>
<td>7,791 km</td>
</tr>
<tr>
<td>International airports</td>
<td>9 (Karachi, Islamabad, Lahore, Peshawar, Multan, Turbat, Sialkot, Faisalabad and Gwadar)</td>
</tr>
<tr>
<td>Seaports</td>
<td>3 (Karachi Port, Port Qasim and Gwadar Port)</td>
</tr>
</tbody>
</table>
The Opportunity

Roads

- NHA is improving East-West connectivity through construction of numerous bridges across Rivers Indus and Jhelum, Chenab, Ravi and Sutlej, as sustainable economic development is dependent on a robust and low cost transport system.

- NHA is now constructing Trans-Pakistan Motorway network M-4 (Faisalabad-Khanewal-Multan) to bring remote areas on mainline and boosting economic activities.

- GoP has allocated about 23% of the total Public Sector Development Programme Fund 2012-13 to the transport and logistics sector of the country.

- Recently, Bus Rapid Transit System (BRTS) has been successfully launched in Lahore to provide effective and efficient transport service. GoP is planning to launch similar service in other cities of Pakistan to improve the road, traffic, and environmental situations.

Railways

- Under Public - Private Partnership, Pakistan Railway has started its services between Lahore and Karachi from 3rd February 2012 to cater to the needs of the business community and the general public.

- The Track Access Policy that has been formulated under the umbrella of Infrastructure Project Development Facility provides that private parties would be allowed to use track and infrastructure of Pakistan Railway for private freight train operations.

- Pakistan Railway has involved private sector in the management and operation of terminal facilities, including dry ports.

- During the period 2012-13, the contract agreement for procurement manufacturing of 202 passenger coaches was signed at a cost of USD 134.5 million with Chinese supplier firm.

Aviation & Airline

- Civil Aviation Authority (CAA) will develop the Benazir Bhutto International Airport scheduled to become operational in 2014, and will have a passenger handling capacity of 9 million in 2014, expected to increase to 15 million by 2019.

- Pakistan has seen a growth in domestic traffic with 2012, seeing around 9 million passengers flying to various cities.

- During the year a new airline Air Indus commenced its operation in Pakistan highlighting increased passenger traffic at the domestic front of the country bringing the total to five licensed airlines.
Oil and Gas

The Market

The GoP is providing an investment friendly environment for the oil & gas sector to attract local and foreign investors. As a result of these financial and structural reforms, this sector has already emerged as one of the most attractive for investment in the country.

- Oil and Gas are a major component of Pakistan’s energy mix meeting over 80% of energy needs. Therefore GoP has attached high priority to this sector.
- 252 oil and gas fields (59 oils and 193 gas and gas / condensate) have been discovered / utilized in various basins of Pakistan, which gives a drilling density of 2.32 wells per 1000 km at a success rate of 1:3.
- Pakistan has estimated reserves of 3 trillion cubic metres of shale gas and nearly 9 billion barrels of shale oil (ranked 9th among the largest shale oil estimates), resources that could revive the country’s fossil fuel.
- During 2011-12, FDI in the sector was over USD 570 million showing inherent potential in the sector.
- Oil and gas production has registered a steady increase over the last few years. During 2013, the production of oil was 66,023 barrels/day while gas production was at record level of 4 billion cubic feet /day.

Oil

- Due to massive domestic demand for oil, a large quantity of crude oil is imported every year. 24,573 thousand barrels (67,140 barrels per day) of crude oil is extracted or produced locally while almost double of this (approx. 47,104 thousand barrels) was imported during 2012.
- UAE-based company Al Ghurair Investment is to invest USD 700 million in the energy sector to establish 100,000 barrels per day oil refinery in the Port Qasim area of Sindh.
- Abu Dhabi is planning to revive the billion dollar Khalifa coastal Oil Refinery, a joint venture with Pakistan. The Khalifa refinery will become the country’s largest refinery, with a capacity of 250,000 barrels per day, to be based in Baluchistan and costing an estimated USD 6 billion.
- Pakistan and China are laying an oil pipeline from Gwadar Port to Western China in order to speed up import of crude oil for China and create an economic opportunity in various sectors of Pakistan. Iran has announced its intention to set up an oil refinery with a capacity of 400 barrels per day at Gwadar Port.

Key upstream players in Oil production

Oil production, consumption and net imports

Source: Business Monitor International
Gas

- Gas supply is considered a cheaper substitute of oil in power generation especially, when the country has to import oil to meet domestic demand.
- The GoP has decided to accord top priority to liquefied natural gas (LNG) import from Qatar to meet the energy crisis in the present condition.
- During 2012-13, gas supplies remained 1,139,253 million cubic feet as compared to 1,164,915 million cubic feet last year.
- During 2012-13, the two gas utility companies (Sui Northern Gas Pipe Line Limited and Sui Southern Gas Company Limited) have laid 14 km gas transmission network, 4,326 km distribution and 831 km services lines, and connected 261 villages/towns to gas network.
- During 2012-13, 237,588 additional gas connections including 236,997 domestic, 221 commercial and 370 industrial were provided across the country. It is expected that gas will be supplied to approximately 39,000 new consumers and about 350 new towns/villages will be connected to the gas network.
Investment in Pakistan

Gas

<table>
<thead>
<tr>
<th>Total resource potential</th>
<th>282 trillion cubic feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recoverable reserves</td>
<td>24 Trillion cubic feet</td>
</tr>
<tr>
<td>Production</td>
<td>4 billion cubic feet/day</td>
</tr>
<tr>
<td>Transmission network</td>
<td>10,985 Km</td>
</tr>
<tr>
<td>Distribution network</td>
<td>122,183 Km</td>
</tr>
<tr>
<td>CNG Stations</td>
<td>3,331</td>
</tr>
<tr>
<td>Imports</td>
<td>over 3 million</td>
</tr>
<tr>
<td>LPG Production</td>
<td>238,510 metric Tones</td>
</tr>
</tbody>
</table>

The Opportunity

- Pakistan is rich in natural resources and has the capacity to become self-sufficient in energy, having huge sedimentary basins stretching over 827,268 sq. km, offering immense potential for exploration and development of local natural resources with an exploration success ratio of 1:3.

- In the Oil & Gas sector, GoP has announced a 10-year road map for private investment that is aimed at drilling upto 100 wells a year.

- Pakistan is eyeing on acquiring an additional refining capacity of above 6 million tonnes per year, and reducing import of refined products to 90% of total consumption.

- Pakistan Petroleum Limited (PPL) has announced the discovery of condensate and gas reserves in the Sangard district of Sindh. This discovery will add to hydrocarbon reserves and will also reduce the gap between supply and demand of oil and gas.

- A new gas reserve has been found in the Kirthar range in the Kirthar Fold belt region, 270 km North of Karachi. The ENI, with joint venture partners PPL and Kuwait Foreign Petroleum Exploration Company are working on the project. The gas supply from said reserves would be possible within the next three years.

- Recently, the two main pipe line projects: Iran-Pakistan (IP) Project & Turkmenistan-Afghanistan-Pakistan-India (TAPI) project will produce 750 MMCFD and 1.34 BCFD gas to Pakistan, respectively.

- The GoP redrafted Petroleum Exploration & Production (PEP) in 2012 with the stated objectives of diminishing reliance on energy imports by providing additional incentives to exploration and production (E&P) companies to enhance indigenous production.

Key Downstream Players - Refining

- Byco Petroleum 10%
- Chevron Pakistan 2%
- Attock Refinery Ltd 12%
- Pak Arab Refinery 31%
- National Refinery Ltd 20%
- Pakistan Refinery 15%
- Others 10%

Key upstream players in Gas Production

- OGDCL 26%
- UEG 5%
- ENI 8%
- PPL 27%
- Others 34%
Mining & Quarrying

The Market

- Pakistan has immense reserves of a number of minerals and natural resources that include coal, gold, copper, bauxite, mineral salt, chromite, iron ore, and many others. Pakistan also mines a variety of precious and semi-precious minerals including ruby, topaz, and emerald.

- Mining and quarrying sector recorded positive growth of 7.6% during the year 2012-13 against the growth of 4.6% last year.

- The mining and quarrying components contains 14.74% share of the overall industrial sector.

- In 2006, the Reko Diq area in Baluchistan was revealed to have major reserves of copper and gold and has ranked the site as one of the top seven copper reserves of the world. This area has proven to have the evaluation reserve of 2 billion.

Industry Snapshot

<table>
<thead>
<tr>
<th>Mineral</th>
<th>Production/Mass</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>3,079,156 MT</td>
</tr>
<tr>
<td>Natural gas</td>
<td>1.5 Min.Cu.M</td>
</tr>
<tr>
<td>Marble</td>
<td>3,219,834 MT</td>
</tr>
<tr>
<td>Crude oil</td>
<td>28,426 JSB (000)</td>
</tr>
<tr>
<td>Gypsum</td>
<td>1,297,020 MT</td>
</tr>
<tr>
<td>Limestone</td>
<td>38,756,783 MT</td>
</tr>
</tbody>
</table>

The Opportunity

- The Small and Medium Enterprises Development Authority (SMEDA) sought active support of the Frontier Mines Owners Association (FMOA) for bolstering mines and mineral sector in Hazara division to fully tap its rich potential for economic well-being of masses.

- Punjab has the second largest reserves of rock salt in the world, and KPK is the richest province in terms of gem stones.

- GoP has already concentrated on exploration and evaluation of coalfields in Punjab, Sindh and Baluchistan.

- The Sindh government is setting up a Marble City in Karachi, having modern industrial zone that would boost the industry’s exports from existing USD 60 million to at least USD 250 million.

- Thar Coal Field have estimated lignite reserves of 175 billion tonnes, equivalent to total oil reserves of Saudi Arabia and Iran.
Financial Services

The Market

- As on June 30, 2012, aggregate assets of Pakistan’s financial sector amounted to PKR 10,265 billion.

- Scheduled Banks, DFIs and MFIs are regulated by the State Bank of Pakistan (SBP) whereas NBFCs, Insurance Companies and Modarabas are under the regulatory ambit of Securities and Exchange Commission of Pakistan (SECP).

- Pakistan, being an Islamic country, has great potential of growing in Islamic finance industry. Islamic banking and brokerage/IMC in Pakistan has witnessed significant growth during the last decade and now constitutes over 10% of the country’s banking system with an asset base of over PKR 900 billion and a network of more than 1,100 branches, and will set to double its market share by 2020.

Banks

- The sector comprises of 23 listed banks with a listed capital of PKR 3.76 billion and market capitalization of PKR 817.7 billion. The total profit after-tax of this sector increased to PKR 114,936 million from PKR 104,213 million in 2012.

- Branchless banking (BB) in the country grew by 14% during third quarter of 2013. The total volume and value of transactions processed during the third quarter of 2013 has jumped by 16% to 41.1 million and by 13% to PKR 171 billion respectively.

- Islamic banking now accounts for 9.7% of all deposits in Pakistan. Between 2002 and 2011, deposits at Islamic banks grew at an average annual rate of 59.6%, compared to the banking sector average of 16.1% per year during the same period.

Non-Bank Financial Companies (NBFCs)

- The NBFCs sector posted after tax-profit of PKR 920 million during FY12.
Modaraba companies

- Pakistan is perhaps the only country in the world with a vibrant Modaraba business, established as an alternative investment and finance model that could be used for developing a viable governance framework for Islamic investment banking.

Investment banks and Leasing Companies

- Presently, there are seven investment finance companies and eight leasing companies in Pakistan. The size of leasing and investment finance companies is miniscule and their contribution to the country’s financial system is well below the requisite level.

Insurance

- Pakistan’s general insurance penetration level (0.3%) is lower than the regional average (1.6%) and is ranked 18th in Asia.
- Currently, the General Insurance sector comprises 39 active companies, including one State owned and three takaful companies.
- There are nine life insurers, two family Takaful operators and one state-owned corporation in the Life Insurance segment.

Development Financial Institutions (DFIs)

- During 2012, asset base of DFIs increased by 5%, mainly funded by improved deposit base and borrowing from financial institutions. Most of the fund funnelled into investment increased by 8%.
- During 2012, DFIs posted pre-tax profits PKR 2.5 billion, 25% higher than corresponding period.

Mutual Funds

- Pakistan has a relatively strong mutual fund industry, with managed assets that were worth USD 3.6 billion at end 2012. Most investments are in money market instruments, with smaller proportions in equity funds and other types of funds.
- Money Market Funds (both conventional and Shariah compliant) continued to dominate the AUMs of the industry with the largest share in the mutual fund industry i.e. 36.22%. Equity funds (both Conventional and Shariah compliant) held the second largest market share 33.15%, followed by Income funds (both conventional and Shariah compliant) with market share of 23.08%.
Banking Snapshot

The Opportunity

- Only 10% of the adult population of Pakistan (and just 3% of women) have individual or shared accounts at formal financial institutions, 2% had originated new loans in the year from formal financial institutions, while 23% had borrowed from family or friends. Only 1% of adults held a credit card, and only 2% had mortgage.

- SECP allowed launching of a new type of Mutual Fund (CIS) known as Commodity Scheme. Commodity schemes are allowed to invest 70% of net assets in commodity and commodity futures contracts.

- In order to improve the financial standing and image of modarabas in the financial sector of the country, SECP introduced “Shariah Compliance and Shariah Audit Mechanism” for modarabas in February 2012.

- SECP had taken a number of steps for development of the NBF Sector that are as follows:
  - In line with international best practices, the concept of activity based regulatory regime will be implemented for these companies.
  - Investment Finance Services (IFS) are being redefined, with more focus on non-fund services and product innovation.
  - Creating a more conducive regulatory regime to promote the concept of midsized non-deposit taking NBFCs.

- SECP is working with the World Bank to create an enabling environment for the provision of micro insurance in the country.

### Banking Sector

#### Financial position as at 31 December 2012 (PKR in billion)

<table>
<thead>
<tr>
<th></th>
<th>Commercial Banks</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Advances</td>
<td>Deposits</td>
<td>Equity</td>
</tr>
<tr>
<td>Large Banks</td>
<td>3,534</td>
<td>2,292</td>
<td>4,525</td>
<td>577</td>
</tr>
<tr>
<td>Medium Size Banks</td>
<td>1,754</td>
<td>1,154</td>
<td>2,178</td>
<td>207</td>
</tr>
<tr>
<td>Small Banks</td>
<td>662</td>
<td>335</td>
<td>702</td>
<td>115</td>
</tr>
<tr>
<td>Total</td>
<td>5,950</td>
<td>3,781</td>
<td>7,405</td>
<td>899</td>
</tr>
<tr>
<td>Islamic Banks</td>
<td>339</td>
<td>194</td>
<td>447</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: Banking Survey 2012 by KPMG TH
Other Sectors

Education

- The GoP has decided to give education a greater priority in the new budget 2013-14 by allocating a total of PKR 57.4 billion for development of higher education in the country.

- According to Pakistan Social and Living Standard Measurement (PSLM) Survey 2011-12, the literacy rate for the population (age ten years and above) remains 58% during 2011-12.

- 6,755 youth received vocational and technical training under the President’s Fanni Maharat Programme and Prime Minister’s Hunermand Pakistan Programme and 9,837 are under training.

- The overall educational situation, based on key indicators such as likely enrolments, number of institutes and number of teachers, has shown a slight improvement in 2012-13 as described below:
  - The overall numbers of enrolments increased to 41.3 million
  - The overall number of institutes increased to 233.2 thousand
  - The overall numbers of teachers increased to 1.50 million

- During last three years, many international linkages have been established between Pakistan, US and UK academics and research institutions.

Tourism

- Pakistan boasts the world’s best places not only in the North but also in Lahore, Mohenjo-Daro, Thatta, along coastal line and many more, for tourism.

- Pakistan and China have recently agreed to establish an economic corridor between Kashgar in China and Gwadar in Pakistan. This joint venture of USD 18 billion will include road and rail links passing through the renowned high mountain peaks, glaciers and beautiful valleys.

- During the 2013-14, the GoP plans rehabilitation of 17 archaeological sites. The heritage site of Takht Bhai will also be improved for the facilitation of Buddhist tourists. The traditional festivals of Shandur and other similar activities will be held to provide ample opportunities to the tourists for recreation.
Health

- The health sector is a priority for the GoP, since the high correlation between the expenditure on health and productivity in developing countries like Pakistan emphasize the importance of improving health services as an aid to growth.

- The public health sector in Pakistan was provincialized as a consequence of the 18th amendment to the Constitution in June 2011, and all health responsibilities were devolved to Provinces government to ensure better delivery of health services.

- Pakistan is one of 57 countries currently most off-track to meet its sanitation Millennium Development Goals (MDGs) target to halve the proportion of people without access to adequate sanitation. Only 48% Pakistanis have access to safe sanitation. According to WHO, The MDG target for Pakistan is 64% to have access to improved sanitation by 2015.

- State of public health in Pakistan is as follows:
  - There are only 6,000 midwives serving 180 million people instead of the required 60,000.
  - Of the USD 22 (PKR 2,200) spent per person annually on health, USD 14 (PKR 1,400) is out-of-pocket expense and only USD 8 (PKR 800) are contributed by the GoP.
  - Only 47% is the coverage level of immunising children under the age of five.
  - There are just 12 healthcare attendants (physicians and nursing staff) for every 10,000 people.

Food & Nutrition

- The improvements in nutrition and food adequacy are important for a healthy productive life as well as for sustained economic growth and development. The GoP introduced a National Zero Hunger Program, a collaboration project / initiative of public sector and UN agencies to address hunger and malnutrition in the country to reach the most nutritionally insecure and vulnerable sections of society across the country.

- The overall supply of major food items sustained on one hand, but average retail prices of essential items over the period have an overall increasing trend impacting consumption of essential food items.

- The average calories estimate through food balance sheets during last five years remained above 2,400 calories and protein 70gm per capita per day. During the fiscal year 2012-13 it has been around 2,450 calories per capita per day.

- In Pakistan, an average household spends almost 70% of its income on food, leaving only 30% to cover their essential needs on education, health, etc.
3. Regulatory Framework for Investors

Pakistan’s investment policy has been formulated to create an investor-friendly environment with a focus on further opening up the economy and marketing the potential for direct foreign investment. Various incentives have been offered to attract foreign investment including full repatriation of capital, capital gains, dividends and profits. Furthermore, according to various economic commentators, Pakistan has one of the most liberal investment policy regimes and public-private partnership frameworks in the entire South Asian region.

Legal protection to foreign investment

Foreign investment in Pakistan is fully protected by following Acts:


Investment policies

In order to protect and stimulate investment (both local & foreign) in Pakistan, The Investment Policy 2013 has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI. For implementation of the policy, FDI Strategy for Pakistan, 2013-2017, outlining a detailed plan for structuring the platforms has been dovetailed with it.

Guiding principles of investment policy 2013

Following basic principles provide theme of the Policy

a) Reducing the cost of doing business in Pakistan

To facilitate market entry of Small and Medium Sized Enterprises (SMEs) steps have been taken to reduce the cost of doing business (money and time) SBP and SECP have removed equity caps on Banking and non-banking financial services.

b) Reducing the processes of doing business

BOI is moving towards one-window operations. The aim is to offer constructive policy parameters for removing unnecessary regulations (deregulation) and minimizing the cost to business by necessary regulations (streamlining). Creation of Special Economic Zones (SEZs) is a step towards this direction.

c) Ease of doing business with creation of industrial clusters and Special Economic Zones.

Introduction of industrial clusterization with promulgation of SEZ Act 2012, BOI has endeavored to establish forward and backward linkages in the market with supply chain availability. Adequate business infrastructure coupled with BOI one window facilitation services will make doing business easy and more profitable.

d) Linkages of trade, industrial and monetary policies for greater convergence.
Linkages of macro and micro economic policies will bring all stake holders for greater convergence on important nation public policy agenda. This will enhance transparency, predictability and consistency in the system.

Approach of the Investment Policy

The current policy document is designed to align Federal Policy for foreign Investment to further easing out all sectors for foreign and domestic investors through specific interventions for ease of doing business with reduced processes.

a) From comparative advantage to competitive advantage

The country has a large and growing domestic consumer market, that could become a powerful draw with enhanced buying power parity and can skilled and semi skilled work force. Vast tracks of agricultural land can make Pakistan the food basket of the region.

The Policy thereby has a forward looking, out-reach approach and thereby designed to keep “what an investor looks for” in a preferred investment location;

- Level of relative risk – including economic, political, currency, and natural disaster;
- Market access – including size of local market and access to international markets;
- Cost/availability/quality of inputs – including land, labor, raw materials, components, energy, and taxes;
- Connections to global transportation and communication networks – includes time, cost, reliability of sea, road, rail, and communications; and
- Openness of regulatory regime – includes approvals process, regulations, and rule of law.

b) Intergovernmental and Interagency Context

The Investment Policy takes a horizontal approach to improving the underlying investment climate in Pakistan. Policies governing investment in all sectors are equally liberal and favorable towards investor and conditions in specific sectors are applicable to all investors, domestic and foreign.

The New Growth Framework launched by the Planning Commission focuses on four areas that intersect closely with the Investment Policy:

- Productivity – Increased factor productivity is important for attracting foreign investors into Pakistan; conversely, the presence of foreign investors will play a large role in increasing productivity by introducing new technologies and management practices.
- Better governance – Improved public service delivery is required to attract and allow investors to succeed in Pakistan. Reducing interventions that distort markets will also create space for investors to enter and thrive as will the streamlining of regulations, laws, and enforcement.
- Competitive markets – Foreign companies, like all companies, should be able to enter and exit the market as freely as possible without overly burdensome regulation or distortive policies.
Innovation and entrepreneurship – Foreign investors bring valuable experience and resources to spur innovation and entrepreneurship. Their presence in the market also creates competitive pressures that spur innovation from domestic firms.

**Investment Protection**

BOI is cognizant that the role of the government is to eliminate or reduce the level of risk for investors and provide tools for to mitigate/ alleviate them. The Investment Policy 2013 reinforces the commitment to investors regarding security and safety of their investments.

**Investor rights**

All foreign investors in relation to the establishment, expansion, management, operation, and protection of their investments shall be accorded fair and equitable treatment without discrimination.

Pakistan has signed Bilateral Investment Treaties (BITs) with 47 countries, of which 26 are in force. A further 27 are under negotiations as a means to have stronger protections for investments of investors.

The Multilateral Investment Guarantee Agency (MIGA) of the World Bank provides guarantees and insurance for investors’ projects in developing countries. Ministry of Finance and BOI will make sure that investors in Pakistan have cost effective access to these risk management products.

**Right to due process of law**

Arbitration International Investment Act 2011 has been promulgated that gives right to investors to go to Higher Courts. Recognition and enforcement (Arbitration Agreements and Foreign Arbitral Awards) Act 2011 is also in place.

An investor can go for international arbitration in case of disputes arising from an agreement if that provision is provided in the contract and after exhaustion of the local remedies for a period of six months.

**Creation of Special Economic Zones throughout the Country**

Special Economic Zone (SEZs) Act 2012 (“The Act”) has been promulgated to establish SEZs. The law is the capstone of the Investment Policy 2013. The incentives and exemption granted for creation of these industrial clusters are protected by law and cannot be withdrawn prematurely.

The law will encourage industrial catarization, and bring Pakistan on international economic radar offering liberal investment regime and adequate physical infrastructure.

**Banking**

SBP, the Central Bank of the country was established in 1948. In addition to monitoring the implementation of Banking Companies Ordinance 1962, it specifies regulations relating to the monetary system, credit and banking policy and supervises their implementation.
The main law governing in banking companies in Pakistan is the Banking Companies Ordinance, 1962 that regulates and governs the establishment and running of banking companies in Pakistan, in addition to business of commercial banking.

### Financial Services

- SBP allows complete freedom of investment and repatriation of profits / dividends / disinvestment proceeds to the foreign investors in line with the overall investment policy.
- As per the Foreign Exchange Regulations, any foreign investor can invest in shares / securities listed on Stock Exchanges in Pakistan, and can repatriate profits / dividends or disinvestment proceeds. The investor has to open a Special Convertible Rupee Account with any bank in Pakistan, in order to make such portfolio investments.

### Policy Package

<table>
<thead>
<tr>
<th>Policy Parameters</th>
<th>Manufacturing Sector</th>
<th>Non - Manufacturing Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td>Remittance of capital, profits, dividends, etc.</td>
<td>Allowed</td>
<td>Allowed</td>
</tr>
<tr>
<td>Upper Limit of foreign equity allowed</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Customs duty on import of plant, machinery &amp; equipment</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Tax relief (Initial depreciation allowance, % of plant, machinery &amp; equipment cost)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- General</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>- If set-up in an underdeveloped area</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Royalty &amp; Technical Fee</td>
<td>No restriction for payment of royalty &amp; technical fee</td>
<td>Allowed as per guidelines - Initial lump-sum upto USD 100,000 - Max Rate 5% of net sales - Initial period 5 years</td>
</tr>
</tbody>
</table>

**Note [1]**: Specified Industries are
- Arms and ammunition
- High explosives
- Radioactive substance
- Security printing, currency and mint

**Source:** Board of Investment website – [www.pakboi.gov.pk](http://www.pakboi.gov.pk)
Income Tax Ordinance, 2001

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Choice of Investment Vehicles

Foreign companies can choose between setting up a liaison office, branch office or incorporate a Pakistani company as either its wholly owned subsidiary or joint venture with a Pakistani / Overseas partner.

Liaison office (LO)

The activities of a LO of a foreign entity are restricted to undertaking promotional activities, provision of technical assistance, exploring the possibility of joint collaboration and export promotion on behalf of its parent company in Pakistan. Such an office is strictly restricted from entering into revenue generating activities and is required to meet its operational expenses through remittances from its parent company through normal banking channel and converted to local currency account.

Branch office (BO)

A foreign entity can operate in Pakistan by establishing a BO. A BO is set up specifically to execute the contracts awarded to the foreign entity; therefore activity is restricted to the extent stated in the signed agreement / contract. A BO cannot indulge in commercial / trading activities.

Revenue generated / profit earned from BO activities can be repatriated to the Head Office, subject to payment of applicable taxes. Such repatriation should be in compliance with the procedure mentioned in the Foreign Exchange Regulations of the SBP through an authorized dealer (banker) under normal banking channels and Tax regulations.

All expenses incurred from BO activities will be met out of funds transferred from abroad through normal banking channel and converted to local currency account, or from the amounts received through execution of the agreement / contract.

A foreign company desirous of setting up a BO in Pakistan is required to apply for permission to the BOI on a specified application format along with the prescribed documents / information.

Setting up of Liaison office/Branch office

Requirements for approvals of branch, representative, or liaison offices of foreign companies shall continue to be permitted by BOI. The application process will take seven weeks after giving other relevant agencies opportunity for consultation. If comments from agencies are not received within the allocated period, the application will be considered approved on a “no objection” basis. Approvals shall be granted for a period of maximum five years and renewals / extensions shall be granted after fulfillment of all requirements involved in the rules.

Permission for opening of branches of foreign banks is granted by the State Bank of Pakistan.

Registration with SECP

A foreign company (LO / BO) is required to file prescribed returns / documents with the Registrar of Companies in the city where principal place of business is situated, within 30 days after obtaining permission from BOI, as per the provisions of the Companies Ordinance, 1984.
Accounts of BO and LO

The requirements relating to preparation of accounts, audit and submission of accounts to Registrar of Companies are also applicable to the branch / liaison office of a foreign company.

Tax registration and work visa

LO and BO are required to be registered with the Tax Authorities in Pakistan. Every expatriate engaged as an employee by LO and BO operating in Pakistan is required to obtain work visa prior to commencement of employment in Pakistan.

Pakistan subsidiary / joint venture

A foreign company can set up its own wholly owned subsidiary in Pakistan or establish a joint venture company with a Pakistani or foreign partner, subject to fulfilling the policies for FDI and requirements of the Companies Ordinance, 1984. A subsidiary or a joint venture company can be formed as a private company or a public company (see Chapter 6).

Salient features of work visa policy

Work visas are granted to foreign technical and managerial personnel for the purpose of imparting technical know-how and skills to the local population. To facilitate such foreign nationals to travel and stay in Pakistan, business visa policies are considerably relaxed.

Pakistan Missions abroad are authorized to grant five year validity (multiple entry) visa within 24 hours to businessmen of various countries on Business Visa List (BVL), with the duration of each stay restricted to three months. The foreign nationals seeking a business visa need to produce one of the following documents:

- Recommendation letter from Chamber of Commerce & Industry of the respective country of the applicant
- Invitation letter from business organization duly recommended by the concerned Trade Organization / Association in Pakistan
- Recommendation letter by Honorary Investment Counsellors of BOI
- Recommendation letter from Pakistani Commercial Attaché posted in Pakistan High Commissions / Embassies / Consulates General abroad.

Business persons and investors from any of the BVL listed countries will also be granted a thirty-day Visa-on-Arrival at any airport in Pakistan.
Work visa procedures

- Pakistan Missions abroad are also authorized to grant Work Visas to foreign technical and managerial personnel as defined by BOI for the purpose of imparting technical know-how and skills to the local population. The duration of work visa is one year and extendable on yearly basis. As per visa policy cases of grant or extension of work visa are processed within 4 weeks by BOI.

- All foreigners who have been issued work visas shall be exempt from registration with the police, except for nationals of countries on the negative list.

Business visa conversion into work visa

For the purpose of changing the category of visa of foreign national employees and investors from business visa to work visa, the concerned expatriate is no more required to leave the country, as the Visa Policy for conversion of business visas to work visas are processed within 4 weeks by BOI.

Granting of Pakistan citizenship to foreign nationals (Investors)

Any person of a country recognized by Pakistan may obtain Pakistani Citizenship by investing a minimum of USD 0.75 million in tangible assets and USD 0.25 million (or equivalent in major foreign currency) in cash on a non-repatriable basis, and by fulfilling the conditions of the Pakistan Citizenship Law. Investment on a non-repatriable basis means that the amount is brought to Pakistan through normal banking channels, converted into Pakistan Rupees, and never remitted back.
Merger

Merger is a combination of two or more companies into a single company where one company survives and the other loses its corporate existence. The survivor acquires the assets as well as the liabilities of the merged company.

Acquisition

An acquisition is a transaction where one of the enterprises, the buyer, obtains control over the net assets and operations of another enterprise, the seller, in exchange for the transfer of assets or issue of equity.

Mode of acquisition

A business entity can be acquired in its entirety either by way of an asset deal or a share deal.

Asset deal

Under the asset deal, the buyer directly acquires the assets and liabilities from the seller. The transaction may involve buying of all or selected assets / liabilities of the seller. The book value of the net assets purchased is recorded in the books of buyer at the fair market value. The excess of purchase price over fair value of net assets acquired is recorded as goodwill in the books of the buyer.

Share deal

Under the share deal, the buyer acquires the shares in the corporate entity. The share deal is generally less complex and time consuming than the asset deal.

Substantial acquisition of voting shares and takeover of listed companies

In order to provide for a fair and equal treatment to all the investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies and matters ancillary thereto or connected therewith, SECP has promulgated the following legal framework:

- The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002; and
- The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008.
Takeover laws and regulations are intended to minimize price manipulation and insider trading. Following is the summary of some important sections of the Ordinance:

**Acquisition of more than 10% voting shares of a company but up to 25%**

Any person who acquires voting shares in a listed company as a result of which his aggregate holding exceeds 10% of the voting shares, must disclose the aggregate shareholding to the said company and to the stock exchange on which those shares are listed, within two working days of, –

a) the receipt of intimation of allotment of voting shares; or

b) the acquisition of voting shares, as the case may be.

Any additional acquisition by the above person during the next 12 months need not be disclosed until such time as the shareholding does not cross 25%.

Simply, the disclosure is triggered on crossing the 10% voting rights threshold of a listed company. Any further purchases in the 12 months thereafter, up to 25% of the voting rights need not be disclosed.

**Additional acquisition of voting shares – beyond 25% (Substantial Acquisition)**

When the acquirer plans to cross the 25% threshold or gain control of a listed company, he is required to make a public announcement of offer to acquire additional voting shares or control of such company; before making announcement such person shall make requisite disclosures as mentioned above.

**Consolidation of holdings**

No Acquirer who has acquired more than 25% but less than 51% of the voting shares or control of a listed company shall acquire additional voting shares or control unless such an acquirer makes a public announcement of offer to acquire voting shares or control in accordance with this Ordinance.

Provided that such acquirer shall not be required to make a fresh public announcement of offer within a period of 12 months from the date of the previous announcement.
## Minimum offer price

The public announcement of offer to acquire shares, under Section 5 or Section 6 of the Substantial Acquisition Ordinance, shall be at the price which is highest among the following:

<table>
<thead>
<tr>
<th>If the shares are frequently traded</th>
<th>If the shares are not frequently traded</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) the negotiated weighted average price under share purchase agreement for the acquisition of voting shares of the target company.</td>
<td>(a) the negotiated weighted average price under share purchase agreement for the acquisition of voting shares of the target company.</td>
</tr>
<tr>
<td>(b) the highest price paid by the acquirer or persons acting in concert with the acquirer for acquiring the voting shares of target company during six months prior to the date of public announcement of offer</td>
<td>(b) the highest price paid by the acquirer or persons acting in concert with the acquirer for acquiring the voting shares of target company during six months prior to the date of public announcement of offer</td>
</tr>
<tr>
<td>(c) the average share price of target company as quoted on the stock exchange, with the highest traded volume, during the last six months, preceding the date of announcement of public offer.</td>
<td></td>
</tr>
<tr>
<td>(d) the average share price of target company as quoted on the stock exchange, with the highest traded volume, during four weeks preceding the date of public announcement of intention</td>
<td></td>
</tr>
<tr>
<td>(e) the price per share calculated on the basis of net assets valued not earlier than six months before the date of such valuation, will be calculated by Category “A” Chartered Accountant firm on the penal of SBP and in case of valuation of fixed assets, the Chartered Accountant firm shall obtain the services of valuer whose name appears on the list of Pakistan Banks Associations approved list of valuers.</td>
<td>(c) the price per share calculated on the basis of net assets valued not earlier than six months before the date of such valuation, will be calculated by Category A Chartered Accountant firm on the penal of SBP and in case of valuation of fixed assets, the Chartered Accountant firm shall obtain the services of valuer whose name appear on the list of Pakistan Banks Associations approved list of valuers</td>
</tr>
</tbody>
</table>

Note: shares shall be deemed to be frequently traded if:
- They have been traded for at least 80 percent of the trading days during the six months, prior to the date of public announcement of offer, and
- Their average daily trading volume in the ready market is not less than 0.5% of its free float or 100,000 shares, whichever is higher.

Sources: Listed companies (Substantial Acquisition of voting shares and take-overs) Ordinance 2002
Listed companies (Substantial Acquisition of voting shares and take-overs) Regulation 2008
In addition, following are the important provisions of takeover laws:

- disclosures by the target company on possibilities of its acquisition to the stock exchange.
- timing of public announcement of intention and of offer to purchase shares of the target company beyond the specified threshold, appointment of manager to the offer, contents of public offering documents, etc.
- procedures for withdrawal of public announcement of intention and of offer for purchase of shares.
- size of offer, minimum offer price, mode of payment to shareholders on acquisition of shares.
- form / nature of security for performance of obligation under the public offer.
- obligations of acquirer, board of directors of the target company, manager to the offer.
- other procedural matters including penal provisions, reporting requirements, and powers of SECP in the area of substantial acquisitions.

### Number of shares to be acquired

<table>
<thead>
<tr>
<th>Level of acquisition</th>
<th>Public Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>When Public offer is made conditional upon minimum level of acceptance, minimum level shall not be more than:</td>
</tr>
<tr>
<td></td>
<td>Public announcement of offer should be made for:</td>
</tr>
<tr>
<td>More than 25% but less than 35% voting shares of target entity</td>
<td>40% of the remaining voting shares</td>
</tr>
<tr>
<td>Control target entity</td>
<td>40% of the remaining voting shares</td>
</tr>
<tr>
<td>More than 35% voting shares of target entity</td>
<td>35% of the remaining voting shares</td>
</tr>
</tbody>
</table>

Sources: Listed companies (Substantial Acquisition of voting shares and take-overs) Ordinance 2002 Listed companies (Substantial Acquisition of voting shares and take-overs) Regulation 2008
Tax considerations for Mergers and Acquisitions

The buyer and seller may need to consider following tax aspects:

Treatment of gain on disposal of assets / issue of shares

- No gain or loss shall be taken to arise on disposal of assets from one company to another company and no gain or loss shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of operation of a Scheme of Arrangement and Reconstruction under Sections 282L and 284 to 287 of the Companies Ordinance, 1984 or Section 48 of the Banking Companies Ordinance, 1962, if the conditions stipulated in the tax laws are satisfied.

Treatment of capital gain

- In case of share deal, where individual shareholders (sellers) receive cash in consideration of sale of their investments in the target company that result in gain (capital gain) in the hands of the sellers:
  - if the target company is a listed company, capital gain is exempted from tax if holding period is twelve months or more. In case of holding period of less than a year, capital gain shall be taxable at the rates applicable for given tax year and period of holding (less than six months or twelve months).
  - if the target company is an unlisted company and the holding period of investment in the hands of the sellers is less than one year, gain on sale of shares is 100% taxable.
  - if the target company is an unlisted company and holding period of investment in the hands of the sellers is more than one year, 25% of the gain is exempted from tax.

Treatment of carry forward losses

- Any assessed loss (excluding capital losses) for the tax year (i.e. not including brought forward losses) of an amalgamating company or companies shall be set off against business profits and gains of the amalgamated company, and vice versa, in the year of amalgamation. Any unadjusted loss shall be carried forward up to six tax years succeeding the year of amalgamation. The set off is subject to continuation of the business of the amalgamating company for at least five years.

- In the case of amalgamation of banking companies or non-banking finance companies, modarabas or insurance companies, accumulated business losses, except speculation business losses of an amalgamating company or companies, shall be set off or carried forward against business profits and gains of the amalgamated company and vice versa for up to six tax years immediately succeeding the tax year in which the losses of the amalgamated company or amalgamating company or companies were first computed.
Competition Law

The Competition Act, 2010 requires that where an undertaking intends to acquire the shares or assets of another undertaking, or two or more undertakings intend to merge the whole or part of their businesses, and meet the pre-merger notification thresholds stipulated in regulations prescribed by the Competition Commission, such undertaking or undertakings shall apply for clearance from the Competition Commission of the intended merger.

The Competition Act, 2010 is part of the broader competition policy framework of the GoP through which it endeavours to engender free competition in all spheres of commercial and economic activity. The crucial objective of the Act is to enhance economic efficiency and to protect consumers from anti-competitive behaviour.

Briefly, the law prohibits situations which tend to lessen, distort or eliminate competition such as actions constituting an abuse of market dominance, competition restricting agreements and deceptive market practices. Although essentially an enabling law, it briefly sets out procedures relating to review of mergers and acquisitions, enquiries, imposition of penalties, grant of leniency and other essential aspects of law enforcement.

Sources: Competition Commission of Pakistan
Recent merger and acquisition transactions in Pakistan

There has been considerable merger and acquisition (M&A) activity in the recent past. The concentration of M&A activity has been observed in the financial services and telecom sectors.

<table>
<thead>
<tr>
<th>Target Name</th>
<th>Sector</th>
<th>Acquirer Name</th>
<th>Stake</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICI Pakistan Limited</td>
<td>Manufacturing</td>
<td>Lucky Cement Group</td>
<td>75.8%</td>
<td>2013</td>
</tr>
<tr>
<td>Clariant Pakistan Limited</td>
<td>Manufacturing</td>
<td>Archroma Textiles S.A.R</td>
<td>74.99%</td>
<td>2013</td>
</tr>
<tr>
<td>SPIG SpA, Italy</td>
<td>Manufacturing</td>
<td>Clessidra Sgr SpA, Italy</td>
<td>88%</td>
<td>2013</td>
</tr>
<tr>
<td>Al Hamd Foods Limited</td>
<td>Fertilizer</td>
<td>Fauji Fertilizer Company Limited</td>
<td>100%</td>
<td>2013</td>
</tr>
<tr>
<td>Metro Wind Power Limited</td>
<td>Power &amp; Energy</td>
<td>InfraCo Asia Keenjhar Wind Pte Ltd, Singapore</td>
<td>50%</td>
<td>2013</td>
</tr>
<tr>
<td>Gul Ahmad Wind Power Limited</td>
<td>Power &amp; Energy</td>
<td>InfraCo Asia Indus Wind Pte Ltd, Singapore</td>
<td>49%</td>
<td>2013</td>
</tr>
<tr>
<td>Metrotel (Private) Limited</td>
<td>Communication</td>
<td>Nayatel (Private) Limited</td>
<td>100%</td>
<td>2013</td>
</tr>
<tr>
<td>Crosby Asset Management (Pakistan) Limited</td>
<td>Financial Services</td>
<td>KASB Funds Limited</td>
<td>100%</td>
<td>2011</td>
</tr>
<tr>
<td>Byco Petroleum Pakistan Limited</td>
<td>Oil &amp; Energy</td>
<td>Byco Oil Pakistan Limited</td>
<td>67.52%</td>
<td>2011</td>
</tr>
<tr>
<td>Soho Square Pakistan (Private) Limited</td>
<td>Financial Services</td>
<td>Russell Square Holding B.V, Netherlands</td>
<td>50%</td>
<td>2011</td>
</tr>
<tr>
<td>Atlas Bank Limited</td>
<td>Financial Services</td>
<td>Suroor Investment Limited</td>
<td>58.13%</td>
<td>2011</td>
</tr>
<tr>
<td>The Royal Bank of Scotland Limited</td>
<td>Financial Services</td>
<td>Faysal Bank Limited</td>
<td>99.37%</td>
<td>2010</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Merging entities</th>
<th>Sector</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCB Asset Management Company Limited and Arif Habib Investment Limited</td>
<td>Financial Services</td>
<td>2011</td>
</tr>
<tr>
<td>SPEL Packaging Industries (Pvt) Limited and Synthetic Products Enterprises Limited</td>
<td>Manufacturing</td>
<td>2011</td>
</tr>
</tbody>
</table>

Sources: Competition Commission of Pakistan
Foreign Exchange

Foreign exchange regulations

Foreign exchange dealings are regulated under the Foreign Exchange Regulation Act, 1947. Foreign currencies are made available to persons / companies doing business in Pakistan for all purposes under rules which have been clearly defined by SBP. There are no restrictions on availability of foreign currency for imports (except for import of banned items or for imports from Israel). Business houses can buy foreign currencies for all other commercial transactions like payments for export claims, commission payment to foreign agents on exports, royalty, franchise / technical fees and dividends (as subsequently described in detail), software licenses / maintenance / support fee, advertisement abroad in newspapers and magazines, business travel etc.

Foreign investment in Pakistan enjoys full protection and repatriation facilities. The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment, and appreciation of capital.

The important foreign exchange regulations pertaining to foreign investment are covered in detail as below.

Issuance of share certificates to foreign investors

SBP has given general permission to non-residents to purchase shares of Pakistani companies quoted on the stock exchange irrespective of the nature of their business, and shares of those private companies which are engaged in manufacturing, power generation and approved segments of service sectors. This facility is available to the following categories of non-residents, subject to payment being made in foreign currency and the price being not less than break-up value as certified by a practicing Chartered Accountant in the case of unlisted shares and the market price in case of quoted shares:

- A Pakistan national resident outside Pakistan
- A person who holds dual nationality including Pakistan nationality, whether living in or outside Pakistan
- A foreign national, whether living in or outside Pakistan
- A firm (including a partnership) or trust or mutual fund registered and functioning outside Pakistan, excluding entities owned or controlled by a foreign government
Remittance of dividend

Companies are required to nominate a bank through which they would like to make remittance of dividends to non-resident shareholders. On receipt of nomination of a bank from the company, SBP authorizes the concerned bank to effect remittance of dividends to the non-resident shareholders of the company without its prior approval.

Royalty & technical fee

Manufacturing sector

- The SBP has laid down certain conditions for remittance of Royalty and Technical Fee by the manufacturing sector to facilitate the execution of agreements for transfer of technology. The local firm would designate any of the Authorized Dealers (Banks) in foreign exchange in Pakistan, through whom payments will be made.

Non-manufacturing sector

- Payment of royalty, franchise / technical fee by the non-manufacturing sector opened for foreign direct investment like International Food Franchises is permissible, subject to the maximum limit of USD 100,000 as the initial lump-sum payment, irrespective of number of outlets, and maximum 5% of net sales. The initial period for which such fees will be allowed should not exceed five years.

Financial sector

- Remittance of royalty / franchise and technical fee or commission / service charges for the financial sector may be allowed by the SBP, on case-to-case basis, in respect of foreign collaborator’s branded financial products / services. The one-time lump sum up-front royalty / technical fee / franchise fee should not exceed USD 500,000. Continuing payments should not exceed 0.25% of customers billing.

Foreign currency borrowing for plant and machinery

Private foreign currency loans

- Private sector entrepreneurs are permitted to obtain foreign currency loans from banks / financial institutions abroad, parent companies of the multinationals and as suppliers’ credit, not involving government guarantee, for financing foreign currency cost of the projects covered by the government’s industrial and investment policies. The repayment period of such loans / credit should not be less than five years. Loan agreements and repayment schedules are registered with SBP which enables banks to allow remittance of interest and loan instalments, after deduction of applicable tax, without further approval of SBP.
Other foreign private loans - any purpose

Individuals, firms, companies resident in Pakistan including foreign controlled companies and branches of foreign companies but excluding banks may obtain foreign currency loans from abroad on repatriable basis for any purpose subject to SBP – Foreign Exchange regulations.

Short term foreign private loans

Repatriable foreign currency loans by foreign controlled companies for working capital

- Foreign controlled companies (i.e. branches of foreign companies and companies incorporated in Pakistan with 50% or more foreign share holding, or 50% or more directors of foreign nationality) are allowed to contract foreign currency loans from banks / financial institutions abroad or from their HO or from other overseas branches / associates abroad for meeting their working capital requirements, subject to the conditions that the repayment period should not exceed twelve months and the interest should not exceed 1% over LIBOR. Such loans can however be rolled over for further periods not exceeding 12 months each (branches of foreign companies are not allowed to pay interest on such loans).

Foreign currency loans for working capital by Pakistani firms

- Pakistani firms and companies functioning in Pakistan, excluding banks, may obtain foreign private loans on non-repatriable or repatriable basis.

Prepayment of foreign private loans

- The SBP allows prepayment of foreign private loans (other than the Government guaranteed loans), on a case-to-case basis. This facility can be availed by those borrowers who have the rupee counterpart available with them or they have the capacity to generate rupee funds themselves.

Possession of foreign currency

- There is no restriction on residents and non-residents on bringing in, and holding foreign currency. However, there is a ceiling of USD 10,000 on taking foreign currency out of Pakistan.

Foreign currency accounts (FCA)

- Companies and individuals are allowed to maintain foreign currency accounts with banks in Pakistan, subject to certain conditions specified in the Foreign Exchange Manual.
Local borrowings by foreign controlled companies

Lending to foreign controlled companies for working capital

- Authorized Dealers are allowed to grant Rupee loans and credits to foreign controlled companies for meeting their working capital requirements.

Lending to foreign controlled companies for capital expenditure

- Foreign controlled companies engaged in manufacturing are allowed to obtain Rupee loans for meeting capital expenditure requirement from banks, development financial institutions and other financial institutions or by issuing Participation Term Certificates, etc. However, other foreign controlled companies require special permission to obtain medium and long-term Rupee loans.

Loans against guarantees of non-residents

- Authorized Dealers have general permission under the Foreign Exchange Regulations to grant Rupee loans to their clients (including foreign controlled companies) against guarantees of non-residents / guarantees received from banks functioning abroad subject to compliance with the Prudential Regulations of SBP.
6. Company Law

Company Law

Types of Business Entities

Business activities may be carried out through a company, modaraba, branch, partnership or sole proprietorship. Companies incorporated in Pakistan and branches or liaison / representative offices of foreign companies are regulated by the Companies Ordinance, 1984, and Rules framed there under, administered by Securities and Exchange Commission of Pakistan (SECP).

Forms of companies

The Companies Ordinance, 1984 mentions the following types of companies:

Company limited by shares

- The personal liability of shareholders is limited to the amount (if any) unpaid on their shares. Effectively, the shareholder's liability does not exceed the amount committed, when taking up the shares in the company.

Company limited by guarantee

- In this type of company, the memorandum binds each member to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a member, and of the costs, charges and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

Unlimited company

- The law also allows formation of company with unlimited liability of its members.

- From a practical perspective, the limited liability company with share capital would be the type of company contemplated by a non-resident interested in investing in Pakistan.

- A company incorporated in Pakistan, may either be a "Public Company" or a "Private Company". A public company can also be a listed company. Companies are required to get themselves registered under the tax laws and obtain a National Tax Number (NTN).

Private Company

A private company can be easily formed by a minimum of two members (except for a single member company) and may commence its business immediately after its incorporation. A private company, through its Articles of Association (AoA):

- restricts its members to transfer shares
- limits the number of its members to fifty
- prohibits any invitation to the public to subscribe for its shares or debentures.
Single-Member Company

An individual is entitled to obtain corporate status by forming a single member company and avail privileges of limiting the liability. The introduction of the concept of a single member company has facilitated sole proprietorships to obtain corporate status, giving them the privilege to limit the liability of their proprietors.

All the shares are vested with single member; however, he/she is required to nominate two individuals, one of whom shall become nominee director in case of death of the single member and the other shall become alternate nominee director to work as nominee director in case of non-availability of the nominee director.

Single-Member Company is required to appoint a qualified company secretary and to write “SMC” in addition to Private Limited with its name.

Public Company

A public company can be formed by three members or more. It is entitled to commence business after obtaining a Commencement of Business Certificate from the Registrar of Companies.

A public company does not have restrictions with regard to maximum number of members and transferability of the shares. A public limited company should have a minimum of three members. Public companies have the option to get their securities listed on a stock exchange.

A company cannot be listed, unless it has made a public issue which is subscribed by at least 500 members. However, this is applicable for listing of shares. For listing of securities other than shares, minimum number of members is three.

A listed company may buy back its own shares, subject to conditions specified in the Companies Ordinance, 1984.

Key differences between a public company and private company are highlighted below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Private Company</th>
<th>Public Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single member</td>
<td>Other private</td>
</tr>
<tr>
<td>Minimum number of members</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>(shareholders)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum number of members</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>(shareholders)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum number of directors</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Limitations for share transfer</td>
<td>Restricted</td>
<td>Restricted</td>
</tr>
</tbody>
</table>

Source: Companies Ordinance 1984
Memorandum and Articles of Association

A company is governed by its Memorandum of Association (MoA) and Articles of Association (AoA). The MoA primarily specifies the framework of company’s objectives and capital boundaries, whereas AoA transcribes rules for conducting its daily business in accordance with applicable laws e.g. transfer and transmission of shares, mode of alteration in capital, holding of meetings, voting, powers and duties of directors and chief executive, distribution of dividends, capitalization of profits and reserves, preparation of accounts, winding up, etc.

Share Capital

The shares are moveable property of the member and are transferable in the manner provided in the company’s AoA.

A company may have different kinds of share capital and classes of shares, with distinctive rights attached to them, if so provided in its constitutive documents i.e. MoA and AoA.

Management

Directors

The management of companies is vested with the Board of Directors (BoD). They may exercise such powers as are specified in the AoA and the Companies Ordinance 1984. The Ordinance has vested in Members certain powers, which cannot be exercised by the directors. The First Directors are usually named in the AoA or are appointed by the subscribers to the MoA who shall remain in office until the first Annual General Meeting (AGM) within a certain no of days upon formation and commencement. Thereafter, Directors are elected by the Members to hold office for a period of three years.

A single member company is required to have at least one Director, whereas every other private limited company should have at least two Directors. A public company is required to have at least three Directors in case of an unlisted company and seven in case of a listed company. All Directors must be natural persons.

Chief executive

All companies are required to appoint a Chief Executive Officer (CEO) except for a company managed by a managing agent. The first CEO is appointed by the directors of the company at the date of commencement of business or within 15 days from the date of incorporation, whichever is earlier, and thereafter within 14 days of the date of Election of Directors.
Meetings

Statutory meeting is required to be held by a public company limited by shares or limited by guarantee having share capital, within a period of not less than three months nor more than six months from the date the company is entitled to commence business.

First AGM of the Members (shareholders) is required to be held not later than 18 months from the date of incorporation and subsequently once every calendar year within a period of four months following the close of its financial year, and not more than 15 months after holding the last AGM.

Any general meeting, other than the AGM shall be called an Extraordinary General Meeting (EoGM). The directors, at any time, may call an EoGM to consider any matter that requires the approval of the company in a general meeting and shall, on the requisition of members representing not less than one-tenth of the voting power on the date of the deposit of the requisition, forthwith proceed to call an EoGM.

Directors may meet as many times as they require; however, Directors of a public company are required to meet at least once in each quarter of a year.

Accounts and Audit

Some of the important provisions of the Companies Ordinance, 1984 relating to accounts and audit are summarized as follows:

- **Accounts Preparation & Approval**
  - Every company is required to prepare annual accounts - including balance sheet and profit and loss account - whereas listed companies are also required to prepare cash flow statement and statement of changes in equity.
  - Every listed company is required to prepare quarterly accounts within one month of the close of first and third quarter of its year of account and within two months of the close of the second quarter, and transmit the same to the Members and stock exchanges on which it is listed.
  - The Directors of every company shall present balance sheet and profit and loss account in the AGM.
  - Directors’ report shall be attached with the accounts in the prescribed manner.
● Audit of accounts

- Following companies are required to have their accounts audited by a Chartered Accountant:
  - a public company;
  - a private company, that is a subsidiary of a public company, or;
  - a private company having a paid-up capital of PKR 3 million or more.

- The first Auditor is required to be appointed by the directors within 60 days from the date of incorporation and thereafter in each AGM of the company.

- A public listed company shall ensure that its half-yearly financial statements are subject to limited scope review by statutory auditors.

● Circulation & submission of accounts

- Every company shall send a copy of the audited accounts, Directors’ and Auditor’s reports to all Members at least 21 days before AGM and shall keep a copy at the registered office of the company for the inspection of the Members of the company for a period of at least 21 days prior to the meeting.

- A listed company shall, simultaneously with dispatch of the aforementioned accounts and reports, send five copies to SECP, the stock exchange and the registrar.

- Listed companies are required to submit three copies and other companies are required to submit two copies of annual accounts along with reports and documents required to be annexed to Registrar of Companies within 30 days from the date of AGM.

- In case of a private limited company having share capital not exceeding PKR 7.5 million, there is no requirement to submit annual financial statements to Registrar of Companies.

- Under the Code of Corporate Governance, all listed companies shall publish and circulate quarterly un-audited financial statements along with Directors’ Review on the affairs of the listed company for the quarter.
Filing requirements

The Companies Ordinance, 1984 requires companies incorporated in Pakistan to file various statutory returns relating to meetings of Members, issuance and allotment of shares, appointment of and change in Directors, Chief executive and Auditors, annual audited accounts, annual list of members etc. with the Registrar within the prescribed time limits.

Similarly, foreign companies (liaison offices and branch offices) are also required to file various statutory returns relating to their incorporation, principal place of business and particulars of Directors and Principal Officer, etc.

SECP vigilantly monitors the affairs of entities under its purview. This is done through off-site monitoring of companies on the basis of reports and returns furnished by them as well as through on-site inspections of companies.

The effort is targeted at ensuring compliance of the regulated entities with applicable laws and regulations and protecting the interests of the investors, depositors and other stakeholders.

SECP has developed an e-Services portal that is an electronic data gathering and retrieval system that would perform automated collection, acceptance and forwarding of submissions by companies who are required by law to file forms and documents with the SECP. Its primary purpose is to increase the efficiency of the corporate sector for the benefit of investors, companies, and the economy, by accelerating the receipt, acceptance and dissemination of time-sensitive corporate information filed with the SECP.

Main features of the system include online reservation of name, registration of companies, change in name and address of the company, online submission of annual, quarterly, and monthly returns by companies and tracking of complaints, etc. The system will also aim to reduce undue paper work and improve various processes within SECP.
7. Taxation

Income tax

The Income Tax Ordinance, 2001 (hereinafter referred to as “the Ordinance”) is the tax code of Pakistan w.e.f. 01 July 2002, which governs the taxation of income. The procedures thereof are mainly contained in the Income Tax Rules, 2002. The financial policies and taxation measures are annually announced in accordance with the policies of Government and a Finance Act to this effect is promulgated.

Tax year

"Tax Year" means the period of 12 months ending on 30 June in respect of which assessment of income will be made. Where the accounting period (income year) of a person is different from the normal tax year or the person has been allowed by the Commissioner of Inland Revenue to use a period of 12 months other than the normal tax year, such a tax year will be called “Special Tax Year” and will be denoted by the calendar year in which the closing date of the special tax year falls.

Legal status of the tax payer

A taxpayer under the Ordinance may have any of the following status for charge of tax:

- Individual
- Company or Association of Persons (AOP)
- Federal Government, Foreign Government, a political sub-division of a Foreign Government or Public International Organization

The term “Association of Persons” includes a firm, a Hindu undivided family, any artificial juridical person and anybody of persons formed under a foreign law.

Residential status

The total income chargeable to tax under the Ordinance is determined with reference to the residential status of the taxpayer as follows:

- A resident person is chargeable to tax in Pakistan for both Pakistan source income and foreign source income.
- A non-resident is chargeable to tax in Pakistan only to the extent of Pakistan source income.
Residency test

Individual

An individual is considered to be a resident in respect of a tax year if his aggregate stay in Pakistan is 183 days or more during that tax year; or he is an employee or official of the Federal Government or a Provincial Government, posted abroad in the tax year.

Company

A company is considered resident for a tax year if it is incorporated or formed by or under any law in force in Pakistan or the control and management of its affairs is situated wholly in Pakistan at any time in the year or if it is a Provincial Government or a Local Government in Pakistan.

Association of persons

An association of persons is considered resident for a tax year if the control and management of its affairs is situated wholly or partly in Pakistan at any time in the year.

Heads of income

Total income of a taxpayer can be charged to tax under any of the following heads:

- Salary
- Income from property
- Income from business
- Capital gains
- Income from other sources

Salary

Salary received by an employee in a tax year, other than exempt salary, shall be chargeable to tax in that year under the head "Salary". For the purposes of computing salary liable to tax, the value of perquisites, allowances and benefits are determined in accordance with the prescribed rules. Salary income is subject to a progressive tax rate depending on the amount of salary, ranging from 5% to 30%.

Foreign source income

If an individual, due to his employment becomes resident in Pakistan and his presence in Pakistan is for a period or periods not exceeding three years, his foreign income will not be taxed, unless this income is derived from a business established in Pakistan or it is brought or received in Pakistan.
Foreign source income of a resident (who is a citizen of Pakistan but was not resident in any of the four tax years preceding the tax year in which he became resident) shall be exempt from tax for two years, that is to say, in respect of the tax year in which he became resident and the next following tax year.

Any foreign source salary received by a resident individual is exempt from tax, if the individual has paid foreign income tax in respect of the salary. Any foreign source salary earned by an individual (who is a citizen of Pakistan) during the tax year in which he leaves Pakistan and remains abroad, is exempt from tax.

Income from property

Income from property includes rent received or receivable for a tax year, other than exempt rent, by the owner of land or a building as a consideration for the use or occupation of the said property. Only specified deductions are allowed for computing income under the head income from property.

Income from business

Income from business or profession is taxed under the following regimes:

- Normal Tax Regime (NTR)
- Final Tax Regime (FTR)

Normal tax regime

Under the NTR, taxable income of the taxpayer is determined after reducing the related allowable expenses, out of which some of the important allowable expenses are discussed below:

Depreciation allowance

The Ordinance provides for depreciation to be allowable on the assets used in a business during a tax year. A transfer or export of the asset out of Pakistan shall be treated as a disposal of that asset and the cost of the asset shall be deemed to be the consideration received for that asset.

Initial allowance

In respect of an asset, which has been placed into service in Pakistan for the first time in a tax year, a deduction namely "initial allowance" is available at the rate of 25%.

First Year Allowance (FYA)

FYA of 90% of cost, in lieu of the initial allowance of 25% is allowed on plant, machinery and equipment installed and used by any industrial undertaking set up in specified rural and underdeveloped areas or installed for generation of alternate energy by an industrial undertaking set up anywhere in Pakistan.
Intangibles

An amortization deduction is allowed for the cost of intangibles having useful life of more than one year, used wholly or partly for deriving income from business.

Head office expenditure

Head office expenditure is allowed to a non-resident operating through a branch in Pakistan. This expense is generally allowed in the ratio of Pakistan turnover to global turnover of the entity.

Apportionment of expenses

The rules provide that expenditure incurred for a particular class of income can only be allocated to that class. Further any common expenditure incurred for deriving more than one head of income shall be allocated to each class in the same proportion, which the gross receipts from that class of income bear to the total gross receipts from all classes of income.

Tax liability

The standard tax rate for companies is 34%. Whereas, a small company, as defined in the Ordinance, is taxed at 25%. A society or a cooperative society is taxed at the rates applicable to a company.

The total income of a Modaraba, other than dividend income or income falling under the FTR, is taxable at 25%.

Tax Credits

Tax credits in the range of 10 to 20 per cent have been provided to existing companies for investment in expansion, extension and Balancing Modernization and Replacement (BMR) of plant and machinery, whereas hundred per cent tax credit is provided to existing companies and new companies for investment in plant and machinery through new equity.

Tax Exemption

Exemption from tax up to ten years is given for investment in special zone.

Final Tax Regime (FTR)

Under the FTR, the tax deducted or collected at source is deemed to be final tax in respect of income from sources chargeable under FTR. The amount chargeable to tax on gross receipt basis cannot be reduced by:

- Any deductible allowance; or
- Set-off of any loss; or
- Any tax credits available under the Ordinance.

Following is a brief overview of the sources of income, which are chargeable to tax under FTR.
Dividends paid by a company

Every person who receives dividend from a company is chargeable to tax at 10% on gross receipt basis, unless the dividend is exempt from tax.

Payment of ‘Royalty’ and ‘Fee for Technical Service’

- Where a non-resident person receives any Pakistan-source royalty or fee for technical services, tax at the rate of 15% shall be charged on the gross amount of royalty or technical fee. However, the following receipts are not chargeable under FTR:
  - Any royalty, where the property or right giving rise to the royalty is effectively connected with a permanent establishment in Pakistan of the non-resident person
  - Any fee for technical services, where the services giving rise to the fee are rendered through a permanent establishment in Pakistan of the non-resident person
  - Any royalty or fee for technical services, which is exempt under the Ordinance
  - Any Pakistan source royalty or fee for technical services received by a non-resident person to whom presumptive taxation does not apply will be treated as “Income from Business” attributed to the permanent establishment in Pakistan of the non-resident person

Shipping and air-transport income of non-residents

- Every non-resident person carrying on the business of operating ships or aircraft as the owner or charterer is chargeable to tax as follows, unless the income is exempt from tax:
  - In case of shipping income, 8% of the gross amount received or receivable, or
  - In case of air transport income, 3% of the gross amount received or receivable
Income of certain importers

- The Ordinance provides for collection of advance tax at import stage by Collector of Customs at 5% from industrial undertakings and companies, and at 5.5% from every other importer on import of goods based on the value of goods as determined under the Customs Act, 1969. The tax collected shall be final tax on income of importer arising from imports except where goods are imported by an industrial undertaking as raw material, plant, machinery and equipment for own use.

Sale of goods and execution of contracts

- The gross receipts on account of sale of goods and execution of contracts are covered under FTR subject to certain conditions. The tax rate on certain supplies and execution of contracts are given below:

Where the recipient is a resident

- Payment on account of sale of rice, cotton seed or edible oil at 1.5%. Payment on account of sale of any other goods to companies at 3.5% and to persons other than companies at 4%. However, sale of own manufactured goods by a company falls outside the ambit of FTR. Sale of goods (whether own manufactured or otherwise) by a listed company is also excluded from FTR.

- Payment on account of execution of contracts to companies at 6% and to persons other than companies at 6.5%, except for contract for the sale of goods or the rendering of services. However, tax deducted on payments for execution of contracts by a listed company is excluded from FTR.

Where the recipient is a non-resident, on execution of:

- A contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project at 6%.

- Any other contract for construction or services rendered relating thereto at 6%.

- A contract for advertisement services rendered by T.V Satellite Channels at 6%.

- Non-resident contractors do not fall under FTR, unless they opt for FTR by filing a written declaration within three months of the commencement of tax year and the declaration so filed shall remain irrevocable for three years.

Income of exporters

- The Ordinance provides that tax shall be deducted or collected at 1% as final tax on the income arising from export or sale to an exporter.
Income of service providers

- Tax deducted from payments made for services, from persons other than companies, was treated as final tax up to tax year 2009. However, from tax year 2010 it is treated as minimum tax. For companies, income from services falls under NTR. The rate of tax deduction on payment for services is 6% for companies and 7% for persons other than companies.

Income from prizes and winnings

- The gross amount of every prize on a prize bond and cross word puzzle is subject to withholding tax at 15%, whereas gross amount of winning from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale, is subject to withholding tax at 20%.

Brokerage & commission income

- Tax shall be deducted or collected at 10% from gross amount of brokerage & commission, which would be considered as final discharge of tax liability.

Services to an exporter / export house

- Income of a resident person arising on account of rendering / providing of services, such as stitching, dyeing, printing, embroidery, washing, sizing and weaving to an exporter or an export house is subject to tax at 0.50%.

Insurance / re-insurance premium

- Insurance / re-insurance premium received by a non-resident insurance / re-insurance company from a Pakistani insurance company is taxable at 5% of gross amount thereof.

Minimum tax based on turnover

If no tax is payable or paid, by a resident company, an individual having turnover of PKR 50 million or above in tax year 2009 onwards, an AOP having turnover of PKR 50 million or above in tax year 2007 onwards, for a tax year or the tax payable or paid by the person for a tax year is less than 1% of the amount representing the person’s turnover from all sources for that year (other than FTR turnover), the aggregate of the person’s turnover for the tax year, shall be treated as the income of the person and shall be taxed as described in the following table:

<table>
<thead>
<tr>
<th>Type of Scenario</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where no tax is payable or paid</td>
<td>An amount equal to 1% of turnover.</td>
</tr>
<tr>
<td>Where tax payable or paid is less than 1% of turnover</td>
<td>An amount representing the difference between tax payable or paid and 1% of turnover.</td>
</tr>
</tbody>
</table>
Exemptions have been provided to certain persons from the applicability of minimum tax. Furthermore, minimum tax paid can be carried forward for set off against future tax liability for five tax years, immediately succeeding the tax year for which the amount was paid.

Treatment of previous years’ losses

Loss under a head of income, except speculation loss and capital loss, can be set off against income under any other head except income under the head salary and income from property only for that year in which loss was sustained. In case of a business loss, which cannot be fully set off in a tax year, it can be carried forward up to six tax years immediately succeeding the tax year in which the loss was first computed. Business losses can be carried forward indefinitely for industrial undertaking set up in Export Processing Zones. Foreign losses can be set off only against foreign income.

Unabsorbed tax depreciation and initial allowance on tangible assets and unabsorbed amortization of intangibles can be carried forward to succeeding years, until completely set off.

In case of speculation and/or capital losses, unabsorbed losses can be carried forward up to six tax years and can only be adjusted against income from the same head in which the loss was sustained and not against income under any other head.

Group relief

A subsidiary company may surrender its assessed loss, excluding capital loss, for the tax year (other than brought forward losses and capital losses) to its holding company or its subsidiary or between another subsidiary of its holding company (collectively referred to as ‘group’) provided that the holding company shall directly hold at least:

- 55% of the subsidiary’s share capital, where one of the group companies is listed, or
- 75% of the subsidiary’s share capital, where none of the group companies is listed.

Loss surrendered by the subsidiary may be claimed by the holding company or another subsidiary for set off against its business income in the tax year and the following two tax years, subject to the conditions specified in the Ordinance.

Moreover, the subsidiary shall not be allowed to surrender its assessed losses for set off against income of the holding company for more than three tax years; and where the surrendered losses are not adjusted against holding company’s income in the said three tax years, the subsidiary company shall carry forward the unadjusted losses.

In case the holding company disposes of shares in the subsidiary during the specified five years that breaches the prescribed minimum shareholding criterion, the holding company shall offer the amount of profit, in the year of disposal, on which taxes have not been paid due to set off of losses surrendered by the subsidiary company.
Group taxation

Subject to fulfilment of certain rules and specified corporate governance requirements holding companies and subsidiary companies, both incorporated under the Companies Ordinance, 1984 and belonging to a 100% owned group, may opt to be taxed as one fiscal unit. In such cases, computation of income and tax payable shall be made on the basis of consolidated group accounts. The group companies shall give irrevocable option for taxation under this section as one fiscal unit. The relief would not be available for losses prior to the formation of the group.

Capital gains

Income arising on disposal of capital asset by a person in a tax year, other than a gain that is exempt from tax under the Ordinance, is chargeable to tax under the head “capital gains”.

Capital asset means property of any kind, but does not include stock in trade, consumable stores, raw materials held for the purpose of business and property on which depreciation or amortization is allowed.

Capital gains on disposal of immovable property

Capital gains arising on disposal of immovable property held for a period up to two years is chargeable to tax at the following rates:

<table>
<thead>
<tr>
<th>Holding Period</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where holding period is up to one year</td>
<td>10%</td>
</tr>
<tr>
<td>Where holding period is more than one year but less than two years</td>
<td>5%</td>
</tr>
<tr>
<td>In case holding period is more than two years</td>
<td>nil</td>
</tr>
</tbody>
</table>

Capital gains on sale of securities

Capital gains arising on or after 1 July 2010 from disposal of securities held for a period of less than a year shall be chargeable to tax at different rates, depending on the holding period of securities.

Securities mean share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital and derivative products.
Income from other sources

Income in a tax year if not included in any other head, shall be chargeable to tax under the head “Income from Other Sources”. Incomes included under this head are dividend, royalty, profit on debt, ground rent, etc.

In computing income from other sources, a deduction shall be allowed for any expenditure paid by the person in the year to the extent to which the expenditure is paid in deriving income chargeable to tax under this head.

Modes of payment of tax

A taxpayer makes payment of tax at four stages, i.e.

- deduction / collection at source (withholding tax)
- advance payment of tax on quarterly basis
- payment of tax along with the return of total income
- payment of tax on demand as a result of amendment in assessment.

Withholding of tax

Under the Ordinance, virtually every amount received by a person is subject to withholding tax. Such withholding tax is treated as an advance tax in cases where income is chargeable under normal law and as a full and final discharge of tax liability, where income falls under FTR. Prescribed persons are treated as withholding tax agents who are required to withhold tax from specified payments.

Advance payment of tax

Advance tax is payable on a quarterly basis whereby advance tax due for a quarter shall be computed in the ratio of tax assessed to turnover for the latest tax year as applied to turnover for the quarter.

Filing of income tax returns

The Ordinance specifies the persons who are required to file Income Tax Return on the specified dates.

It is mandatory for companies and AOPs to file return of income and withholding tax statements electronically.

Further, individual taxpayers are also required to e-file the return of income in certain cases. A wealth statement and its reconciliation shall also accompany the return of income.
Avoidance of double taxation and unilateral relief

Pakistan has entered into agreements for avoidance of double taxation with a number of countries, including those where the conventions are restricted to the taxation of income from international air / shipping traffic.

A resident taxpayer shall be entitled to tax credit in respect of foreign source income chargeable to tax in Pakistan, if foreign income tax has been paid in respect of foreign source income equal to the lesser of:

- The foreign income tax paid, or
- Pakistan income tax payable in respect of the net foreign source income.

A credit shall be allowed under this provision only, if the foreign income tax is paid within two years, after the end of the tax year in which the foreign income to which the tax relates was derived by the resident tax payer.

Anti avoidance

In order to avoid evasion of revenue through various tax avoidance techniques, following provisions have been introduced:

- In respect of transactions between associates, the Commissioner may distribute, apportion or allocate income, deductions or tax credit between the persons as is necessary to reflect the income that the persons would have derived in an arm’s length transaction.
- The Commissioner may recharacterise a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme.
- The Commissioner may disregard a transaction that does not have substantial economic effect.
- The Commissioner may recharacterise a transaction where the form of the transaction does not reflect the substance.

Thin Capitalization

The concept of thin capitalization has been brought in Pakistan tax legislation so as to refrain foreign companies from injecting debt instead of equity in their subsidiaries formed in Pakistan. Thin capitalization rules apply to Foreign Controlled Resident Company (FCRC), in which 50% or more of the underlying ownership is held by a non-resident person (either alone or together with an associate), other than the financial institution or banking company.

Where foreign debt to foreign equity ratio of a FCRC, at any time during a tax year, exceeds 3:1, profit on debt paid by the company in that year on the part of the debt exceeding 3:1 ratio will not be allowed as deduction, while computing income of the FCRC. This rule is also applicable to the Pakistan branch of a foreign company.

Thin capitalization is inapplicable, if interest on foreign debt is chargeable to tax under the Ordinance and does not enjoy any exemption or reduced rate applicability.
Advance ruling

The Federal Board of Revenue (FBR) may, on application in writing by a non-resident taxpayer (other than permanent establishment of a non-resident person in Pakistan) issue to the taxpayer an advance ruling setting out the Commissioner’s position regarding the application of the Ordinance, to the transaction proposed or entered into by the taxpayer.

Where the taxpayer has made a full and true disclosure of all aspects of the transaction relevant to the ruling and the transaction has proceeded in all material aspects as described in the taxpayer’s application for the ruling, the ruling shall be binding on the Commissioner with respect to its application of the transaction.

Where there is any inconsistency between a circular and an advance ruling, priority shall be given to the terms of the advance ruling.

Taxation of special industries

The Ordinance contains special provisions for determination of total income of banking companies, insurance business, oil, natural gas and other mineral deposits concerns as follows:

- Income, profits and gains of a banking company shall be taken to be the balance of the income, from all sources before tax, disclosed in the annual accounts required to be furnished to the State Bank of Pakistan subject to specified adjustments including provision for bad debts to be allowable etc. up to a maximum of 1% of total advances and provisions for bad debts at 5% of total advances for consumers and small and medium enterprises.

- The profits and gains of any taxpayer carrying on insurance business shall be computed separately from any other business and as per the rules for computation of total income given in the Fourth Schedule to the Ordinance. The computation of profit and gains of a life insurance business shall be the current year’s surplus appropriated to profit and loss account, net of certain adjustments. The profit and gains of general insurance business shall be taken to be the balance of the profit disclosed by the annual accounts, net of certain adjustments.

- The profits and gains from the exploration and production of petroleum including natural gas and from refineries setup at Dhodak and Bobi fields, pipeline operations of exploration and production companies, and manufacture and sale of liquefied petroleum gas (LPG) and compressed natural gas (CNG) shall be computed in accordance with the rules contained in Fifth Schedule to the Ordinance. A business undertaking in any of these categories qualifies to be taxed separately from other business operations, if such business undertaking is carried out as a result of an agreement with the Government.
Indirect taxes

Sales tax on supply of goods

Sales tax law is governed by the Sales Tax Act, 1990 (the Act). Sales tax is generally applicable at 17% ad-valorem on import and supply of taxable goods and it operates in Value Added Tax (VAT) mode. In certain cases, fixed sales tax and upfront value addition sales tax schemes are in place, where input tax adjustment / refund may or may not be admissible. Thus, sales tax is charged, collected and paid against taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on and on goods imported into Pakistan.

The fiscal policies and taxation measures are annually announced in accordance with the policies of the Government. The FBR is the regulatory authority.

The companies, registered exporters, government organizations, and recipient of taxable advertisement services are also entrusted with responsibility to withhold sales tax against the purchases of taxable goods and services from specified suppliers / service providers, whether registered or otherwise.

Two conditions are essential to create a charge of sales tax:

- Taxable supply
- Taxable activity

Taxable supply means supply of moveable properties or goods, which are not specifically exempt. Supplies made by an importer, manufacturer, wholesaler, dealer, distributor or retailer are covered under this term.

Taxable activity inter-alia means any economic activity carried on by any person, whether or not for profit, and inter-alia includes an activity carried on in the form of business, trade or manufacture and involves the supply of goods, rendering of services or both.

Zero rating

Goods exported outside Pakistan are charged to sales tax at the rate of zero percent. Certain specified goods and persons are also subject to levy of sales tax at the rate of zero percent. An exporter / supplier in respect of zero-rated supplies is entitled to claim refund of input tax paid against taxable purchases.

Exemptions

Sixth Schedule to the Act as well as certain exemption notifications allow exemption of sales tax on specified goods. In few cases, these exemptions are subject to certain specified conditions. In respect of exempted goods, the supplier is not entitled to claim refund for input taxes paid.
Registration

Following persons engaged in making taxable supplies in Pakistan (including zero rated supplies) in the course or furtherance of any taxable activity, are required to be registered under the Act:

- A manufacturer having annual turnover from taxable supplies exceeding PKR 5 million during the last twelve months or whose annual utility (electricity, gas and telephone) bills during the last twelve months exceeds PKR 700,000
- A retailer having annual turnover for the past twelve months exceeding PKR 5 million
- An importer
- A wholesaler including dealer and distributor.

Manufacturers and retailers having annual turnover below the above-mentioned thresholds are not required to be registered and therefore, are not required to charge sales tax on supplies made by them. There is no threshold for importers, wholesalers, distributors or dealers and service providers.

Making of taxable supplies without obtaining registration, tantamount to tax fraud and exposes the supplier to penal actions under the Act.

Determination of tax liability

A registered person is entitled to claim input tax paid on goods used or to be used for taxable supplies made by him against output tax liability. However, the Federal Government is empowered to specify goods in respect of which input tax cannot be claimed. In certain cases, a registered person is not allowed to adjust input tax in excess of 90% of the output tax arising in a reporting month. However, excess input tax can be carried forward to next tax period and shall be refunded in accordance with the specified time limits, if it remains unadjusted in consecutive tax periods.

Returns

Every registered person is required to furnish a monthly sales tax return on or before 18th day of the month, following the tax period, provided that the payment of tax due is made by 15th day of the following month. Tax period has been defined as a period of one month.

Sales tax on services

Sales tax is also applicable at standard rate of 16% on provision of specified services. These services have been brought under sales tax net through Provincial legislations promulgated in the respective Provinces.
Federal excise duty

Federal Excise Duty (FED) is levied on specified goods imported or manufactured in Pakistan and specified services provided and rendered in Pakistan including excisable services originated outside, but rendered in Pakistan at varied rates as prescribed under the Federal Excise Act, 2005. Generally FED is charged on the value or retail price or ad-valorem basis, however it is charged on some items on the basis of weight or quantity. Zero-percent FED rate is applicable for exported good or specified goods. The goods which are subject to levy of FED inter-alia include edible oils, aerated water and concentrates, tobacco & cigarettes, cement, oil seeds, sugar, liquefied gases, transportation vehicles, etc.

The services liable to levy of FED inter-alia include advertisements, air-travel, domestic air-cargo, shipping agents, telecommunication, insurance, non-fund services of banks and financial institutions, terminal & port operators, franchise services, services by stockbrokers, etc. The standard rate of FED is 16% which is applicable in VAT mode. However, different rates are applicable for levy and payment of FED on franchise and telecommunication services.

FED is however not applicable on such taxable services, where Provincial sales tax is charged or paid.
Labour Law

Industrial Relations Ordinance, 2008

This Ordinance relates to the formation of trade unions, the regulation of relations between employers and workmen and the avoidance and settlement of any differences or disputes arising between them or related matters. In its ambit, the Ordinance includes trade unions and freedom of association, registration of trade unions, workers’ participation and dispute resolution, labour courts, authorities, decisions, settlements and awards, penalties and procedures, etc.

Employees’ Old Age Benefits Act, 1976

Every business establishment with five or more employed persons is required to get registered under the Act. Recent amendments have extended the applicability of this Act for employees of banks or banking companies. The contribution is made at 5% of workers’ minimum wages by the employer and such contribution cannot be recovered in any manner from the employee; whereas, employee will make a contribution equal to 1% of minimum wages. Wage refers to wage defined in ‘The Minimum Wages for Unskilled Workers Ordinance, 1969’ which is PKR 10,000. The minimum old-age benefit under this Act is PKR 3,600 per month for private sector employees and PKR 5,000 for public sector employees.

Employees’ Cost of Living (Relief) Act, 1973

This act is applicable on every employee in the private sector, corporations and autonomous or semi-autonomous bodies whose terms and conditions of employment are negotiable through collective bargaining under the Industrial Relations Ordinance, 2008. The act entitles the employee a cost of living allowance equal to 7% of basic pay per month to be paid by the employer.

Workers’ Welfare Fund Ordinance, 1971

Under this Ordinance, any industrial establishment as defined in the Ordinance, having total income is PKR 500,000 or more is required to pay 2% of its total income under the Income Tax provisions, to the Workers’ Welfare Fund. The Ordinance has extended the scope of industrial establishment by including establishments formed under West Pakistan Shops and Establishment Ordinance, 1969, resulting in every business concern, having total income of PKR 500,000 or more in a tax year, being liable to WWF.

The Minimum Wages for Unskilled Workers Ordinance, 1969

According to this Ordinance, the amount of minimum wages for an unskilled worker should not be less than PKR 10,000.
West Pakistan Shops and Establishment Ordinance, 1969

The Ordinance provides for the wages, leaves, holidays, working hours, overtime, maintenance of statutory records of leaves etc. It applies to all shops and establishment where any workman is employed.

Companies Profits (Workers' Participation) Act, 1968

A company engaged in industrial undertaking, whose number of workers employed at any time during a year is 50 or more, or the paid up capital as on the last day of the accounting year is PKR 5 million or more or the value of fixed assets as on the last day of the accounting year is PKR 20 million or more, is required to establish a Workers' Profit Participation Fund and pay to it 5% of its profits every year. A worker's share in the fund depends on the category of his average monthly salary.

Industrial and Commercial Employment (Standing Orders) Ordinance, 1968

Every industrial or commercial establishment, where 20 or more workers are employed, is required to comply with the conditions of employment of workmen and other incidental matters contained in the standing orders. Commercial establishment includes all kinds of commercial establishments such as, advertising agency, hotel, restaurant, bank, insurance company, etc., and an industrial establishment includes factory, mine, construction industry, etc. An amount equal to the wages of the workers has to be paid during the period of suspension.

The Standing Orders cover the following matters relating to employment of workmen:

- Classification of workmen into permanent, temporary, probationers, etc.
- Terms and conditions of service to be given in writing.
- Publication of working time and holidays.
- Details as to shift working, terms of attendance, leave, terms of wages and group incentive schemes.
- Compulsory group insurance of permanent workmen against death, injury or disability not covered by Workmen Compensation Act, 1923.
- Terms and conditions governing stoppage of work, closure of establishment, terms relating to termination of employment, governing payment of gratuity or other termination benefits.
- Compulsory payment of bonus in case the employer is making profit.
Provincial Employees’ Social Security Ordinance, 1965

This Ordinance is applicable only to such areas, classes of persons, industries or establishments with regard to such benefits, as GoP may specify from time to time in this behalf. The benefits provided by this scheme are medical care, maternity benefit, death grant, pre-natal and post-natal care, injury benefit, disablement pension, disablement gratuity. Employees drawing wages up to PKR 10,000 fall under the ambit of this Ordinance. Employer’s Social Security contribution has been capped at 6%.

Factories Act, 1934

The Factories Act is applicable to almost all the industries. According to the Act, “Factory” means any “Premises” or “Precincts” thereof, in which a manufacturing process is being ordinarily carried on with or without the aid of power.

The Act deals with following aspects relating to working conditions for workers:

- Daily and weekly working hours
- Intervals for rest
- Weekly holidays
- Compensatory holidays
- Overtime and its pay structure
- Annual holidays
- Casual leave or sick leave
- Special provisions for adolescents and children
- Health and safety measures, etc.

Workmen’s Compensation Act, 1923

Under this Act, the employer is liable to pay compensation to workers for accidents arising out of and during the course of employment. The rates of compensation for death, permanent total disablement, permanent partial disablement and temporary disablement have been given in the Act. The amount of death and permanent disablement grant is PKR 200,000.
Other Corporate Legislation

Apart from Companies Ordinance, 1984, there is a host of other Corporate Legislations in force regulating different aspects of corporate entities. These are enumerated as follows:

Non-Banking Finance Companies (NBFCs) and Notified Entities Regulations, 2008

These regulations are applicable to NBFCs carrying out leasing, investment finance services, housing finance services, asset management services, investment advisory services including their business activities and to the notified entities being managed by such NBFCs. NBFCs include Private Equity and REITs.

- Private Equity (PE) and Venture Capital (VC) Fund Regulations, 2008

Fund Management Company (FMC) is licensed by Commission to operate as NBFC providing PE & VC Fund Management Services and its activities are governed by these regulations in addition to NBFC Regulations 2008. Minimum paid up capital requirement of FMC is PKR 30 million and no fund is allowed to operate without registration with Commission. These regulations also cover matters like obligations of and restrictions on FMC, appointment of Trustee, cancellation of license or registration of fund, investment conditions and restrictions etc.

- Real Estate Investment Trust (REIT) Regulations 2008

It regulates the activities of REIT Management Company (RMC) and the registration and regulation of REIT scheme and for matters connected therewith and incidental thereto. There are two types of REIT schemes, namely rental and developmental. The minimum paid up capital at the time of application should be PKR 50 million and is required to be increased to PKR 500 million within 30 working days subsequent to registration of the REIT scheme. The minimum fund size of REIT scheme is PKR 5 billion and real estate shall be within the limits or surrounding areas of Islamabad, Rawalpindi, Karachi, Lahore, Peshawar or Quetta. A REIT scheme shall not undertake more than one real estate project. An RMC shall not hold less than 20% and not more than 50% of the units of the REIT managed by it, unless otherwise permitted by the Commission.
Takaful Rules 2005

Takaful rules were issued by SECP for the conduct of takaful operations in the country. Takaful refers to Islamic way of insurance. A Takaful operator may underwrite any or all classes of Takaful business, provided approval is obtained from the Commission. A Takaful operator shall maintain and administer following funds, a) Participants’ Takaful Fund; and b) Shareholders’ Fund.

Each Takaful operator shall appoint a Shariah Board of not less than three members which shall be responsible for the approval of products, documentation as well as approval of all operational practices and investment of funds which shall be filed with the Commission.

Insurance Ordinance, 2000 and Insurance Rules 2002

Insurance Ordinance regulates the formation and activities of insurance companies. Insurance rules are issued in conjunction with Insurance Ordinance and contain detailed operational and reporting guidance and procedures.

Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980

No Modaraba can be floated unless an authorization is obtained by the Registrar of Modaraba Companies under the provisions of this Ordinance.

Securities and Exchange Ordinance, 1969

The main law relating to the Stock Exchanges, Brokerage Houses, Central Depository and Credit Rating Agencies in Pakistan is the Securities and Exchange Ordinance, 1969 which regulates and governs the establishment and running of these entities in Pakistan.

Banking Companies Ordinance, 1962

The main law governing the establishment and operations of banking companies in Pakistan is the Banking Companies Ordinance, 1962.

Stock Exchange Regulations

A company that seeks to offer its shares to the public and wishes to apply for a listing on the Stock Exchange must comply with the listing requirements of the Exchange, in addition to compliance with the provisions of the Companies Ordinance, 1984. The requirements of the Exchange relate to management and company procedures, disclosures, provisions concerning the issue of prospectus for the issue of shares to the public, distribution of financial statements and other matters to keep the public and the exchange(s) adequately informed on all aspects of the affairs of the company, which may affect the market value of its shares.
• Listing requirements & procedures

Issue of capital is mainly governed by the Companies Ordinance, 1984, Companies (Issue of Capital) Rules, 1996, Listing Regulations, and Regulations governing Over-The -Counter (OTC) market and criteria for listing framed there under.

- The main requirements of listing on the ready market are:
  - minimum paid up capital of PKR 200 million
  - public offer of equity has to be subscribed by at least 500 applicants
  - the offering document has to be cleared by the KSE before it is submitted to the SECP for approval.

• Time frame for listing

A maximum period of three months will be taken from the date of receipt of listing application completed in every respect along with offering document, for the grant of permission by KSE.

• Offer of Capital to general public

Under the Listing Regulations, every company proposed to be listed on the stock exchanges shall make offer to the public as follows:

- In case capital of company is up to PKR 500 million, at least 50% of such capital shall be offered to the public; and
- In case capital of company is beyond PKR 500 million, public offer shall be at least PKR 250 million or 25% of the capital, whichever is higher.

Code of Corporate Governance

The objective of code of corporate governance is to establish a framework of good corporate governance for the listed companies. This has been incorporated in the listing regulations and broadly covers the matters relating to board of directors, corporate ownership structure and divestiture of shares by sponsors / controlling interest, internal audit, external auditors, audit committee, and corporate and financial reporting framework.

Some important regulations governing the banking companies in Pakistan

The Banking Companies Ordinance, 1962 and State Bank of Pakistan Act, 1956 specify various regulations, some of which are specified below:

• Capital and reserve requirement
• Cash reserve
• Liquid assets
• Assets outside Pakistan
• Annual accounts and audit
- Remittance of profits
- Number of branches.

Prudential regulations

The SBP has introduced specific Prudential Regulations for Corporate / Commercial Banks, Small and Medium Enterprises Financing, Consumer Financing, Micro Finance Banks / Institutions and Agriculture Financing.

The Prudential Regulations cover four categories viz. Risk Management, Corporate Governance, KYC and Anti Money Laundering, and Operations. Following are the important conditions prescribed in these prudential regulations for Corporate / Commercial Banks:

- Limit on exposure to a single person
- Limit on exposure against contingent liabilities

Minimum conditions for taking exposure

- Limit on exposure against unsecured financing facilities
- Linkages between financial indicators of the borrower and total exposure from financial institutions
- Exposure against shares / TFCs and acquisition of shares
- Classification and provisioning for assets
- Payment of dividend
- Margin requirements
- Corporate governance / board of Directors & management
- Credit rating
- Know your customer (KYC)
- Anti-money laundering measures
- Window dressing
## Appendix-II Useful web sites

<table>
<thead>
<tr>
<th>Useful Web sites</th>
<th>Website</th>
</tr>
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<tbody>
<tr>
<td>Board of Investment in Pakistan</td>
<td><a href="http://www.pakboi.gov.pk">www.pakboi.gov.pk</a></td>
</tr>
<tr>
<td>Competition Commission of Pakistan</td>
<td><a href="http://www.cc.gov.pk">www.cc.gov.pk</a></td>
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<tr>
<td>Federal Board of Revenue</td>
<td><a href="http://www.fbr.gov.pk">www.fbr.gov.pk</a></td>
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<td>Ministry of Finance</td>
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<td>NEPRA</td>
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<td>PACRA</td>
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<td>Securities &amp; Exchange Commission of Pakistan</td>
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<tr>
<td>State Bank of Pakistan</td>
<td><a href="http://www.sbp.org.pk">www.sbp.org.pk</a></td>
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</tbody>
</table>
Offices in Pakistan

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