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MANUAL

FOR THE FORMATION OF AN

EMPLOYEE SHARE OWNERSHIP PLAN

FOR THE

ALEXANDRIA TIRE COMPANY

AND OTHER COMPANIES IN

EGYPT

Prepared by
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EXECUTIVE SUMMARY

ABBREVIATIONS

ATC	Alexandria Tire Company
CFP	Center for Privatization
ESA	Employee Shareholders' Association
ESOP	Employee Share Ownership Plan
GOE	Government of Egypt
MIC	Ministry of International Cooperation
NIB	National Investment Bank
PP	Project Paper
TA	Technical Assistance
TRENCO	Transport and Engineering Company
USAID	United States Agency for International Development

TABLE OF CONTENTS

Part I: General

Part II: Specifics of the ATC ESOP Transaction

TABLE OF CONTENTS

ANNEXES

PART I-1

INTRODUCTION:
ABOUT THE EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

FOUR PILLARS FOR BUILDING A MORE JUST GLOBAL ECONOMY

PILLAR 1: RESTORE FREE MARKETS FOR DETERMINING JUST PRICES, JUST WAGES, AND JUST PROFITS

Result: Decentralizes economic choice and power.

PILLAR 2: RESTORE PRIVATE PROPERTY IN MEANS OF PRODUCTION

Result: Secures personal choice and self-determination; limits government power.

PILLAR 3: LIMIT GOVERNMENT POWER IN ECONOMY TO SETTING GOALS AND PREVENTING ECONOMIC MONOPOLIES

Result: Frees public sector to promote justice for all, to prevent monopolies, and to lift barriers to equal opportunity.

PILLAR 4: PROMOTE WIDESPREAD CITIZEN ACCESS TO CAPITAL OWNERSHIP, THROUGH THE DEMOCRATIZATION OF CAPITAL CREDIT

Result: Promotes economic justice for every citizen by diffusing future ownership opportunities, while safe-guarding property rights of present owners.

Builds a broader political constituency for private property and free market policies.

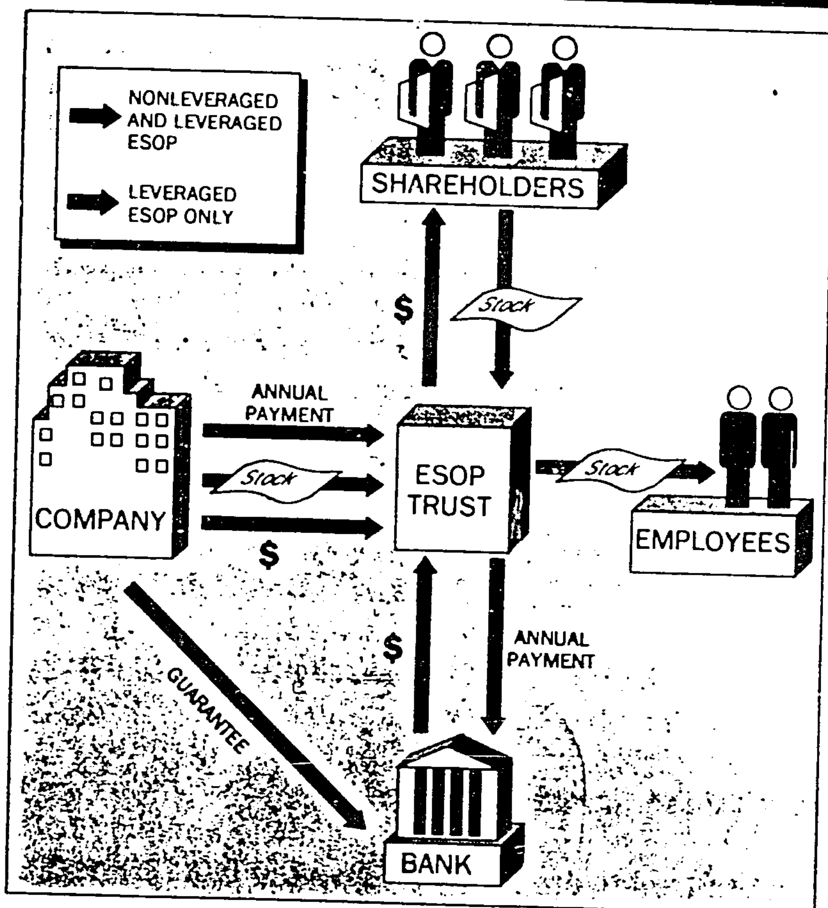
THE ESOP: A NEW TOOL FOR:

1. PROMOTING ECONOMIC AND SOCIAL JUSTICE
   - Matching efficiency with justice
2. MOTIVATING WORKERS
   - A "New Labor Deal"
3. FINANCING PRIVATE SECTOR DEVELOPMENT
   - Transforming the multinationals
   - Divesting state-owned enterprises
   - Humanizing the privatization process

HOW AN ESOP WORKS

The mechanics of employee ownership

A nonleveraged ESOP—still the most common variety—is simply a trust set up to hold company stock for the benefit of employees. ABC Inc. creates the trust and annually contributes stock, treasury stock, or cash, up to 25% of covered payroll. If the contributions are in cash, the ESOP uses the money to buy stock from existing shareholders. Stock is then credited to individual employees' accounts, usually vesting over a period of up to seven years. Unless ABC is a publicly traded company, it must offer to buy the stock back when the employee leaves or retires (the payout can take place over several years). ABC's contributions of stock or cash are tax-deductible; so are cash dividends passed through the ESOP to employee shareholders.



A leveraged ESOP works in the same way, except the ESOP borrows the money to fund its purchase of company stock. ABC provides or guarantees the loan to the ESOP and contributes cash or pays dividends sufficient to enable the ESOP to repay it. As the loan is paid off, the stock it bought is credited to employee accounts. ABC can deduct the full value of loan repayments (principal and interest) from its taxable income, though contributions used by the ESOP to pay the principal can't exceed 25% of covered payroll. Since the bank gets a tax break on its earnings from the loan, rates are typically 75% to 90% of the company's usual rate. If the borrowed funds are used to buy new stock (rather than to buy out existing shareholders), the company gets full use of the proceeds.

CHART: NEIL PINCHIN

10

Employee Stock Ownership Plan (ESOP)

GENERAL

The ESOP is a financial technology used to transfer the ownership of enterprises from existing owners (in privatization, the government) to the employees of the enterprise.

USE OF LOAN PROCEEDS

The loan proceeds are used to purchase shares in the company from existing owners for the employees. The shares are held as collateral for the loan by the lender. As the loan is repaid and the debt is reduced, the shares are released to an employee stock ownership plan (ESOP).

ADMINISTRATION

The ESOP performs an administrative function holding the shares for the employees and maintaining an ownership account for each employee indicating the number of shares that each employee has accummulated. Initial allocation of shares is made on a relative pay basis based on the company payroll.

MANAGEMENT

The ESOP is managed by a board of directors elected by the employees on a one-share-one-vote basis. It is a representative form of governing.

RETIREMENT

Upon retirement or leaving the company an amount equal to the value of the shares in the employees account is paid to the employee or his/her beneficiary in cash, annuity income, or some other basis determined by the plan created by the employees with their ESOP.

STANDARDS FOR MODEL ESOPS

Democratic Process - The company has a democratic organization representing all workers which have a principal responsibility for designing and managing the ESOP. Employees have the right to vote their stock. Employees have effective control of the company.

Disclosure - Employee representatives have open access to the financial and performance records of the company.

Contracts - Employees have an agreement with management that spells out their rights and responsibilities, i.e. working conditions, productivity bonuses, dividend policy, work rules and benefits. Management agreements spell out powers, prerogatives, incentives and objectives.

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PART I-2

A FIRST STEP: SUMMARY PROJECT DESCRIPTION OF THE ALEXANDRIA TIRE COMPANY (ATC) ESOP

ALEXANDRIA TIRE COMPANY EMPLOYEE SHARE OWNERSHIP PLAN
PROJECT DESCRIPTION

General. The project consists of the construction and operation of an all-steel radial truck tire manufacturing plant at a site at the Ameryea Industrial Complex near Alexandria, Egypt. The project, which will create 750 new private sector jobs, will be implemented under Egypt's Private Sector Encouragement Act of 1974 (Law 43).

Project costs, estimated at 345 million Egyptian Pounds or over $150 million, will create a facility capable of producing 350,000 truck tires annually for the domestic Egyptian market, roughly 30% of the total market demand now being satisfied mainly by foreign imports. Of the total capitalization costs, 60% will be in the form of debt financing (LE 207 million) and 40% will be equity financing (LE 138 million).

A new independent corporation will be formed, the Alexandria Tire Company, whose founding equity investors will include:

	Equity Share
• Transport and Engineering Company S.A.E. (TRENCO), a state-owned company	15%
• Pirelli Tire Company of Milan, Italy	10%
• National Bank of Egypt	5%
• Development Industrial Bank	5%
• Arab Investment Bank	5%
• Suez Canal Bank	5%
• Gulf Arab Investment Bank	5%
• Cairo Bank	5%
• Alexandria Bank	5%
• Private Investors	5%
• Egyptians Living Abroad	5%

In addition, an Employee Shareholders' Association (ESA) is being formed, with an Employee Share Ownership Plan (ESOP) as its bylaws, to acquire 30.5%, or 421,000 of the founding common shares of the new venture, 252,600 shares to be divided among the 750 newly-hired employees and 168,400 shares among the 3,500 employees of TRENCO, the "mother company" of the new venture.

The new venture will transfer to Egypt two kinds of "state-of-the-art" technology: first, world-class steel belt radial tire technology and second, the Employee Share Ownership Plan (ESOP), an advance in corporate finance technology. The ESOP uses self-liquidating productive credit to enable workers to become shareholders without reducing their savings or paychecks. Besides implementing the first ESOP in the Third World, the project will also launch the world's first ESA as a legal vehicle for implementing the ESOP, guaranteeing worker ownership participation and democratizing management accountability. The ESA was invented to substitute for a legal trust, a device which does not exist under Egyptian law but is the mechanism used to implement ESOPs in the United States and the United Kingdom.

The ESOP. To finance the acquisition of the 30.5% of founding common shares by employees, the Egyptian Government through its Ministry of International Cooperation (MIC) has been asked to approve a loan of LE 40.1 million ($18 million) from funds generated by the sale of U.S. commodities under the USAID Commodity Import Program and deposited into an account termed the Special Account. Until the ESA is formed the loan will be made to the National Investment Bank of Egypt (NIB), as temporary borrower and fiduciary for the purchase of shares for the employees, and, after the first 200 employees are hired and the ESA is established, the loan from MIC will be assumed by the ESA along with legal title to these shares.

During the 3-year construction phase and another 3 years needed by the company to become fully operational, there would be a grace period for repaying the ESOP loan. The loan at 10% interest would be repaid over the next 10 years wholly out of projected dividends. No employee payroll deductions would be required. During the 16-year loan period, the workers' shares would be pledged as the sole source of security on the loan. As principal on the loan is repaid, the personal accounts of all participating employees would reflect shares which have been paid for during the current year and allocated among all employees according to the formula contained in the ESA. Terminated employees would have their shares cashed out by the ESA or the company.

Impact on Employees. How will the ESOP affect the average ATC employee? The average Egyptian tire manufacturing employee presently earns about 4,000 Egyptian Pounds annually. Assuming wage levels remain the same at the Alexandria Tire Company and share values do not increase from their original acquisition price, the average ATC worker (according to the feasibility study for the project) will accumulate through the ESOP about LE 32,000 worth of shares, almost 8 times his annual wages; in addition, by the eighth year after operations begin, the average ATC worker will receive a second income from dividends of LE 5,100, over and above his wage incomes and dividends used to repay the ESOP debt. And through the voting of his shares in the ATC Employee Shareholders' Association, he will have a voice in selecting 30% of the ATC board members and in other matters subject to shareholder voting.

TRENCO. ATC is the child of TRENCO, which was founded in 1946 as a general engineering company. In 1956, TRENCO began the manufacturing of tires and is today the only tire manufacturing facility in Egypt. While this 3,500 employee company is 100% owned by the Government of Egypt, TRENCO is one of the few highly profitable state-owned enterprises, a tribute to its superior management team. It currently produces 1.1 million tires per year, of which 280,000 are truck tires. In 1984, TRENCO entered into a licensing agreement with Dunlop Tires to produce automotive radial tires. It is now producing 150,000 automotive radials a year, but none are steel-belted radials. TRENCO will provide the plant site, the engineering and other technical inputs to construct the facilities and infrastructure, and approximately 26,500 tons of raw materials per year.

Pirelli Tire. Pirelli will supply the steel-belt radial technology needed by ATC. Pirelli was founded in 1923 and has a world-wide network of tire producing and distributing facilities either wholly-owned or in joint ventures. The company produces tires for all automotive markets and possesses patents on special manufacturing technology for several tire production processes. The steel belted truck tire production process for the type and size needed by Egypt is one such patent. Pirelli has entered into 37 joint ventures and has granted 51 licenses to maufacture its products. Thus, Pirelli has a proven track record of productivity and world-wide operational experience. Pirelli will provide all machines, moulding equipment, moulds and engineering to plan and install the eqipment. Under a 10-year technical assistance agreement, Pirelli will train engineers and technicians and assist in the production process.

- 14

Financial Feasibility. Egypt's current demand for truck tires is 1.0 million per year. From 1975 to 1985, demand grew by 20% per year and is projected to grow at approximately 8% during the decade 1985 to 1995. Approximately 40% of the demand is supplied by domestic production. TRENCO is the only domestic producer but does not produce steel belted radial truck tires.

Expected Outcomes. The project is expected to begin production of tires by the end of project year three. By the end of project year five, ATC is expected to reach design capacity, 350,000 truck tires per year. During this time, 750 new jobs will have been created in the private sector and ATC is projected to capture over 30% of the current and projected future domestic truck tire market. The project is expected to produce net earnings of LE 37.6 million on net sales of LE 196.6 million by the year 1993. Overall internal rate of return for the project, from inception to 1999, is expected to be 16.9%.

ALEXANDRIA TIRE COMPANY

THE ADVANTAGES OF SELLING SHARES TO AN ESOP

FOR THE WORKER:

- Elevates the dignity and status of each worker to that of an owner.
- Diversifies workers' income beyond wages alone to include profit sharing bonuses, stock accumulations, dividend income and the participatory rights of a shareholder in the company.
- No taxes on the equity accumulations.
- Provides workers as a group with access to productive credit for "leveraged" purchases of up to 100% of all shares of their company's equity, secured and repayable out of future profits.
- Job security cushioned during bad years by flexible ownership incentives linked to productivity and profits.
- Gr 'ater harmony and cooperation between management and non-management workers.
- Representation by an Employee Shareholders' Association in governance of the company.

FOR THE GOVERNMENT:

- Reduced political pressures for subsidies, public sector payrolls and fiscal deficits.
- Expanded private sector productivity and a broader base of taxation from rising incomes among workers.
- A broader political constituency against redistributive taxation and over-regulation of business.
- Promotes social justice and democracy for all.

FOR THE LENDER:

- More harmonious labor-management relations further enhances security of debt repayment.

FOR THE COMPANY:

- Leaves control of company in friendly hands.
- Rewards loyal workers who contributed to business success.
- Creates an in-house market for total or partial equity sales.
- Loan to ESOP is treated as equity on company books.
- Creates an incentive for workers to help expand profits to enable them to pay for shares with dividends.
- Unites interest of workers with other investors, foreign as well as domestic.
- Reduces likelihood of strikes and labor stoppages.

FOR THE LABOR UNION:

- Expanded role in negotiations with management over ownership participation issues.
- Enlarged incentive pie to be shared among members.
- New role in shaping ownership participation structure, including ESOP.
- Added influence in helping to bring credit for workers to the bargaining table.
- Separation between ownership and management avoids conflict-of-interest for worker representatives.
- New sources of revenues for supporting traditional union functions.

PART I-3

OBJECTIVE TREE FOR THE INTRODUCTION OF EMPLOYEE OWNERSHIP TO EGYPT

OBJECTIVE TREE FOR THE INTRODUCTION OF EMPLOYEE OWNERSHIP TO EGYPT

GOAL:

CONTRACT

- (1) ATC & TRENCO employees' income and retirement capital increased

POST-CONTRACT

- (2) ATC productivity and profitability improved
- (3) ESOPs initiated in other companies in Egypt and other countries

PURPOSE:

CONTRACT

- (1) NIB receives loan and invests in 30% of ATC shares on behalf of employees
- (2) ATC legally established with employee shareholders represented on its board
- (3) ATC Employee Shareholders' Association (ESA) legally established with ESOP as bylaws
- (4) ESOP Steering Committee functioning with employee +management + union involvement

POST-CONTRACT

- (5) Legal framework established for creating other ESOPs
- (6) Functioning system for problem-solving by employees (creativity circles) at ATC
- (7) Egyptian ESOP consulting and investment banking capacity established

OUTPUTS (DELIVERABLES):

CONTRACT

- (1) Loan, pledge and fiduciary agreements for ATC ESOP loan prepared
- (2) A share valuation methodology with procedures for updating established and applied to ATC
- (3) ESOP design specifications and employee participation program drafted and embodied in ATC ESA bylaws
- (4) ESOP time and sequence schedules prepared
- (5) ESOP accounting and allocation manual administration forms prepared
- (6) ESOP financial projections and computer model prepared
- (7) Methodology for projecting ESOP repurchase obligations established
- (8) ESOP employee manual (with Arabic translation) composed
- (9) Generic versions of all ATC ESOP documents (annex to privatization PP)
- (10) ATC employee bonus program designed

POST-CONTRACT

- (11) Changes in Egyptian legislation for promoting ESOPs drafted
- (12) System for employee problem-solving teams designed
- (13) Egyptian Equity Expansion Center for technical assistance and promotion established
- (14) Egyptian ESOP consultants trained on the job
- (15) Key Egyptians visit U.S. ESOP companies
- (16) Egyptian, regional and international ESOP conferences
- (17) ESOP implementation manual written for USAID Washington

ACTIVITIES:

CONTRACT

- (1) Meet ATC founders and TRENCO executives
- (2) Dialogue with employees, board members, executives, lender, GOE, and labor unions
- (3) Assist in structuring the deal for ESOP share acquisition
- (4) Assist in establishing an ATC Board with ESOP representation
- (5) Write ESOP documentation (deliverables, 2, 6)
- (6) Do ESOP valuations and financial projections (deliverables 1, 3, 4, 5, 7, 8, 9, 10)
- (7) Conduct training sessions for ESOP administrators
- (8) Explain ESOP to employee representatives
- (9) Establish ESOP communication program and develop ESOP materials in Arabic
- (10) Design employee statements and reports
- (11) Debriefing seminars in AID Washington, CFP, etc.

POST-CONTRACT

- (12) Draft changes in legislation needed to promote ESOPs in Egypt
- (13) Select and coordinate Egyptian consultants
- (14) Contact potential ESOP companies
- (15) Design a program for employee problem-solving
- (16) Draft proposals for Egyptian ESOP Center, U.S. ESOP tour, and ESOP conferences
- (17) Write an ESOP manual for USAID Wash.

INPUTS (RESOURCES):

- (1) International consultants
- (2) Egyptian consultant(s)
- (3) Other resources of CFP contract
- (4) AID/Cairo resources
- (5) TRENCO resources

PART I-4

INTRODUCTION OF EMPLOYEE OWNERSHIP TO EGYPT: STATEMENT OF OBJECTIVES AND RISK ANALYSIS

INTRODUCTION OF EMPLOYEE OWNERSHIP TO EGYPT: 8/25/88

STATEMENT OF OBJECTIVES
AND RISK ANALYSIS

RESUME

This paper summarizes the different actions and achievements required for the establishment of significant employee ownership in the Egyptian economy. This effort must be spearheaded by the successful creation of an Employee Share Ownership Plan (ESOP) at the Alexandria Tire Company (ATC), which is the pilot project.

The main risks involved are that there will not be sufficient dividends to pay back the MIC loan and have a certain amount left over for distribution to employees, either (a) because ATC will not generate the expected profit stream, or (b) because the ATC board of directors will adopt a policy of retaining earnings rather than paying out dividends. For the reasons detailed in Section F, these risks appear minimal.

The main assumption which underlies the creation of an ESOP at ATC and the plans for establishment of significant employee ownership in Egypt is that the GOE will take the affirmative legal decisions detailed in Section F. While GOE responses so far have been positive, the necessary approvals must ultimately be made by the highest GOE policy-making levels.

A. INTRODUCTION

USAID/Cairo has taken the initiative to introduce employee ownership to Egypt through financial techniques similar to the U.S. ESOP (Employee Share Ownership Plan) but adopted to the Egyptian legal framework and social conditions. This effort is spearheaded by the creation of a pilot plant - the Alexandria Tire Company (ATC), which will be the first radial truck tire manufacturing plant in Egypt. ATC is a joint venture of TRENCO (Transport and Engineering Company), presently the sole Egyptian manufacturer of tires; Pirelli, the Italian tire manufacturer; and various Egyptian banks and insurance companies. The innovation in ATC is that 30.5% of its shares will belong to the employees, organized in an ESOP.

The ESOP concept is based on the use of capital credit in a leveraged buy-in in favor of the employees. A loan is obtained for investing in a productive enterprise through the purchase of shares. A part of the share dividends is used to reimburse the loan and the rest (after setting aside appropriate reserves) is distributed to the employees. It is calculated that at full production, ATC employees' dividend income will exceed their wage income. In addition, ATC employees are expected to retire with capital exceeding LE 30,000 each on the average. To increase the income distribution effects, the Egyptian authorities have decided that the 3500 employees of TRENCO (the "mother company" of ATC) will also be entitled to a part of the ATC shares. This will substantially increase their current income and build a nest egg for their retirement as well.

USAID is supporting the ATC ESOP pilot project through:

(a) financing a consultant team to help establish the ATC ESOP;

(b) approving a loan of LE 42.1 million from the Special Account which will be channeled by the Ministry for International Cooperation (MIC) to the National Investment Bank (NIB) for purchasing 30.5% of the ATC founding shares in favor of the employees.

Indications to date have been quite positive, both among GOE decision-makers (who have on the whole been very favorable to the plan), and in the Egyptian productive sectors (where some twenty companies have already requested the installation of similar employee ownership plans). It is expected that ESOPs can play a significant role in the privatization of Eyptian publicly-owned enterprises, since the option of transferring ownership to a large group of employees has an obvious attraction for the GOE.

B. STRATEGY FOR THE INTRODUCTION OF EMPLOYEE OWNERSHIP

The ATC pilot project is intended to be the spearhead of a three-pronged strategy for the establishment of a significant employee-ownership sector in the Egyptian economy. The elements of this strategy are:

1. Increasing the current income and retirement capital of ATC and TRENCO employees through their ATC share ownership.

2. Improving ATC Productivity and profitability, so there will be more dividends for both the employees and the other shareowners.

3. Establishing additional ESOPs in Egypt, as well as using the ATC experience as a model for initiating ESOPs in various Middle Eastern and other developing countries.

Regarding the second goal (improving productivity and profitability), research in the U.S. has shown that the installation of ESOPs usually has a positive effect on productivity (reduced absenteeism, improved labor relations, etc.) and profitability, and that this positive effect increases with the percentage of employee ownership. However, the research proved that the full economic benefits of ESOPs can be reaped only when the ESOPs are associated with a management philosophy which encourages the formation of employee problem-solving teams to tackle work-related objectives, such as increasing quality and reducing waste. Thus employee motivation to increase profitability, generated by ESOP share ownership, is channeled towards problems which the employees are best equipped to solve -- those related to their immediate work environment.

C. PURPOSE-LEVEL OBJECTIVES OF THE EGYPT ESOP INITIATIVE

The purpose-level objectives necessary to accomplish the above three goal-level objectives are detailed in the annexed Logical Framework. In short, these objectives are:

1. NIB receives an MIC loan of LE 42.1 M and invests in 30.5% of ATC founding shares on behalf of the employees.
2. ATC is legally established.
3. The ATC Employee Stockholders' Association is legally established, with the ESOP as its bylaws.
4. The ESOP Steering Committee (with management, employee and union representatives) is functioning and instructs NIB in voting the shares NIB holds in trust.
5. The legal framework necessary for creating other ESOPs in Egypt is established.
6. A system of employee problem-solving teams is installed at ATC.
7. Egyptian capacity for ESOP consulting and investment banking is created.
8. Key Egyptians (GOE decision-makers and chairmen of companies which have or plan to install ESOPs) make a study tour to model ESOPs in the U.S.
9. ESOP conferences held at the Egyptian, Middle Eastern and international levels.

Objectives 1-4 above are the purposes of the present Center for Privatization (CFP) consulting assignment. Objectives 5-9 represent further steps in the large-scale introduction of employee ownership to Egypt.

D. OUTPUTS NECESSARY TO ACCOMPLISH THE PROGRAM PURPOSES

The Logical Framework shows that the outputs necessary to accomplish the above purposes are:

1. Loan, Pledge and Fiduciary Agreements for the ATC ESOP loan prepared.
2. A share valuation methodology, including procedures for updating, is established and applied to ATC.
3. ESOP design specifications and an employee participation program drafted and embodied in the ATC ESOP bylaws.
4. ESOP time and sequence schedules prepared.
5. ESOP accounting and allocation manual (including administrative forms) prepared.
6. ESOP financial projections and computer model prepared.
7. A methodology for projecting ESOP repurchase obligations established.
8. ESOP employee manual (with Arabic translation) composed.
9. Generic versions of all ESOP documents prepared for use by future ESOPs ("the cookie cutter").
10. ATC employee bonus program (related to ATC performance and ESOP goals) designed.
11. Changes in Egyptian legislation to facilitate ESOPs drafted.
12. A system of employee problem-solving teams designed.
13. Egyptian ESOP consultants trained on the job.
14. An ESOP implementation manual written for USAID/Washington (which has requested such a manual).

Outputs 1-10 are contractual obligations of the present consulting assignment. Outputs 11-15 represent further steps necessary for expanding and capitalizing on the ATC experience.

E. REQUIRED INPUTS

The inputs provided by the present technical assistance contract (as amended) for accomplishing outputs 1-10 above consist of:

1. International technical assistants (a total of 96 person-days) provided by CFP.
2. Local legal expertise.
3. Other support resources of the CFP contract (travel, per diem, support staff, etc.)
4. USAID/Cairo resources (a counterpart, some inter-urban transportation, etc.)
5. TRENCO resources (maximal involvement of key management, some transport).

F. RISKS ASSOCIATED WITH THE PROGRAM FOR ESTABLISHING ESOPS IN EGYPT

Any economic enterprise entails risk, especially when it involves the initiation of a new industrial plant, coupled in this case with a new ownership pattern. Although employee ownership has shown rapid growth and positive economic results in the U.S., many hurdles regarding legal questions, organizational structures and employee communications must be crossed before it can be firmly established in Egypt.

The risks which may obstruct achievement of the objectives of the Egypt ESOP program, outlined above, are expressed in the assumptions column of the Logical Framework. The key assumptions are listed below, with a short discussion of the probability of validity of each.

Assumption 1: ATC achieves the financial targets projected in its feasibility study, generating sufficient dividends for loan repayment on schedule and dividend payments to employees.

Comments:

1. Behind ATC stands the experience of TRENCO (one of the few profit-making government-owned enterprises in Egypt and of Pirelli, the world-class tire manufacturer.
2. Pirelli is committed to the project through investment of its own funds, and has the means to help project success through the presence of its long-term technical assistance team, which has managerial responsibilities. Pirelli was actively involved in the project feasibility study.
3. The main risk is likely to consist of possible delays in factory construction, where many factors are outside ATC control (building contractors, machinery suppliers, etc.). TRENCO and Pirelli leadership is aware of these problems and determined to keep them under control through tight hands-on management.
4. The project has a captive market since it will satisfy only about 31% of the domestic Egyptian demand for truck and bus tires. It enjoys both (i) natural protection through a low-cost labor force, (ii) technological advantage of the most advanced production processes, and (iii) GOE protection in the form of a 35% duty on imported tires.
5. The project has a low break-even point: it will be sufficient for ATC to generate only 40% of the projected profits over the loan reimbursement period in order for the ESOP to meet its payment obligations to MIC.

Assumption 2: The ATC board of directors will follow a policy of maximum dividend payout (i.e. will finance future expansion mostly through borrowings rather than through retained earnings).

Comments:

The projections of employee dividend income are based on the ATC feasibility study, which assumes that at least 70% of ATC profits will be distributed to the shareholders. (The remaining 30% will be used for legal reserves, for increasing the ATC working capital, and possibly for additonal dividends). Conceivably, the ATC board of directors would not follow this dividend policy but decide to retain all or most of the earnings. A policy of plowing all or most of the earnings back into the enterprise would pose a double threat to the ESOP: there will be less cash payout to the ESOP for repurchasing the shares of departing employees, while the retained earnings are likely to increase the share value. The ESOP will both be unable to meet its repurchase obligations, and incur the disappointment of employees because of low dividend payouts.

While obviously the decisions of the future ATC board cannot be predicted, it should be kept in mind that the ESOP (with 30.5% of ATC shares), TRENCO (with 15%) and Pirelli (with 10%) will have together a majority of over 55% of ATC shares. Being the three active partners, their preponderance on the board is likely to be even greater than the above figure indicates. The interest of the ESOP is evidently to secure the maximal dividend payouts consistent with prudent management. Since TRENCO employees (including TRENCO management) will be beneficiaries of 40% of the ESOP shares, TRENCO is likely to be equally interested in maximal dividend payout. Pirelli, for its part, can be expected to desire early recuperation of its investment through rapid dividend payout. Thus there appears little likelihood that the ESOP will be obstructed by a policy of excessive retained earnings.

Assumption 3: TRENCO management and Pirelli technical assistance will be committed to the concept of employee problem-solving teams.

Comments:

The present TRENCO management has indicated its willingness to try out the concept. The realization of this assumption will depend to a large extent on Pirelli's management style (whether it is authoritarian or participative). It should be remembered that employee problem-solving teams, while they can channel the motivation generated by employee ownership to increase productivity and profitability, are not indispensable for establishing successful ESOPs.

Assumption 4: GOE continues to support employee ownership and approves the legal measures necessary to promote ESOPs.

Comments:

GOE high-level support, embodied in legal and policy decisions, is the sine qua non for success of the Egyptian employee ownership program. The main affirmative GOE actions required are:

1. Approval by MIC of the LE 42.1 million loan to NIB on behalf of the employees.
2. Approval of the ATC status and Joint Venture Agreement by the Investment Authority.
3. Approval of the ATC Employee Shareholders' Association (whose bylaws constitute the ATC ESOP) by MIC, the Ministry of Economy and the Ministry for Social Affairs.
4. Most important for the long-term, large-scale growth of employee ownership in Egypt is for the Council of State to approve the necessary legal dispositions. (These would probably be limited to making certain additions to the Executive Regulations of the Company Law No. 159 of 1981).

GOE reactions to employee ownership have so far been positive, as evidenced by the official MIC request to USAID/Cairo to earmark funds for the establishment of ESOPs. The present challenge is to capitalize on this general good will and institutionize the process for delivering the technical assistance.

G. THE WORST-CASE SCENARIO

In the worst case, (a) the Employee Shareholders' Association will not be created because of lack of authoritative GOE action, or (b) the Association will default on the loan because of insufficient dividend payouts. In both of these cases, MIC will retain the title to 30.5% of ATC shares. Since under Egyptian law a ministry cannot participate directly in the capital of a company, MIC will offer these shares for sale. The shares may be sold to the rest of the existing shareholders (who, under the Company Law, have the right of first refusal) or to other parties. In both cases, the result will be the same: ATC will be a mixed-economy company without employee share participation, of the type which has often been established in Egypt, in many cases with donor assistance.

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PART 1-5

THE PROCESS FOR INTRODUCING EMPLOYEE OWNERSHIP: THE PRIME MOVER STRATEGY

PART I-6

STRATEGY FOR EMPLOYEE PARTICIPATION

PART II-1

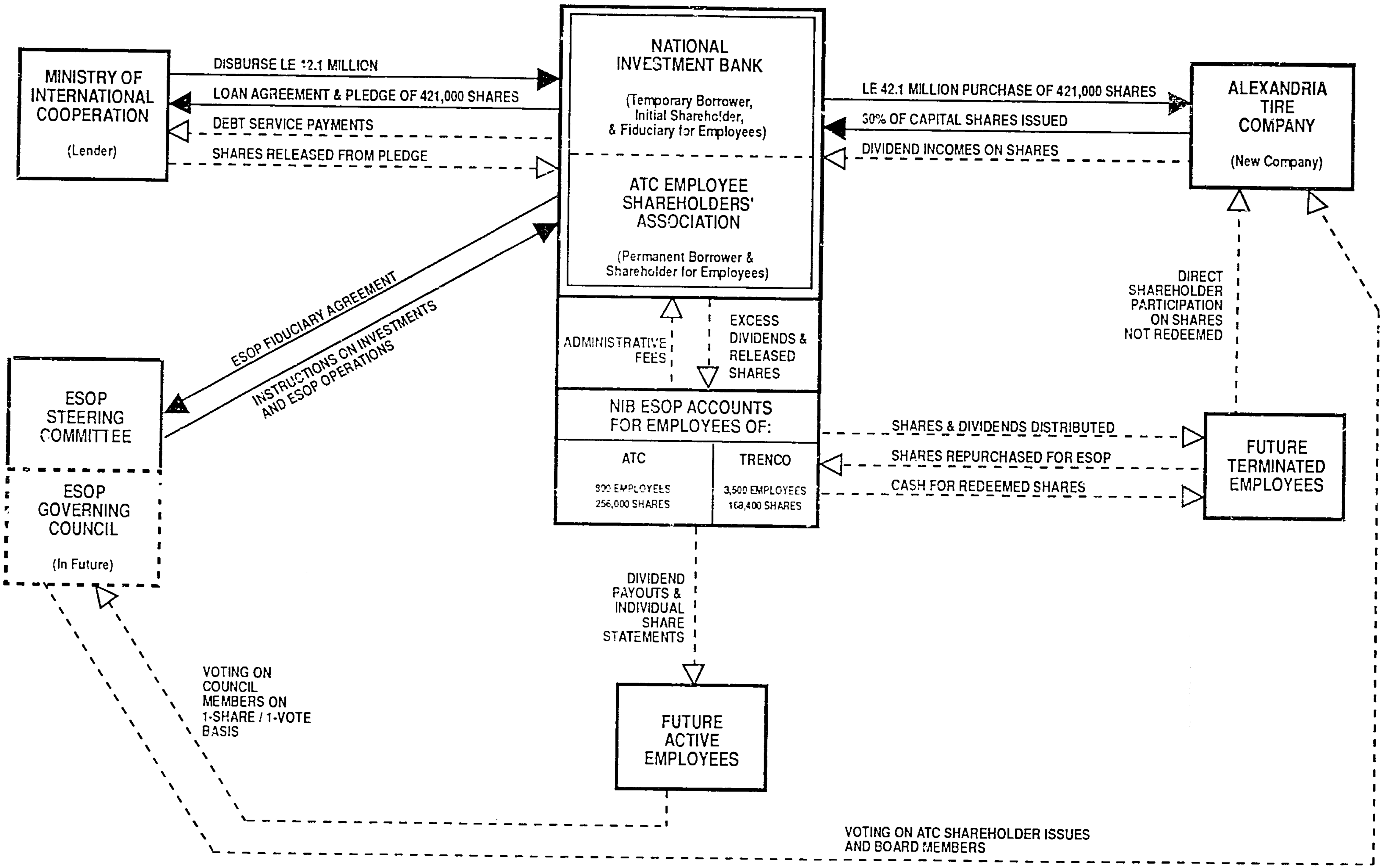
OVERVIEW OF THE ESOP TRANSACTION

PART II-2

DIAGRAMS:
THE ATC ESOP TRANSACTION

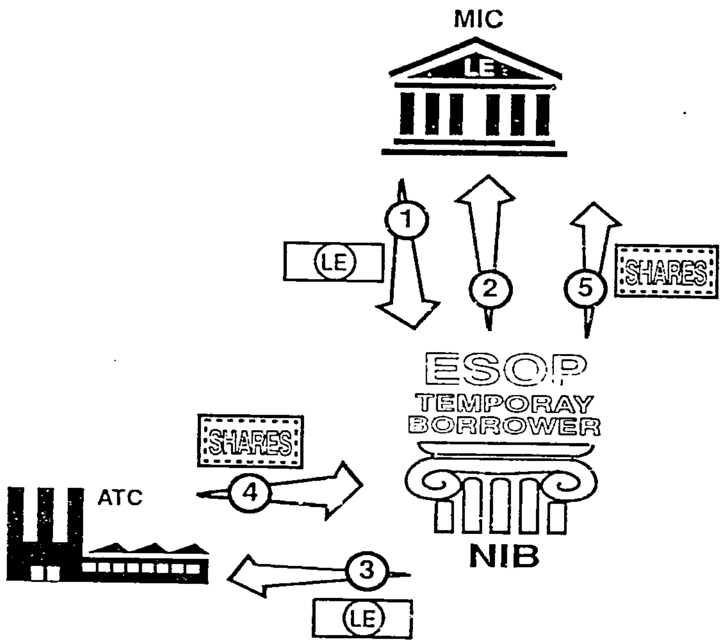
30

LEVERAGED FUNDING OF FORMATION SHARES FOR FUTURE EMPLOYEES OF ALEXANDRIA TIRE COMPANY OF EGYPT THROUGH EMPLOYEE SHARE OWNERSHIP PLAN FINANCING



STAGE 1:

TEMPORARY BORROWER BUYS FOUNDING SHARES IN NEW COMPANY FOR EMPLOYEES



1 Ministry for International Cooperation (MIC) loans LE 42.1 M to National Investment Bank of Egypt (NIB) as Temporary Borrower and ESOP Fiduciary for employees.

2 NIB signs agreement to repay loan out of future dividends (no cash inputs or guarantees by employees).

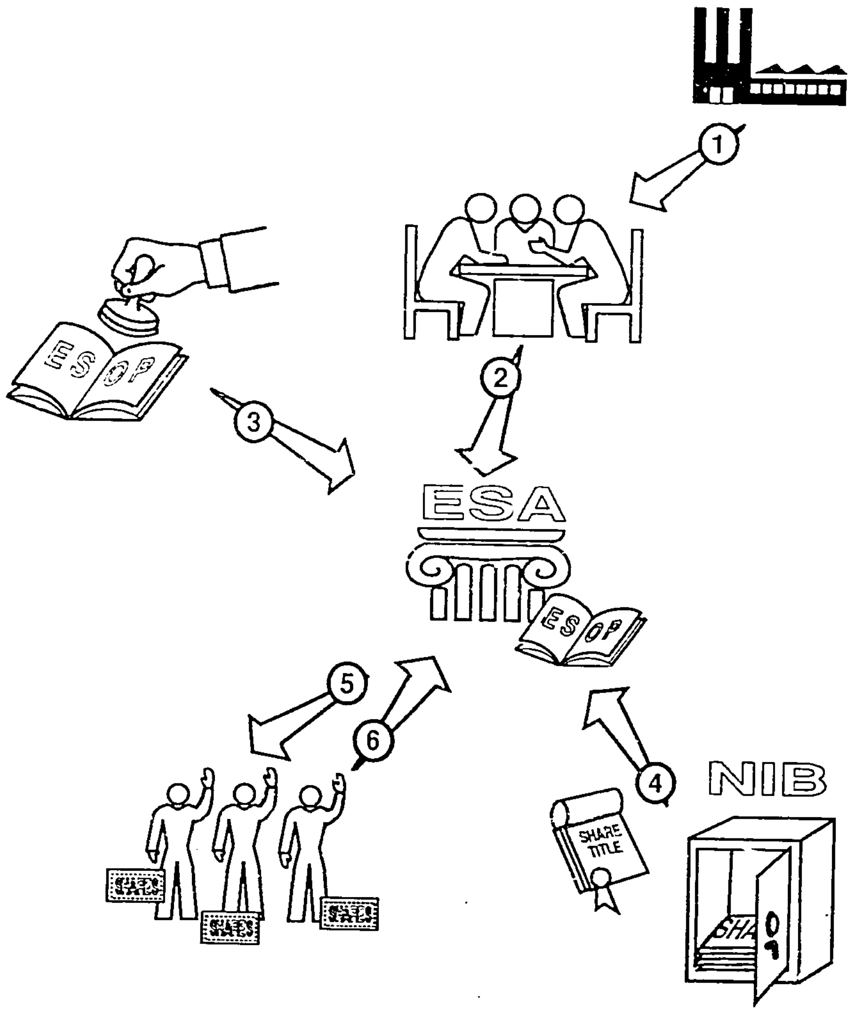
3 NIB invests loan proceeds in 30.5% of Alexandria Tire Company (ATC) founding shares.

4 ATC transfers 30.5% of its shares to NIB.

5 NIB pledges shares to MIC as loan collateral (NIB retains share certificates as escrow agent for MIC).

STAGE 2:

ALEXANDRIA TIRE COMPANY FORMS ESOP



1 Alexandria Tire Company (ATC) Founders' Committee establishes Temporary ESOP Steering Committee which includes employee representatives.

2 Temporary Steering Committee studies and approves Employee Shareholders' Association, with the ESOP as its bylaws.

3 Ministry of Social Affairs approves ESA as a legal entity.

4 NIB transfers title of purchased shares to ESA, which becomes Permanent Borrower (NIB retains share certificates as loan collateral)

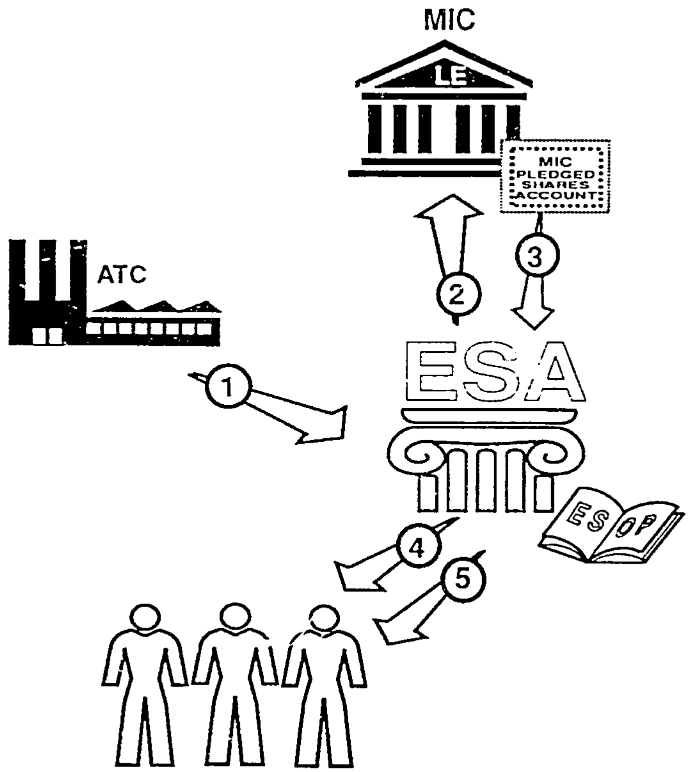
5 ESA sets up accounts for all qualified employees of ATC and TRENCO

6 ATC employees vote for permanent Governing Committee to represent them on ESA and monitor their ESOP accounts. TRENCO employees vote for a separate Governing Committee.

33

STAGE 3:

COMPANY USES PROFITS FOR REPAYING BUYOUT LOAN AND DISTRIBUTING EMPLOYEE DIVIDENDS



1 Company pays 30.5% of dividends to ESA (non-taxable).

2 ESA (through NIB) pays MIC annual principal and interest due on loan.

3 Shares released to ESA upon complete repayment of loan.

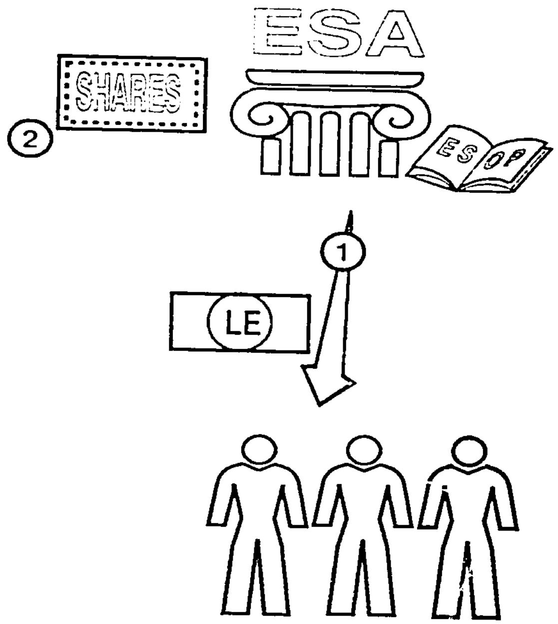
4 Share equivalents allocated annually to ESOP accounts of participants (non-taxable).

5 Distribution of monthly and annual cash dividends, if available.

34

STAGE 4:

DISTRIBUTION OF VESTED SHARES UPON RETIREMENT OR TERMINATION



1 Distribution to each employee, upon termination, of the appraised maket value of his/her shares.

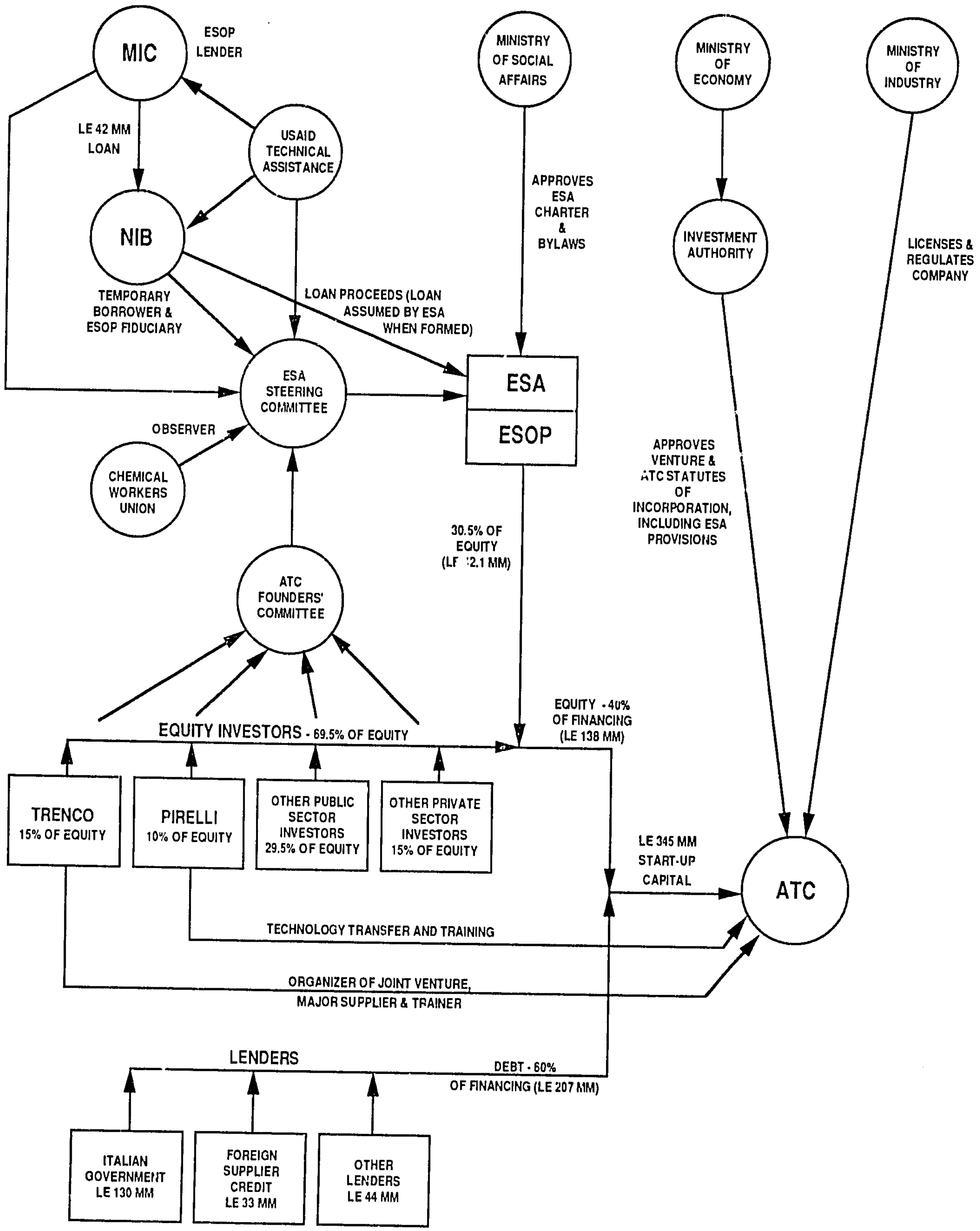
2 Shares remain in the ESOP for re-allocation among the remaing employees.

35

PART II-3

DIAGRAM: ROLES OF THE VARIOUS ACTORS IN THE ESOP TRANSACTION OF THE ALEXANDRIA TIRE COMPANY

ROLES OF THE VARIOUS ACTORS IN THE ESOP TRANSACTION OF THE ALEXANDRIA TIRE COMPANY



PART II-4

DETAILED PROJECT DESCRIPTION OF THE ATC ESOP

	FX ($000)	LE (LE 000)	LE TOTAL (LE 000)
Debt			
Italian Government	59,000		136,000
Foreign Supplier Credit	10,000		23,000
European Investment Bank	25,000		48,000
Subtotal	94,000		207,000
Equity			
TRENCO		20,000	20,000
Pirelli	6,500		14,000
Other Investors	3,500	56,000	64,000
Employees Stock Ownership		40,000	40,000
Subtotal	10,000	116,000	138,000
Total Capitalization	104,000	116,000	345,000

Equity financing will result in the following ownership distribution:

TRENCO	15.0
Pirelli	10.0
National Bank of Egypt	5.0
Development Industrial Bank	2.5
Arab Investment Bank	2.5
Suez Canal Bank	5.0
Gulf Arab Investment Bank	2.5
Cairo Bank	2.5
Alexandria Bank	5.0
El Shark Insurance Company	5.0
Egyptian Reinusrance Company	5.0
Alexandria Maritime Bank	5.0
European Investment Bank	4.5
Employees	30.5
TOTAL	100%

Total project costs are distributed as follows:

	FX ($000)	LE (LE 000)	LE TOTAL (LE 000)
Land		6,000	6,000
Civil Works		29,000	29,000
Equipment	72,550	36,480	193,914
Moulds	3,025	340	6,904
Engineering	12,500	-	27,125
Vehicles	-	1,400	1,400
Contingency	10,000	7,000	28,700
Total Fixed Assets	98,075	80,220	293,043
Preoperating Expenses	1,000	8,000	10,170
Interest During Construction	8,908	13,989	33,318
Working Capital	2,704	2,796	8,664
Total Project Costs	110,687	105,005	345,195

The LE 42,100,000 planned to be loaned to the ATC-ESOP would be taken from jointly-owned funds in the Special Account for the purpose of purchasing equity stock in the Alexandria Tire Company. These funds will be administered by the National Investment Bank of Egypt (NIB). NIB will represent ATC-ESOP and function as the purchaser of the stock and will hold the shares in trust for ATC-ESOP. This service will be performed for a fee of one-tenth of one percent (0.1%) of the total loan, or forty thousand Egyptian pounds (LE 40,000). NIB will use earned stock dividends to repay the loan. Once the Employee Shareholders Association is legally established, the NIB will cede to it the legal title to the employee shares. NIB will continue to hold the shares as collateral for the loan (acting as escrow agent for MIC) until the loan is repaid.

As the loan is repaid, each employee will acquire beneficiary rights in a number of shares, proportionate to his/her salary. Of the dividends on the employees block of shares, a part will be used to pay back the loan, a part will be held as reserve to repurchase each employee's right to the stock at the time of retirement, and the rest will be distributed to the employees in cash as dividends.

The GOE has expressed a concern that allocating 30% of ATC stock to ATC's 750 employees only, will give these employees a disproportionate privilege of ownership, with other industrial workers. To respond to this concern, and to further spread the benefits of ownership, it is proposed to allot 60% of the employees' stock to ATC's 750 employees, and the remaining 40% to the 3500 employees of the parent company, TRENCO. This will establish a first step in the direction of privatizing TRENCO.

The value of the stock will be determined by the Alexandria Tire Company Board of Directors and will be the same value as all other common stock offered to the buying public.

C. Implementation Schedule

	Year 1	Year 2	Year 3	Year
	123456789101112	123456789101112	123456789101112	12345
1. Engineering: Civil				
Detailed				
2. Construction				
3. Equipment: Ordering				
Delivery				
4. Erection and Commissioning: General				
Production Machinery				
5. Technical Documentation Delivery				
6. Training at Pirelli				
7. Start-up				
8. Production				
9. Continuous Technical Assistance from Pirelli for 10 yrs from start of production				

D. Relevant Experience of the Implementing Agencies

TRENCO was founded in 1946 as a general engineering company. In 1956, it began the manufacture of tires and is today the only tire manufacturing facility in Egypt. It currently produces 1.1 million tires per year, of which 280,000 are truck tires. In 1984, TRENCO entered into a licensing agreement with Dunlop Tires to produce automotive radial tires. It is now producing 150,000 automotive radials per year. Thus TRENCO has a proven record of tire production and has demonstrated its financial and technical competence over its forty-two year history.

Pirelli was founded in 1923 and has a world-wide network of tire producing and distributing facilities either wholly owned or in joint-ventures. The company produces tires for all automotive markets and possesses patents on special manufacturing technology for several tire production processes. The steel belted truck tire production process for the size and type mentioned earlier in this paper is one such patent. Pirelli has entered into 37 joint ventures and has granted 51 licenses to manufacture its products. Thus Pirelli has a proven record of profitability and world-wide operational experience.

The NIB was founded in 1958, and now has assets of over LE 31,000,000. NIB offers a full range of banking services and has an active trust administration division. Thus NIB has the demonstrated capacity to administer the trust described earlier in this paper.

E. Expected Outcomes

The project is expected to begin production of tires at the end of project year three. It is expected to reach design capacity, 350,000 truck tires per year, by the end of project year five. During this time, 750 new jobs will have been created, and ATC expects to capture 31% of the current and projected future domestic truck tire market. (Current demand is 1,000,000 tires per year and is projected to grow at 8% per year.) The project is expected to produce net earnings of LE 37,600,000 on net sales of LE 196,600,000 by the year 1993. Overall internal rate of return for the project, from inception to 1999, is expected to be 16.9%.

III. Summary Analyses

A project feasibility study entitled "Feasibility Study of a new Radial All Steel Truck Tire Factory in Egypt" is attached as annex one. The feasibility study resulted in the following summary findings:

A. Financial Feasibility

Egypt's current demand for truck tires is 1.0 million per year. From 1975 to 1985 demand grew by 20% per year and is projected to continue to grow at approximately 8% per year during the decade 1985 to 1995.

Approximately 40% of the demand is supplied by domestic production, and TRENCO is the only domestic producer. However, TRENCO does not have the knowledge or capacity to produce steel belted radial truck tires in the sizes specified below in the summary of the technical feasibility findings of the study. Pirelli has the technical knowledge to produce these tires and is willing to enter into a joint venture with TRENCO to share the knowledge and produce the tires.

B. Technical Feasibility

Pirelli will provide the technical knowledge to produce four types of truck tires in the following quantities:

	SIZE	UNITS
1.	10.00R 20	30,000
2.	11.000 20	30,000
3.	12.00R 20	260,000
4.	12.00R 24	30,000

All machines, moulding equipment, moulds and engineering to plan and install the equipment will be provided by Pirelli. Pirelli will also enter into a technical assistance agreement to assist in production at the plant for ten years following commissioning. TRENCO will provide the plant site, the engineering and civil works necessary to construct the buildings to house the equipment, the power supply and connections and approximately 26,500 metric tons of raw materials per year. The raw materials consist of items that TRENCO currently uses in its production process or ones to which it has ready access.

C. Environmental Analysis

The feasibility study did not perform an environmental analysis of the proposed project. However, based on the environmental analysis of a previous AID project designed to assist TRENCO (Industrial Production Project), the review of the new project's feasibility study and an inspection of the proposed site for the new project, the Mission Environmental Officer has made a determination that this project will have no negative environmental impact.

IV. Monitoring and Reporting

NIB, acting as ATC-ESOP fiduciary and administrator for the loan, will monitor project progress and will make annual reports to MIC on the progress of the project. The reports will indicate progress toward the achievement of project goals and identify significant problems. The reports will also provide summary financial statements concerning loan repayment transactions and purchase and distribution of ATC stock to ATC-ESOP.

These reports, as well as all project financial records, will be kept in the possession of NIB during project implementation and for a period of three years following project completion. The records will be available for inspection by MIC or AID at any time during the above mentioned period.

COMPARISON OF OFFERS

($US millions)

	Pirelli	Goodrich
KNOW-HOW	2.0	5.0
Basic Engineering	4.5	included
Detailed Engineering	included	4.5
Equipment Procurement		3.0
Construction Management and Training	6.2	4.1
Total	12.7	16.6
TECHNICAL ASSISTANCE/year	1.9	2.2
Cost of Imported Equipment:		
From Pirelli	35.5	72.7
Tendered on market	43.0	
Tendering Services		1.9
Total	78.5	74.6
FINANCING	$59 million loan (41% at 1.5% for 20 years with 10 years grace, and 59% at 7% for 10 years with 3 years grace, by Italian Government)	No Financial Support
TECHNICAL EXPERIENCE in steel belted radial truck tires.	Plants in Italy, Germany, England, Spain, and Brazil.	Sold plants Oklahoma and Miami but would provide technical Assistance.
TOTAL COST OF PLANT COMPARISONS	$159 million*	$180 million

General Tire - Turn key proposal - $186 million.

Dunlop U.K. - Plants were sold before proposal was finalized.

* as of September 1987. Conversion rate of LE2.17 = $1.

INDIVIDUAL EQUIPMENT PRICE COMPARISONS (LE)

	Pirelli	Goodrich
Steel Cord Cutting Equipment	748,870	726,300
6" Cold Feed Extruder	2,121,980	1,903,400 (1,523,400 '82 price + 5% inflation/year)
9" Hot Feed Extruder	1,847,200	2,071,000

	Pirelli	Mitsubishi	Farrell	ComerioErcole
8" Extruder	4,657,124	7,016,132	4,456,000	
4-6" Extruder	5,097,697	7,428,695	5,385,000	
9 Tire Building Machines	31,152,430	34,609,131		
Steel Cord Calendering Line	6,922,759			8,083,521

TERMS OF REFERENCE

BORROWER: Alexandria Tire Company
TRENCO/Pirelli joint venture (new company)

DESCRIPTION: Truck tire manufacturing

CONTACT: M. Fathy El Feky, Chairman
Transport & Engineering Co.
P. O. Box 668 Smouha
Alexandria, Tel: Cairo 753 649, Alex 420-0427, 420-6295

STATUS: Feasibility study complete and approved by TRENCO and Pirelli. Needs approval by GOE and USAID.

OWNERSHIP:

	Percent
TRENCO	15.0
Pirelli	10.0
National Bank of Egypt	5.0
Development Industrial Bank	2.5
Arab Investment Bank	2.5
Suez Canal Bank	5.0
Gulf Arab Investment Bank	2.5
Cairo Bank	2.5
Alexandria Bank	5.0
El Shark Insurance Company	5.0
Egyptian Reinusrance Company	5.0
Alexandria Maritime Bank	5.0
European Investment Bank	4.5
Employees	30.5
TOTAL	100%

EQUITY (40%): (million)		$	LE	LE Total
	TRENCO		20	20
	Pirelli	6.5		14
	Other Investors	3.5	56	64
	Employees (ESOP)		40	40
	Subtotal	$10	LE116	LE138
DEBT (60%):	Italian Government	59		136
	Supplier Credit	10		23
	European Investment Bank	25ECUS		48
	Subtotal	$94		LE207
TOTAL CAPITALIZATION (100%):		$104	LE116	LE345

MARKET SHARE:

%	Year 1	Year 6	Year 10
TRENCO	27%	35%	33%
Joint Venture	0%	31%	29%
Imports	73%	34%	38%

PRODUCTION CAPACITY: 350,000 truck tires per year.

JOBS CREATED: 610 (first year of production)

IMPLEMENTATION SCHEDULE: 3 years from start to production.

USE OF PROCEEDS:

	Foreign ($,000)	Local (LE,000)	Total (LE,000)
Land	-	6,000	6,000
Civil works	-	29,000	29,000
Equipment	72,550	36,480	193,914
Molds	3,025	340	6,904
Engineering	12,500	-	27,125
Vehicles	-	1,400	1,400
Contingency	10,000	7,000	28,500
Total Fixed Assets	98,075	80,229	293,043
Preoperating Expenses	1,000	8,000	10,170
Interest During Construction	8,908	13,989	33,318
Total Other Costs	9,908	21,989	43,488
Working Capital	2,704	2,796	8,664
Total Project Cost	110,687	105,005	345,195

FINANCIAL PROJECTIONS:

	YEAR 1	2	3	4	5	6	7	8	9	10
Sales	38.5	115.6	192.6	196.6	196.6	196.6	196.6	196.6	196.6	196.6
Income	6.2	24.6	41.9	45.4	45.4	46.7	56.0	56.1	56.1	56.1
Cash	48.6	32.5	65.7	74.2	79.2	82.5	87.6	91.5	96.1	100.2
Net In	2.6	8.9	29.2	37 6	42.6	47.4	61.7	65.7	70.2	74.4

Internal Rate of Return 17%

PART II-5

RATIONALE FOR SELECTION OF THE BENEFICIARIES

PART II-6

ATC LOAN AGREEMENT

LOAN AGREEMENT . 7 Nov. 1988

This Loan Agreement is made the ____ day of ______, 1988 by and between:

The Lender: The Ministry of International Cooperation of the Arab Republic of Egypt ("MIC").

and

The Borrower: The National Investment Bank of Egypt ("NIB"), acting as the Fiduciary and, subsequently upon its creation, the Alexandria Tire Company Employee Shareholders' Association to be formed by the Employees of Alexandria Tire Company S.A.E.

ARTICLE 1: DEFINITIONS

1.1 "Borrower" means the National Investment Bank of the Arab Republic of Egypt, as Fiduciary, and subsequently the Alexandria Tire Company Employee Shareholders' Association, upon the assumption of its rights and obligations under this Loan Agreement.

1.2 "Lender" means the Ministry of International Cooperation (MIC) of the Arab Republic of Egypt, and its successors and assigns.

1.3 "Loan" means the aggregate Principal amount of funds which the Lender has agreed to make available to the Borrower pursuant to Article 5 hereof.

1.4 "Original Disbursement" means the first disbursement of the Loan from the Lender to the Borrower.

1.5 "Fiduciary" means the National Investment Bank of the Arab Republic of Egypt (NIB), which shall act hereunder as an interim borrower until the Employee Shareholders' Association assumes its rights and obligations hereunder, as administrator of the ESOP as specified in the ESOP Fiduciary Agreement, and in such other capacities in connection with this Agreement, the Pledge Agreement, the ESOP Fiduciary Agreement and other aspects of this transaction as is specified in such Agreements.

1.6 "Company" means the Alexandria Tire Company S.A.E., a manufacturing enterprise organized within the framework of Law No. 43 of 1974 as amended by Law No. 32 of 1977, under a joint venture agreement between the Transport and Engineering Company S.A.E. ("TRENCC"), an Egyptian public sector joint-stock company with main offices in Alexandria, Egypt; the Pirelli Coordinamento Pneumatici S.p.A., a joint stock company with main offices in Milan, Italy; and other investors.

1.7 "Company Shares" means the shares of capital stock of the Company purchased with the proceeds of the Loan.

1.8 "Founders Committee" means the Egyptian founders of the company acting as a body which has legal standing to act on behalf of the Company before its establishment.

1.9 "Employees" means all persons receiving salaries or wages from the Company or from TRENCO, who meet certain minimum and non-discriminatory eligibility standards specified in the ESOP.

1.10 "Employer" means the Company or TRENCO regarding their respective Employees.

1.11 "ESOP" means an employee share ownership plan which is established by the Employees and approved by the Employer, which serves as the bylaws of the Employee Shareholders' Association, and which is designed to enable all qualifying Employees to acquire a beneficial ownership interest in the Company's share capital and participate as Company shareholders in the manner specified in the ESOP.

1.12 "Employee Shareholders' Association" means the Alexandria Tire Company Employee Shareholders' Association, the legal entity to be established by the Employees and approved by the Employer which shall, upon its creation, assume the rights and obligations as the Borrower hereunder and which shall acquire and hold Company Shares for the benefit of all Company and TRENCO Employees and their beneficiaries covered by the ESOP.

1.13 "ESOP Governing Committees" means the permanent bodies, each of which will establish policies and supervise administration of all sub-accounts of the Employees represented by such Governing Committee within the ESOP Account. A six-member ESOP Governing Committee will represent Company Employees and a separate four-member Governing Committee will represent TRENCO Employees. Each of said Governing Committees shall independently direct the Fiduciary in the handling of ESOP assets of the Employees represented by that ESOP Governing Committee. Both ESOP Governing Committees, one-half of whose members shall be management representatives and the other half elected representatives of all Employees of the company concerned, shall together serve as the board of directors of the Employee Shareholders' Association.

1.14 "ESOP Steering Committee" means the temporary committee established by the Founders Committee and approved by the Lender, consisting of the members listed in Annex A (attached hereto), which is responsible for designing the ESOP so that it qualifies as a legally constituted program under Egyptian law, and which directs the Fiduciary under the ESOP Fiduciary Agreement until such time as the Company becomes operational and the ESOP Governing Committees are established.

1.15 "ESOP Account" means a depository account, consisting of a Company Shares Account and an Other Investments Account, maintained by the Fiduciary under the ESOP Fiduciary Agreement for the purpose of implementing and the recording the interests of participants in the ESOP.

1.16 "ESOP Fiduciary Agreement" means the agreement entered into between the Fiduciary and the Company and ratified by the Employee Shareholders' Association after it is formed, which defines the duties, rights, powers and limitations of the Fiduciary acting as representative of the interests of the Employee Shareholders' Association until the creation of such association and in administering the ESOP Account and in handling all loans and other financial transactions involving ESOP assets.

1.17 "Pledge Agreement" means the agreement between the Lender and the Borrower, dated the date hereof, which becomes effective as soon as the Company is formed and issues its initial founding shares, under which shares of the Company are held in a Pledged Collateral Account as collateral for the Loan.

1.18 "Pledged Shares" means shares of the Company which are acquired with the proceeds of the Loan and pledged to the Lender by the Borrower under the Pledge Agreement.

1.19 "Pledged Collateral" means (i) the Pledged Shares and certificates representing such Shares (whether temporary or permanent), (ii) all property, including dividends which are paid or payable other than in cash, (iii) all voluntary cash contributions by participating Employees, the Company or TRENCO which are specifically made and designated for repayment of the Loan, (iv) cash dividends paid or payable on Pledged Shares in an amount not exceeding payments on current and accrued Principal and interest thereon, and (v) all earnings on such property, contributions or dividends.

1.20 "Pledged Collateral Account" means the account maintained by the Escrow Agent on behalf of the Lender for holding Pledged Shares and other Pledged Collateral as collateral on the Loan, subject to their release as the conditions specified in the Pledge Agreement are fulfilled.

1.21 "Principal" means the aggregate principal amount of the Loan outstanding and owed at any time under the Loan Agreement.

1.22 "Project" means the establishment and operation of the Alexandria Tire Company S.A.E. as set forth in Annex B.

1.23 "Escrow Agent" means the National Investment Bank of the Arab Republic of Egypt (NIB) acting in its role on behalf of the Lender as custodian of (i) an escrow account into which MIC shall deposit the funds for the Loan to the Borrower hereunder and (ii) the Pledged Collateral Account.

ARTICLE 2: THE PROJECT

The Project consists of construction and operation of an all-steel radial truck tire manufacturing plant at a site at Ameriya near Alexandria, Egypt. The Project will be implemented under a joint venture arrangement between the Transport and Engineering Company S.A.E. (TRENCO), the Pirelli Coordinamento Pneumatici S.p.A., of Italy (PIRELLI), and other investors. As one of the financial components of the project, the Lender herein agrees to loan forty two million one hundred thousand Egyptian pounds (LE 42,100,000) to the Borrower. Details concerning the Project are set forth in Annex B, Project Description, attached hereto.

ARTICLE 3: SUMMARY OF THE TRANSACTION

The Lender has agreed to make this Loan hereunder to the Borrower for the purpose of purchasing, for the benefit of the Employees, four hundred twenty-one thousand (421,000) shares of capital stock (constituting 30.5% of the initial equity) of the Company at a par value of one hundred Egyptian pounds (LE 100) per share. Sixty percent (60%) of such shares (252,600 shares) will be allotted for the benefit of the Employees of the Company. If the Board of Directors of TRENCO and the ESOP Governing Committee representing TRENCO Employees adhere to the ESOP by appropriate resolutions adopted within five (5) years of the date of this Loan Agreement, the remaining forty percent (40%) of such shares (168,400 shares) will be allotted for the benefit of the Employees of TRENCO. If no such adherence takes place, all shares will be allotted for the benefit of the Company's Employees. Since the Employees will hold only a beneficial interest in the Company's shares, each Employee will receive share-equivalents which will be allocated to his or her personal ESOP account in accordance with the terms and conditions of the ESOP.

Whenever the Company declares cash dividends on its capital stock, it will pay an amount equal to thirty and one-half percent (30.5%) of the total amount of such dividends to the ESOP Account. The Fiduciary will first use these monies to pay itself fees it is owed for its services and the remainder to pay the Principal of and interest on the Loan in accordance with the Loan repayment schedule in Article 5.3. Any monies remaining in the ESOP Account after the foregoing payments shall be paid out by the Fiduciary as determined by the ESOP Governing Committees. These Committees will be guided by the principle that (i) a part of such remaining monies will be paid out to the Employees; (ii) a part will be held in reserve for future Loan repayments; and (iii) a part will be held in reserve to meet the obligation under the ESOP to repurchase share-equivalents from Employees.

The Fiduciary will act as an interim borrower under this Loan Agreement, with all the rights and obligations of the Borrower hereunder, until such rights and obligations can be assumed by the Employee Shareholders' Association upon its creation. Under the ESOP Fiducary Agreement, the Fiduciary will also have

52

responsibilities to administer the ESOP on behalf of the Employee Shareholders' Association, when such Association is created. In addition, NIB, the Fiduciary, will act as an escrow agent for the Lender (i) to hold the Loan proceeds until they can be disbursed to purchase the Company's initial capital stock; (ii) to take custody over the Pledged Collateral Account which shall contain the collateral for the Loan; and (iii) generally to administer the Loan for the Lender. As specified herein, in the ESOP Fiduciary Agreement and the Pledge Agreement, NIB shall receive a fee for its services rendered in connection with this transaction from funds deposited in the ESOP Account.

ARTICLE 4: TERMS OF THE LOAN AGREEMENT

4.1: AGREEMENT OF THE LENDER

The Lender agrees to provide the Loan to the Borrower under the terms specified in Article 5 of this Loan Agreement. The Lender acknowledges and agrees that the Employee Shareholders' Association will automatically assume the rights and obligations under this Loan Agreement when it it established and delivers to the Lender the following documents, in form and substance satisfactory to the Lender:

(a) a certified copy of a resolution of the board of directors of such Association approving its assumption of all rights and obligations under this Loan Agreement, the Pledge Agreement, the ESOP Fiduciary Agreement, and all other documents related to this transaction;

(b) a certified copy of the deed of incorporation and the bylaws (including the ESOP) of such Association;

(c) a statement containing the name(s) and specimen signature(s) of the person(s) authorized to sign documents on behalf of such Asscciation;

(d) a favorable legal opinion of counsel to the employee Shareholders' Association stating that such Association has been duly organized under the laws of the Arab Republic of Egypt; that it is authorized under its corporate rules to act as Borrower to enter into the agreements to which it is a party, and otherwise to take part in this transaction as described in Article 3 hereof; that no other approvals other than those that have already been obtained are necessary; and that the agreements to which it is a party upon their assumption, are the legal. valid, binding and enforceable obligations of the Employee Shareholders' Association in accordance with their respective terms; and

(e) such other documents as the Lender may reasonably request.

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4.2: AGREEMENT OF THE BORROWER

The Borrower agrees:

(a) to repay the Loan under the terms specified in Article 5 of this Loan Agreement, to the extent that the Company deposits into the ESOP Account sufficient monies in the form of dividends and voluntary Company and Employee contributions as specified in the ESOP; and

(b) to pledge to the Lender under a separate Pledge Agreement, as collateral for the Loan, all capital stock of the Company acquired with the Loan proceeds, which shares shall be released from such pledge as specified in the Pledge Agreement.

ARTICLE 5: TERMS OF THE LOAN

To finance the Egyptian pound costs of the purchase of capital stock of the Company in order to establish an ESOP, the Lender agrees to provide to the Borrower, under the terms of this Loan Agreement, an amount not to exceed forty-two million one hundred thousand Egyptian pounds (LE 42,100,000).

5.1: INTEREST

The Borrower will pay the Lender a sum of four million two hundred ten thousand Egyptian pounds (LE 4,210,000) as interest on the Principal for the entire Loan period, as specified in Article 5.3. If less than forty-two million one hundred thousand Egyptian pounds (LE 42,100,000) are disbursed under this Agreement, then interest shall be re-calculated appropriately based on ten percent (10%) of the cumulative sum actually disbursed. The first payment of interest will be due and payable on the date which is six (6) years after the date of the Original Disbursement, unless adjusted in accordance with this Article and Article 5.3.

5.2: PRINCIPAL

Subject to the default provisions of Article 8(b), which allow two (2) extra years for repayment if the Loan has not been paid in full by the last day of year 16, the Borrower will repay the Principal and interest thereon within sixteen (16) years from the date of the Original Disbursement, in annual installments according to the schedule set forth in Article 5.3.

5.3: LOAN REPAYMENT SCHEDULE

Year	Payment	Payments, LE millions Interest	Principal	Total	Principal Outstanding
1	Grace period	0	0	0	10.5
2	Grace period	0	0	0	31.5
3	Grace period	0	0	0	42.1
4	Grace period	0	0	0	42.1
5	Grace period	0	0	0	42.1
6	Grace period	0	0	0	42.1
7	Interest+principal	0.42	4.2	4.62	37.9
8	Interest+principal	0.42	4.2	4.62	33.7
9	Interest+principal	0.42	4.2	4.62	29.5
10	Interest+principal	0.42	4.2	4.62	25.3
11	Interest+principal	0.42	4.2	4.62	21.1
12	Interest+principal	0.42	4.2	4.62	16.9
13	Interest+principal	0.42	4.2	4.62	12.7
14	Interest+principal	0.42	4.2	4.62	8.5
15	Interest+principal	0.42	4.2	4.62	4.3
16	Interest+principal	0.43	4.3	4.73	0.0
	Total	4.21	42.1	46.31	

It is specifically agreed between the parties that if the dividends paid by the Company on the Pledged Shares and deposited in the ESOP Account are sufficient to make full annual Principal and interest payments thereon before the end of the grace period, such payment shall be made and the grace period will be shortened correspondingly.

The Borrower shall make or cause to be made, on an annual basis, payments of interest and Principal to the deposit account specified by the Lender, not later than thirty (30) days following the annual date on which the Company pays a cash dividend on the Pledged Shares or by the ____ day of ________ of each year, whichever is later. If such day falls on a holiday or on a day on which banks are closed, then such payment will be made on the first succeeding day on which banks are open.

5.4: PREPAYMENT

The Borrower may prepay any scheduled payments without penalty.

ARTICLE 6: DISBURSEMENT

6.1: METHOD OF DISBURSEMENT

The Loan will constitute a credit line upon which the Borrower will be able to draw to purchase shares of stock of the Company as contemplated in Annex B hereto.

6.2: REQUIREMENTS PRECEDENT

(a) Requirements Precedent to Original Disbursement. The obligation of the Lender to make its Original Disbursement of the Loan shall commence when the Lender shall have received on or before the date of such disbursement, the following, in form and substance satisfactory to the Lender:

(i) A draft copy of the deed of incorporation and the statutes of ATC, as submitted to the Investment Authority;

(ii) A certified copy of all documents which evidence necessary corporate action authorizing NIB as Fiduciary to execute the Loan Agreement, Pledge Agreement and ESOP Fiduciary Agreement and all other documents required to be delivered in connection with this transaction;

(iii) A statement from an authorized officer of NIB indicating the name and specimen signature of the officer of NIB who is authorized to sign the Loan Agreement, the Pledge Agreement, the ESOP Fiduciary Agreement and all other documents required to be delivered in connection with this transaction;

(iv) A favorable legal opinion from counsel to NIB to the effect that NIB is authorized to enter into this transaction, that the Loan, Pledge, and ESOP Fiduciary Agreements and any other agreements to which NIB may be a party to in connection with this transaction are legal, valid and binding and enforceable against the Borrower in accordance with their terms;

(v) A favorable legal opinion from counsel to the Founders Committee to the effect that the transaction as contemplated in Article 3 hereof and in the Fiduciary Agreement is permissable under Egyptian law and that all agreements to the transaction are enforceable under Egyptian law, identifying therein potential legal impediments to enforceability of such agreements and specifying the approach for resolving them;

(vi) A certified copy of the ESOP Fiduciary Agreement between the NIB and the Founders Committee of the Company;

(vii) The Pledge Agreement, duly executed by the Borrower, the temporary certificates representing the Shares of the Company which are being pledged under the Pledge Agreement and evidence that all other actions necessary to protect the Lender's interest in the Pledged Shares created by the Pledge Agreement have been taken.

(b) Requirements Precedent to Subsequent Loan Disbursements

The obligation of the Lender to make subsequent disbursements of the Loan shall be subject to the requirement precedent that on

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the date of such disbursement no event has occurred and is continuing which constitutes an Event of Default.

6.3: REQUEST FOR DISBURSEMENT

The Borrower may obtain disbursement of the Loan from the Lender by submitting a letter to the Lender which specifies the amount of funds to be disbursed and the ESOP Account into which the funds are to be deposited. The Lender shall make the Original Disbursement of the Loan so that the Borrower can pay twenty-five percent (25%) of the total price of the initial subscription of capital stock of the Company which is being purchased by the Borrower, at a time specified by the Fiduciary and, in any event, within a maximum of thirty (30) days after receiving the written request of the Fiduciary.

6.4: DATE OF DISBURSEMENT

A disbursement will be deemed to occur on the date on which the Lender makes a deposit in the ESOP Account of the Borrower.

ARTICLE 7: LOAN AGREEMENT COMPLETION DATE

The Loan Agreement Completion Date will be the date on which all repayments of Principal of and interest thereon will have been made, or such repayment obligations hereunder shall have otherwise been satisfied in accordance with Article 9 hereof.

ARTICLE 8: DEFAULT

An "Event of Default" will be deemed to have occurred under the following circumstances:

(a) The Company fails to establish within five (5) years from the effective date of this Loan Agreement the Employee Shareholders' Association, which is supported by a legal opinion which states that the Employee Shareholders' Association and the ESOP are legally constituted under the laws of the Arab Republic of Egypt, and that the ESOP enables all Employees to be beneficial owners of the Company's stock, enjoying substantially the equivalent of the most advantageous voting and dividend rights enjoyed by other Company shareholders, with respect to the thirty and one-half percent (30.5%) of the shares of capital stock in the Company which will be acquired with the proceeds of the Loan; or

(b) The Borrower fails to meet the loan repayment schedule for three (3) consecutive years, starting with the first scheduled debt service payment after the six-year grace period which commences on the date of the Original Disbursement; or
(c) Filing by the Company for bankruptcy; termination of

51

existence of the Company; business failure of the Company; failure by the Company to pay its other creditors on debts as they became due; sale, transfer of legal title or abandonment by the Company of any substantial part of its Project assets without replacement by equivalent assets; or an announcement by the Company that its plant operation will be permanently closed; or

(d) The Company is dissolved by a decision of the General Assembly, by a court ruling, or by any other act under the laws of the Arab Republic of Egypt.

Should an Event of Default occur and be continuing, the Lender shall have the right, but not the obligation, at any time thereafter by notice to the Borrower, to:

(i) Terminate its obligation to make any further disbursements of the Loan, whereupon such obligation shall forthwith terminate;

(ii) Declare the full Principal, all interest thereon and all other amounts payable under this Agreement to be immediately due and payable, whereupon all such amounts shall become and be forthwith due and payable; and

(iii) Sell or otherwise convert to cash all or any portion of the Pledged Shares; provided, however, that the Lender shall give the Company, the Employee Shareholders' Association and the Fiduciary at least sixty (60) days' written notice of its intent to sell or transfer such Shares pursuant to this Article 8.

ARTICLE 9: LIMITATIONS ON BORROWER'S RISK AND RESPONSIBILITY

It is specifically agreed that:

(a) The liability of the Borrower hereunder to the Lender shall be limited to repayment of the Principal and interest thereon, provided that, if the Lender shall declare the Loan to be in default and the funds in the ESOP Account are insufficient to enable repayment to the Lender, satisfaction of the Borrower's liability hereunder shall be limited to (in the order specified below):

(i) return of any Loan proceeds disbursed by the Lender but not yet applied to purchase capital stock of the Company;

(ii) payment to the Lender of such other monies which have been voluntarily paid into the ESOP Account by the Employees or their Employee and designated for repayment of the Loan; and

(iii) loss of the Pledged Shares in accordance with the terms of the Pledge Agreement and Article 8 hereof;

Provided further however, that to the extent the value of the property referred to in subparagraphs (i), (ii) and (iii) above exceeds the amount owing to the Lender hereunder, such excess

58

amount may be retained by or, if in the possession of the Lender, shall be repaid to the Borrower.

Upon receipt of the property referred to in subparagraphs (i), (ii) and (iii) above, all further liability of the Borrower to the Lender under this Loan Agreement shall cease; or to the extent the Lender shall elect to collect any portion of such property in satisfaction of the Borrower's liability hereunder, the Borrower's liability hereunder shall be limited to the value of the remaining amount of such property, not to exceed the aggregate Principal and interest thereon then owing hereunder.

(b) In any year, the Borrower's entire obligation for repayment on the Loan is limited to the lesser of (i) the amount due as specified in the schedule in Article 5.3, and (ii) the amounts deposited in the ESOP Account for servicing the Loan, consisting of cash dividends and voluntary contributions paid by the Company or the Employees for that year, plus any earnings from such funds or from Loan disbursements that have been made but have not yet been used to purchase Company Shares.

(c) The Fiduciary shall have no direct corporate liability to the Lender for any obligation hereunder or under any other agreement to which it may be a party in connection with the transaction described in Article 3 or in connection with any other aspect of the Project. As an interim borrower hereunder, the Fiduciacy's obligation shall be limited as described in paragraphs (a) and (b) above.

ARTICLE 10: MANAGEMENT FEES AND EXPENSES

For its services hereunder for the benefit of the future Employee Shareholders' Association, the Fiduciary shall be paid a management fee to be negotiated initially with the ESOP Steering Committee and, after its formation, with the Employee Shareholders' Association. Such fee shall not be less than ten thousand Egyptian pounds (LE 10,000) nor greater than two-tenths of one percent (0.2%) of the Loan Principal per annum. Payment of the management fee will be effected in four equal quarterly payments per annum, which will be withdrawn by the Fiduciary from the ESOP Account. Any registration fees and other expenses related to this Loan and approved by the ESOP Steering Committee or, after its formation, by the Employee Shareholders' Association, will be paid by the Fiduciary and debited to the ESOP Account. All such fees may be paid by the Company and reimbursed by the Association after it is formed.

ARTICLE 11: COVENANTS

(a) Loan proceeds shall not be used to assist military, paramilitary or police organizations.

(b) The Borrower shall not incur additional indebtedness of any amount exceeding twenty thousand Egyptian pounds (LE 20,000) without express written approval by the Lender; except that, with the approval of the Lender, additional indebtedness may be incurred by the Borrower for the purchase of additional Company Shares if such additional indebtedness is secured wholly by the pledge of such additional Shares and future dividends attributable to such Shares.

(c) The Borrower agrees to deliver or cause to be delivered to the Lender, promptly upon their issuance, a copy of the final deed of incorporation and statutes of the Company which were approved by the Investment Authority, certified by a duly authorized officer of the Borrower to be a true and authentic copy.

ARTICLE 12: CANCELLATION

In the event that the Company is not incorporated within one (1) year of the signing of this Loan Agreement, this Loan Agreement will be cancelled and, except for fees and expenses of the Fiduciary, all funds disbursed shall be returned to the Lender, unless the Lender and the Borrower agree by mutual consent to extend the one (1) year period mentioned in this Article. In the event of cancellation, the Fiduciary shall receive a fee of ten thousand Egyptian pounds (LE 10,000) plus reasonable expenses, which may paid from earnings on the Loan proceeds deposited in the ESOP Account or paid for by the Company.

ARTICLE 13: LITIGATION

Any litigation which may arise under this Loan Agreement is within the jurisdiction of the General Assembly of the Council of State. This Loan Agreement shall be governed by and construed in accordance with the laws of the Arab Republic of Egypt.

ARTICLE 14: GOVERNING LANGUAGE

This Loan Agreement has been executed in both Arabic and English versions. In case of any conflict between the two versions, the Arabic language version shall control.

ARTICLE 15: COMMUNICATIONS

Any notice, request, document or other communication pertaining to this Loan Agreement shall be in writing and shall be deemed given or made when received by hand delivery, telex or telegraph, to the addresses specified below:

For the Lender: Ministry of International Cooperation
8 Adly Street
Cairo, Egypt

60

For the Fiduciary: National Investment Bank of Egypt
18 Abd El Meguid El Rimaly Street
Cairo, Egypt

For the Company: Alexandria Tire Company S.A.E.
P.O. Box 668, Smouha
Alexandria, Egypt

For the Employee Shareholders' Association (after its formation): Alexandria Tire Company
Employee Shareholders' Association
P.O.Box 668, Smouha
Alexandria, Egypt

ARTICLE 16: AMENDMENTS

No amendments or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by both parties.

ARTICLE 17: CONFLICT OF INTEREST

This Agreement acknowledges that all parties to this share acquisition Loan for the benefit of Employees are aware that the NIB will be acting in many capacities, including Temporary Borrower on behalf of Employees, founding shareholder of the Company on behalf of Employees, pledgor of shares as collateral, escrow agent for the Lender, loan administrator for the Lender, and Fiduciary of plan assets for the Employees, and agree to hold the NIB harmless against any future claim that these varying roles constitute a conflict of interest.

ARTICLE 18: EFFECTIVE DATE

This Agreement will enter into force on the latest date which appears below. The parties to this Agreement agree that they will abide by any amendments introduced by the Council of State to any of the Articles of this Agreement, and will formally amend this Loan Agreement to reflect such changes.

61

IN WITNESS THEREOF, the Lender and the Fiduciary, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the date below:

FOR THE MINISTRY OF INTERNATIONAL COOPERATION (THE LENDER):

By: ______________________________

Name:

Title:

Date:

FOR THE NATIONAL INVESTMENT BANK OF EGYPT (THE TEMPORARY FIDUCIARY:

By: ______________________________

Name:

Title:

Date:

62

PART II-7

ATC PLEDGE AGREEMENT

63

PLEDGE AGREEMENT 7 Nov. 1988

This Pledge Agreement is made the ____ day of __________, 1988, by and between the Ministry of International Cooperation ("MIC") of the Arab Republic of Egypt (the "Lender") and the National Investment Bank of Egypt ("NIB"), as the Fiduciary and interim borrower under the Loan Agreement, and, subsequently upon its creation, the Alexandria Tire Company Employee Shareholders' Association (the "Borrower") for the pledge of shares (or, before share certificates are available, temporary certificates representing such shares) in the Alexandria Tire Company to collateralize a loan under a Loan Agreement of this date between the parties hereto.

WHEREAS, the Lender has agreed to lend to the Borrower under such Loan Agreement forty-two million one hundred thousand Egyptian pounds (LE 42,100,000) (the "Share Acquisition Loan") in order to enable the Borrower to purchase on behalf of the Alexandria Tire Company Employee Shareholders' Association (the "Association") (to be formed within a maximum of five years hereafter) four hundred twenty-one thousand (421,000) shares, representing thirty and one-half percent (30.5%) of the initial capital stock of the Company, at par value of one hundred Egyptian pounds (LE 100); and,

WHEREAS, the Association, upon meeting the conditions specified in the Loan Agreement, shall assume all rights and obligations of the Borrower under the Loan Agreement, together with legal title to shares acquired with the proceeds of the Share Acquisition Loan; and,

WHEREAS, the National Investment Bank of Egypt will act as escrow agent for the Lender under this Pledge Agreement, as loan administrator for purposes of the Loan Agreement, and as Fiduciary under a separate ESOP Fiduciary Agreement of this date; and,

WHEREAS, the Share Acquisition Loan will be repaid with future cash dividends which the Company pays to the holders of its shares, as required under Article 4.2(a) of the Loan Agreement, plus any voluntary cash contributions by participating Employees or their Employer which are made for the specific purpose of repaying the Share Acquisition Loan, and earnings on such contributions; and,

WHEREAS, the Lender has required, as a condition of its agreement to make the Share Acquisition Loan, that the Borrower shall pledge to it all of the shares of the Company purchased by the Borrower with the proceeds of the Loan (all such shares to be referred to herein as the "Pledged Shares"); and,

WHEREAS, the Borrower has agreed to pledge the Pledged Shares to the Lender, as aforesaid, and to deliver temporary (and when later available, permanent) certificates evidencing such Pledged

64

Shares to a special escrow account in the name of the Lender (the "Pledged Collateral Account") maintained by the National Investment Bank of Egypt in its capacity as escrow agent for the Lender;

NOW, THEREFORE, this Pledge Agreement is entered into between the Borrower and the Lender to specify the terms on which Pledged Shares will collateralize the Loan which will enable Employees to acquire and participate in a significant ownership interest in the Company:

ARTICLE 1: DEFINITIONS

The capitalized terms used herein shall be as defined in the Loan Agreement and ESOP Fiduciary Agreement dated the date hereof, unless otherwise defined herein. Each gender includes the other, and the singular includes the plural.

"Association" means the Alexandria Tire Company Employee Shareholders' Association, an association being formed to implement the Plan.

"Borrower" means the Borrower as defined in the Loan Agreement.

"Company" means the Alexandria Tire Company S.A.E.

"Company Shares" means Shares of capital stock of the Company acquired pursuant to the Plan.

"Dividends" means cash dividends on Company Shares paid or payable to the Fiduciary for the benefit of Participants as specified in the Plan.

"Employee Shareholders' Association" means the Association.

"Employee" means any person employed by the Company or TRENCO.

"Escrow Agent" means the NIB acting in its capacity as Escrow Agent for the Lender with respect to Pledged Collateral under this Pledge Agreement.

"ESOP" means the provisions of the bylaws of the Association which deal with the implementation and operation of an employee share ownership plan for the benefit of Employees.

"ESOP Governing Committee" means one of the two permanent committees of the Association which represents Employees of the Company or of TRENCO, as defined in the Plan.

"ESOP Steering Committtee" means the temporary committee appointed by the Founders Committee for the purpose of implementing the Plan and giving instructions to the Fiduciary before the Company becomes operational and the ESOP Governing Committee is formed.

65

"Event of Default" means an Event of Default as defined in the Loan Agreement.

"Founders Committee" means the Egyptian founders of the Company acting as a body which has legal standing to act on behalf of the Company before its establishment.

"Lender" means the Lender as defined in the Loan Agreement.

"Leveraged Shares" means the Company Shares acquired with the proceeds of the Share Acquisition Loan.

"Loan" means the Share Acquisition Loan.

"Loan Agreement" means all documents necessary for making the Share Acquisition Loan.

"Obligations" means all obligations of the Borrower to repay Principal and interest thereon, under the Loan Agreement and this Pledge Agreement.

"Plan" means the ESOP.

"Plan Assets" means all assets of the Plan including Company Shares (or Share-Equivalents), which are held by the Fiduciary or in the Association for the benefit of Participants.

"Pledged Collateral" means Pledged Collateral as specified in the Loan Agreement and Article 2 of this Pledge Agreement.

"Pledged Collateral Account" means the account maintained by the Escrow Agent to hold Pledged Collateral on behalf of the Lender, as defined in the Loan Agreement.

"Pledged Shares" means Company Shares which are acquired with the proceeds of the Loan and pledged to the Lender by the Borrower under the Pledge Agreement.

"Released Shares" means (i) the actual release of Pledged Shares to a Borrower under the Share Acquisition Loan and this Pledge Agreement, or (ii) the accounting release of Share-Equivalents for allocation to Participants' Company Shares Accounts on Pledged Shares held in the Pledged Collateral Account, based on payments on Obligations under a release formula specified in the Plan for purposes of allocations, distributions and voting under the Plan.

"Shares" means Shares of capital stock in the Company.

"Share Acquisition Loan" means the Loan agreement dated the date hereof made by the MIC to the NIB, which provided funds for acquiring 421,000 Leveraged Shares for the benefit of Employees.

"Share-Equivalents" means the accounting term describing Company Shares (whether such shares are held by the Association or the Fiduciary), for purposes of allocations, distributions and voting

66

under the Plan.

ARTICLE 2: PLEDGE OF SHARES

(a) Upon the terms and conditions contained herein, the Borrower does hereby pledge to the Lender (i) the Pledged Shares and the certificates representing the Pledged Shares, plus (ii) all property, including dividends, which are paid or payable other than in cash, (iii) all voluntary cash contributions by participating Employees or their Employer which are specifically made and designated for the repayment of the Share Acquisition Loan, (iv) cash dividends paid or payable on the Pledged Shares in an amount not exceeding payments on current or accrued Obligations and (v) all earnings on such property, contributions or dividends (all such collateral are herein referred to as "Pledged Collateral").

(b) The Pledged Collateral shall secure payment of all obligations of the Borrower now or hereafter existing under the Loan Agreement and this Pledge Agreement (all such obligations are herein referred to as the "Obligations").

(c) Upon the formation of the Company, the Company shall deliver or cause to be delivered to the Lender the temporary certificates representing the Pledged Shares, which certificates shall be maintained by the Fiduciary in a separate Pledged Collateral Account in its capacity as escrow agent for the Lender. Upon its issuance of the permanent certificates representing the Pledged Shares, the Borrower whall forthwith deliver or cause to be delivered such certificates to the Lender.

ARTICLE 3: VOTING RIGHTS; DIVIDENDS

3.1 VOTING RIGHTS AND DIVIDENDS IN NORMAL CONDITIONS

As long as no Event of Default shall have occurred and is continuing:

(a) The Borrower, as directed by the ESOP Steering Committee (and its successor ESOP Governing Committees), shall be entitled to exercise all voting and other consensual rights pertaining to the Pledged Collateral or any part thereof.

(b) The Borrower shall be entitled to receive and retain any and all dividends paid in respect to Pledged Collateral, <u>provided, however</u>, that any or all dividends payable other than in cash in respect of, and other non-cash property received, receivable or otherwise distributed in repect of, or in exchange for, any Pledged Collateral shall be delivered forthwith to the Escrow Agent, be received in trust for the benefit of the Lender, and be held as Pledged Collateral.

(c) All cash dividends on Pledged Shares which when received exceed all current or accrued repayment obligations under the Loan Agreement will be maintained in a separate account (referred

61

to as the "Other Investments Account") for distribution to or investment on behalf of participating Employees.

3.2 VOTING RIGHTS AND DIVIDENDS DURING AN EVENT OF DEFAULT

Upon the occurrence and during the continuance of an Event of Default:

(a) all rights of the Borrower or of the Employees to exercise the voting and other consensual rights with respect to the Pledged Shares which they would otherwise be entitled to exercise pursuant to this Article 3, and to receive the cash dividend payments which it would otherwise be authorized to receive and retain pursuant to this Article shall cease, and all such rights shall thereupon become vested in the Lender, who shall thereupon have the sole right to exercise such voting and other consensual rights and to receive and hold as Pledged Collateral such dividends; and

(b) all dividends which are received by the Borrower contrary to the provisions of the foregoing paragraph (a) shall be received in trust and shall be forthwith paid over to the Lender as Pledged Collateral.

ARTICLE 4: RELEASE OF SHARES FROM PLEDGE

To decrease the risk of loss for the benefit of the Lender, the Pledged Shares shall be released from the Pledged Collateral Account only upon the payment in full of the Obligations.

ARTICLE 5: DEFAULT

Should an Event of Default have occurred and be continuing:

(a) The Lender shall have the right but not the obligation, at any time thereafter, in addition to all other rights permitted to it under the laws of the Arab Republic of Egypt, to sell, transfer or otherwise convert to cash all or any portion of the Pledged Collateral on such terms as the Lender shall deem commercially reasonable. The Lender agrees to give the Borrower sixty (60) days written notice of its intent to sell, transfer or otherwise convert to cash such Collateral pursuant to this Article 5.

(b) Any cash held by the Lender as Pledged Collateral and all cash proceeds received by the Lender in respect of any sale of or other realization from all or any part of the Pledged Collateral may be held as collateral or applied against all or any part of the Obligations. Any surplus of such cash or cash proceeds held by the Lender and remaining after payment in full of all the Obligations shall by paid over to the Borrower or to whomsoever may be lawfully entitled to receive such surplus.

63

ARTICLE 6: CONTINUING INTEREST IN COLLATERAL; TRANSFERS

This Agreement shall create a continuing interest in the Pledged Collateral and shall (i) remain in full force and effect until satisfaction of the Obligations in accordance with the terms of this Agreement and the Loan Agreement (particularly Article 9 thereof), (ii) be binding upon the Borrower, its successors and assigns, and (iii) inure to the benefit of the Lender and its successors, transferees and assigns. The Lender may assign or otherwise transfer its rights hereunder to any other person or entity, and such other person or entity shall hereupon become invested with all the rights of the Lender with respect thereto. Upon payment in full of the Obligations, the Borrower shall be entitled to the return of such Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof.

ARTICLE 7: REPRESENTATIONS AND WARRANTIES OF THE BORROWER

In entering into this Pledge Agreement, the Borrower makes the following representations and warranties:

(a) The Pledged Shares have been duly authorized and validly issued;

(b) The Borrower is the legal and beneficial owner of the Pledged Collateral free and clear of any encumbrances or other interests except for the interest of the Lender hereunder; except that, upon the assumption by the Association of its rights and obligations hereunder and under the Loan Agreement, beneficial ownership of the shares shall be in the Employees under the ESOP;

(c) The pledge of the Pledged Shares pursuant to this Agreement creates a valid and enforceable interest in the Pledged collateral to secure the payment of the Obligations; and

(d) No authorization, approval or other action by, and no notice to or filing with, any governmental authority is required either (i) for the Pledge by the Borrower of the Pledged Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement by the Borrower or (ii) for the exercise by the Lender of the voting or other rights provided for in this Agreement or the remedies in respect of the Pledged Collateral pursuant to the Agreement.

ARTICLE 8: SEPARABILITY FROM LOAN AGREEMENT; OTHER LIMITATIONS ON BORROWER RIGHTS

All rights of the Lender hereunder and its interest in the Pledged Collateral as provided herein and all obligations of the Borrower hereunder, shall be absolute notwithstanding:

(a) any lack of validity or enforceability of the Loan Agreement or any other agreement relating thereto; or

(b) any other circumstances which might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Obligations.

ARTICLE 9: AMENDMENTS

No amendment or waiver of any provision of this Agreement shall be effective unless made in writing and signed by both parties to this Agreement.

ARTICLE 10: CONFLICT OF INTEREST

This Agreement acknowledges that all parties to the Share Acquisition Loan for the benefit of Employees are aware that the National Investment Bank of Egypt will be acting in many capacities, including Temporary Borrower on behalf of Employees, founding shareholder of the Company on behalf of Employees, pledgor of shares as collateral, escrow agent for the Lender, loan administrator for the Lender, and Fiduciary of plan assets for the Employees, and agree to hold the National Investment Bank harmless against any future claim that these varying roles constitute a conflict of interest.

ARTICLE 11: NOTICES

Any notice, request, demand or other communication pertaining to this Pledge Agreement shall be in writing and shall be deemed given or made when received by hand delivery, telex or telegraph, addressed as specified below:

If to the Lender:	Ministry of International Cooperation 8 Adly Street Cairo, Egypt
If to the Fiduciary:	National Investment Bank of Egypt 18 Abd El Meguid El Rimaly Street Cairo, Egypt
If to the Company:	Alexandria Tire Company S.A.E. P.O. Box 668, Smouha Alexandria, Egypt

If to the Association (after its formation): Alexandria Tire Company
Employee Shareholders' Association
P.O. Box 668, Smouha
Alexandria, Egypt

ARTICLE 12: LITIGATION AND GOVERNING LAW

This Pledge Agreement shall be construed and enforced in accordance with the litigation and governing laws of the Arab Republic of Egypt. Any litigation which may arise from the execution of this Pledge Agreement is within the jurisdiction of the General Assembly of the Council of State of Egypt.

IN WITNESS WHEREOF, the parties have executed this Pledge Agreement on the day and year first above written.

FOR THE MINISTRY OF INTERNATIONAL COOPERATION (THE LENDER):

By: ______________________________

Name:

Date:

FOR THE NATIONAL INVESTMENT BANK OF EGYPT (THE FIDUCIARY):

By: ______________________________

Name:

Date:

71

PART II-8

ATC FIDUCIARY AGREEMENT

ESOP FIDUCIARY AGREEMENT 7 Nov. 88

BETWEEN THE

ALEXANDRIA TIRE COMPANY

AND THE

NATIONAL INVESTMENT BANK OF EGYPT

THIS AGREEMENT, between the Founders' Committee of the ALEXANDRIA TIRE COMPANY S.A.E. (a corporation which will be organized under the laws of the Arab Republic of Egypt, referred to herein as the "Company" and subsequently the Company itself upon ratification and adoption of this agreement by its Board of Directors, and the NATIONAL INVESTMENT BANK OF EGYPT ("NIB"), hereinafter referred to as the "Fiduciary", to be effective as of____________________

W I T N E S S E T H:

WHEREAS, it will be the policy of the Company as a new company under formation to so finance and conduct its operations as to enable its Employees and Employees of the Transport and Engineering Company ("TRENCO"), which has played a major role in organizing the Company and will continue to make major contributions after the Company becomes operational, to obtain access to productive credit for acquiring beneficial ownership interests in thirty and one-half percent (30.5%) of the initial capital stock of the Company and thereby share as investors in the future profits of the Company; and,

WHEREAS, the Company upon its formation will take steps towards adoption of the ALEXANDRIA TIRE COMPANY EMPLOYEE SHARE OWNERSHIP PLAN, hereinafter referred to as the "Plan"; and,

WHEREAS, the Founders' Committee of the Company agrees to appoint an ESOP Steering Committee, which will be responsible for designing and implementing the Plan; organizing an Employee Shareholders' Association (the "Association") to serve as a permanent legal vehicle for receiving loans to the Plan and for holding Company Shares; and directing a Fiduciary on the administration of the Plan and voting of Company Shares for the benefit of Plan participants until such responsibilities are assumed by the Association or by another fiduciary; and

WHEREAS, pursuant to a loan agreement dated the date hereof, the Ministry of International Cooperation ("MIC") has agreed to make a loan (hereafter referred to as the "Share Acquisition Loan") to the Fiduciary as an interim Borrower to enable the Fiduciary to purchase Company Shares on behalf of Employees of the Company and of TRENCO, with legal title to such Shares being transferred to

73

the Employee Shareholders' Association as soon as such Association is formed, approves its bylaws (including the Plan) and assumes the Share Acquisition Loan all as contemplated in the Loan Agreement; and

WHEREAS, the Fiduciary has agreed to serve as an interim Borrower to receive proceeds of the Share Acquisition Loan to serve as an interim founding shareholder of the Company by investing such loan funds on behalf of future Employees in initial foundation shares of the Company, with legal title to such shares eventually being transferred to the Association; to serve as pledgor of such shares as collateral for the Share Acquisition Loan as required by the Pledge Agreement dated this date between the Borrower and the Lender; to act as escrow agent for the Lender by maintaining a separate escrow account to hold such Pledged Shares until the Share Acquisition Loan is fully repaid; and to serve as loan administrator for the receipt of dividends and other funds as they become available to meet the loan repayment schedule;

NOW, THEREFORE, the parties hereto do hereby agree that the following shall constitute the ESOP Fiduciary Agreement under which Plan Assets acquired for the Association, when organized, shall be administered:

ARTICLE 1: DEFINITIONS

The capitalized terms used herein shall be as defined in the Loan Agreement and the Pledge Agreement dated the date hereof unless otherwise defined herein. Each gender includes the other, and the singular includes the plural.

"Association" means the Employee Shareholders Association.

"Beneficiary" means the person (or persons) entitled to receive any benefits under the plan in the event of a Participant's death.

"Borrower" means the borrower as defined in the Loan Agreement.

"Capital Accumulation" means a Participant's vested (nonforfeitable) interest in his ESOP Accounts as defined in the Plan.

"Company Shares" means shares of capital stock in the Company acquired pursuant to the Plan.

"Company Shares Account" means one of two ESOP Accounts of a Participant in the plan, reflecting his interest in Company Shares.

"Employee" means any person employed by the Company or TRENCO

"Employee Shareholders Association" means the Alexandria Tire Company Employee Shareholders' Association, an association to be formed to implement the Plan.

74

"Escrow Agent" means the NIB acting in its capacity of escrow agent for the Lender with respect to Pledged Collateral under the Pledge Agreement.

"ESOP" means the provisions of the bylaws of the Association which deal with implementation and operation of an employee share ownership plan for the benefit of Employees.

"ESOP Account" means one of the two depository sub-accounts maintained to record the interest of a Participant in the Plan, including a Company Share Account and an Other Investments Account.

"ESOP Governing Committee" means one of the two permanent committees of the Association which represents Employees of the company or of TRENCO, as defined in the Plan.

"ESOP Steering Committee" means the temporary committee appointed by the Founders Committee for the purpose of implementing the Plan and giving instructions to the Fiduciary before the Company becomes operational and the ESOP Governing Committee is formed.

"Event of Default" means an Event of Default as defined in the Loan Agreement.

"Fai. Market Value" means the current value of Company Shares as defined in the Plan.

"Founders Committee" means the Egyptian founders of the Company acting as a body which has legal standing to act on behalf of the Company before its establishment.

"Lender" means the Lender as defined in the Loan Agreement.

"Leveraged Shares" means Company Shares acquired with the prodeeds of a Share Acquisation Loan.

"Loan" means the Share Acquisition loan made by the MIC to the Fiduciary for acquiring Leveraged Shares for Employees, and loans received by the Association in the future for such other acquisitions.

"Loan Agreement" means all documents necessary for making a Share Acquisition Loan, including the loan dated the date hereof.

"Obligations" means all obligations of the Borrower to repay Principal and interest thereon, under the Loan Agreement and the Pledge Agreement.

"Other Investments Account" means one of the two ESOP Accounts of a Participant in the Plan, reflecting his interest under the Plan attributable to Plan Assets other than Company Shares.

"Participant" means any Employee or former Employee who has met the eligibility requirements of the Plan and who has not yet received complete distribution of his Capital Accumulation.

"Plan" means the ESOP.

"Plan Assets" means all assets of the Plan, including Company Shares (or Share-Equivalents, which are held by the Fiduciary or in the Association for the benefit of Participants.

"Pledge Agreement" means the Pledge Agreement, made in connection with the Loan, between the MIC and NIB.

"Pledged Collateral" meant all collateral specified in the Loan Agreement.

"Pledged Collateral Account" means the account maintained by the Escrow Agent on behalf of the Lender, as defined in the Loan Agreement.

"Pledged Shares" means Company Shares which are acquired with the proceeds of the Loan and pledged to the Lender by the Borrower under the Pledge Agreement.

"Released Shares" means (i) the actual release of Pledged Shares to a Borrower under a Share Acquisition Loan and its related Pledge Agreement, or (ii) the accounting release of Share - Equivalents for allocation to Participants' Company Shares Accounts on Pledged Shares held in the Pledged Collateral Account, based on payments on Obligations under a release formula and specified in the Plan for purposes of allocations, distributions and voting under the Plan.

"Shares" means shares of capital stock of the Company.

"Share Acquisition Loan" means the Loan Agreement dated the date hereof and future loans received by the Association for acquiring additional Company Shares.

"Share-Equivalents" means the accounting term describing Company Shares (whether such Shares are held by the Association or Fiduciary, or are held in the Pledged Collateral Account), for purposes of allocations, distributions and voting under the Plan.

ARTICLE 2: THE PLAN ASSETS

2.1 PLEDGED COLLATERAL ACCOUNT: NON-GUARANTEED LEVERAGED COMPANY SHARES

The Fiduciary, upon receipt of instructions from the ESOP Steering Committee, shall acquire with the proceeds of the Share Acquisition Loan, an amount of the initial capital stock of the Company equal to 30.5% of the total initial capital stock issued (such shares are hereafter referred to as "Leveraged Shares") at no less favorable prices, rights or terms than shares acquired by other founding investors of the Company, for the primary purpose of enabling Employees to gain a beneficial interests in the Company as a basis of their future participation in the governance and profits of the Company.

76

The Fiduciary as Borrower under the Loan Agreement and pledgor under the Pledge Agreement shall pledge such Leveraged Shares as collateral for the Share Acqaisition Loan. As escrow agent for the Lender, NIB shall hold such collateral separately from all unpledged assets in an escrow account referred to in the Pledge Agreement as the "Pledged Collateral Account". In addition to the certificates representing the Pledged Shares, the Pledged Collateral Account shall also contain (i) all dividends or property paid or payable other than in cash in respect of the Pledged Shares, (ii) voluntary cash contributions by Employees or their Employer which are made expressly for repayment of the Share Acquisition Loan, (iii) cash dividends paid or payable on Pledged Shares in an amount not exceeding current and accrued payments on Principal or interest thereon, and (iv) earnings on such property, contributions or dividends. Cash dividends on such Pledged Shares which in any year exceed the Borrower's current or accrued Obligations under the repayment schedule specified in Article 5.3 of the Loan Agreement will be held in the "Other Investments Account" (within the ESOP Account) for distribution to Employees or other purposes determined by the ESOP Steering Committees or the Association.

The Fiduciary shall transfer physical possession of the Pledged Shares and all other assets in the Pledged Collateral Account to the Association or to its designated fiduciary within thirty (30) days after the Obligations have been repaid in full. Such shares shall thereafter be maintained in a "Company Shares Account" (within the ESOP Account) for allocation to Employees on the basis of Share-Equivalents and other objectives of the Association. Pending the release of Pledged Shares, allocations of Share-Equivalents should be made among the personal ESOP Accounts of Participants based on a release formula and an allocation formula in the Plan adopted by the Association.

1.2 FUTURE ACQUISITIONS OF LEVERAGED SHARES

The Fiduciary shall establish separate accounts and records to hold additional Leveraged Shares acquired with the proceeds of other Share Acquisition Loans. If there are sufficient corporate or other guarantees and/or collateral for such future loans the Lender may, in its discretion, conclude that a pledge of such Leveraged Shares may not be required. The Fiduciary should determine the adequacy of guarantees and other collateral to ascertain whether shares should be released yearly as such future Share Acquisition Loans are being amortized, rather than after all loan obligations are met.

2.3 COMPANY SHARES ACCOUNTS

All Company Shares purchased with cash or contributed to the Plan by the Company and Share-Equivalents based on the repayment of the Share Acquisition Loan shall be maintained separate from other assets of the Association and recorded in a "Company Shares

Account" as specified in the Plan of the Association. Allocations among the Participants shall be in Share-Eq valents as specified in the Plan.

2.4 OTHER PLAN ASSETS

Dividends paid by the Company on Company Sha s and voluntary Employer and Employee Contributions shall be aid to the Fiduciary from time to time in accordance with th provisions of the Plan. Dividends to meet current or accrued O igations under Article 5.3 of the Loan Agreement or other Share quisition Loans, or other cash or property designated for l n repayment purposes, or income therefrom, shall immediately segregated and placed in the ESOP Account for timely repayme of loan Obligations as scheduled in the Loan Agreement and other such agreements. All other contributions made to the Plan by the Employer or Employees, in cash or otherwise, together with all accumulations, accruals, earnings and income with respect thereto, shall be held by the Fiduciary in an "Other Investments Account" and allocated among personal Plan Accounts as determined in the Plan. Plan Assets in the Association's Other Investments Account shall, among other objectives of the Association, be used (i) for distributing cash dividends to participants on their Share-Equivalent accumulations in the personal accounts in the Plan; (ii) as a share repurchase liquidity fund for repurchasing Share-Equivalents from Employees who die, retire or become permanently disabled, plus those who voluntarily terminate their employment or are otherwise terminated by the Employer ; or (iii) for building a diversified portfolio of investment assets for Employees participating in the Plan. Under direction of the ESOP Steering Committee and the ESOP Governing Committees and subject to obligations to make payments under the Loan Agreement, the Fiduciary shall invest Plan Assets as provided in this ESOP Fiduciary Agreement. The Fiduciary shall hold, invest, reinvest, manage, administer and distribute the Plan Assets, as provided herein and under the Plan, for the exclusive benefit of Participants and their Beneficiaries.

ARTICLE 3: INVESTMENT OF PLAN ASSETS

(a) The Fiduciary shall invest and reinvest Plan Assets primarily (or, in its discretion, exclusively) in Company Stock, in accordance with the terms of the Plan and this Agreement.

(b) The Fiduciary may also, with the prior approval of the ESOP Steering Committee or the ESOP Governing Committees, invest Plan Assets in such other prudent investments as the Fiduciary deems to be desirable for meeting the objectives of the Plan (including savings accounts, certificates of deposit, high-grade short term securities, high-grade shares and bonds, or other prudent investments), or Plan Assets may be temporarily held in cash.

10

(c) All purchases of Company Shares by the Fiduciary shall be made only as directed by the ESOP Steering Committee or ESOP Governing Committees and only at prices which do not exceed Fair Market Value.

(d) In the event that the Fiduciary intends to dispose of any Company Shares held as Plan Assets, under circumstances which require registration and/or qualification of the securities under applicable securities laws of the Arab Republic of Egypt, then the Company, at its own expense, will take, or cause to be taken, any and all such actions as may be necessary or appropriate to effect such registration and/or qualification.

ARTICLE 4: FIDUCIARY'S POWERS

As directed by the ESOP Steering Committee or any successor ESOP Governing Committee, the Fiduciary shall have the authority and power to:

(a) contract or otherwise enter into transactions for the purpose of acquiring or selling Company Shares, including transactions with the Company or any Company shareholder;

(b) borrow from any lender (including the Company) to finance the acquisition of Company Shares, giving its note as Fiduciary with such reasonable interest and security for the loan as may be appropriate or necessary; provided that any such borrowing shall comply with the provisions of the Plan which deal with Share Acquisition Loans;

(c) vote any shares (including Company Shares as provided in the Plan), or other securities it holds under the Plan, or otherwise consent to or request any action on the part of the issuer in person or by proxy;

(d) sell, transfer, mortgage, pledge, lease or otherwise dispose of, or grant options with respect to, any Plan Assets at public or private sale;

(e) give general or specific proxies or powers of attorney with or without powers of substitution;

(f) participate in reorganizations, recapitalizations, consolidations, mergers and similar transactions with respect to Company Shares or any other securities;

(g) exercise any options, subscription rights and conversion privileges with respect to any Plan Assets;

(h) sue, defend, compromise, arbitrate or settle any suit or legal proceeding or any claim due it or on which it may be liable;

(i) exercise any of the powers of an owner with respect to the Plan Assets; and

79

(j) perform all acts which the Fiduciary shall deem necessary or appropriate and exercise any and all powers and authority of the Fiduciary under this Agreement.

ARTICLE 5: DUTIES OF THE FIDUCIARY

5.1 DUTIES OF THE FIDUCIARY AS ESCROW AGENT FOR THE LENDER

The National Investment Bank, as Escrow Agent for the Lender, is responsible for the handling of and recordkeeping for all Pledged Shares and other assets it maintains in the Pledged Collateral Account established by the Pledge agreement.

In the event the Lender declares an "Event of Default" under the Loan Agreement, the Escrow Agent, upon receipt of instructions from the Lender, shall comply with its duties under Article 8 of the Loan Agreement and Article 5 of the Pledge Agreement. Among its other duties, as Escrow Agent, the Fiduciary shall:

(a) Keep the Pledged Collateral, including the Pledged Shares, in a place safe from fire, theft or other losses;

(b) Give the Association and the Company sixty (60) days written notice of the Lender's intent to declare an Event of Default, to take title to Company Shares, to convert such shares to cash or to dispose of them in any other way;

(c) Deliver the Pledged Collateral to the Lender promptly if an Event of Default is declared and dispose of such assets as requested by the Lender; and

(d) Deliver to the Association or to its designated fiduciary the Pledged Shares and all other assets remaining in the Pledged Collateral Account within thirty (30) days after the Share Acquisition Loan has been paid in full.

5.2 DUTIES OF THE FIDUCIARY AS LOAN ADMINISTRATOR

In its function as Loan Administrator, the Fiduciary shall:

(a) Upon receipt of notice in writing from (i) the Founders Committee of the amount of funds needed for the initial payment for the Company Shares or (ii) after its incorporoation, the Company of the amount needed for any subsequent payments for such Shares and, in both cases, the date on which such funds are needed (such date to be not less than 30 days after such notice to the Fiduciary), notify the MIC in writing of the amount of funds required and the date on which such funds are needed;

(b) Upon receipt of funds from MIC, transfer such funds as installment payments for the Company Shares;

(c) Upon receipt of the temporary certificates and permanent certificates evidencing the Company Shares, such certificates will be immediately placed in the Pledged Collateral Account;

(d) At least ninety (90) days prior to a scheduled Loan repayment, inquire with the Association and the Company to determine whether there may be problems regarding dividend distributions not yet received; also investigate and notify the Lender promptly of any other information coming to its attention which might impair the ability of the Borrower to meet scheduled Obligations which in any other way may result in an Event of Default.

(e) Receive all cash dividends on Pledged Shares and segregate them promptly either with other assets in the Pledged Collateral Account (for loan repayments), or in the Other Investments Account (for dividend distributions, loan repurchases, and investments);

(f) Pay all obligations under the Loan Agreement to the Lender in a timely manner out of dividends and other cash deposited in the Pledged Collection Account;

(g) Notify the Association and the Company of all loan repayments and the balance of assets in all Plan Accounts, within thirty (30) days after the Lender receives such repayments, and on an annual basis provide the Association, the Company and the Lender with a detailed financial report of the status of all Association accounts and any special problems that may have developed since the previous report; also issue quarterly reports to the Lender, the Association and the Company regarding the financial status of the Pledged Collateral Account; and

(h) Supply whatever information is needed by the Company, or the Association after it is formed, so that the Company or the Association are able to maintain the records of Employees' Accounts under the Plan, make allocations and other computations, handle voluntary Employee or Employer Contributions to the Plan, direct the Fiduciary in voting or investing Plan Assets, and arrange for dividends and other distributions to Employees and their beneficiaries.

5.3 DUTIES OF THE FIDUCIARY AS AN INTERIM BORROWER

As interim Borrower under the Loan Agreement, the Fiduciary will be responsible for the following:

(a) To determine that it has the legal authority to act as Borrower on as interim basis and otherwise carry out all functions designated for the Borrower in this ESOP Fiduciary Agreement;

(b) To receive from the Lender the proceeds of the Loan and to use such proceeds to enable it, as Fiduciary, to purchase Company Shares equal in total per value to the Principal amount of the Loan on behalf of the Association and for the benefit of the Employees, to receive such Shares from the secretary of the Company and to deliver such Shares for deposit as collateral to the Lender in the Pledged Collateral Account.

ARTICLE 6: NOMINEES

The Fiduciary may register any Company Shares or other property held by it as Plan Assets hereunder in its own name or in the name of its nominees, with or without the addition of words indicating that such securities are held in a fiduciary capacity, and may hold any securities in bearer form; but the books and records of the Fiduciary shall at all times reflect that all such investments are for the benefit of the Association.

ARTICLE 7: RECORDS

The Fiduciary shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions of the Association, and all accounts, books and records relating thereto shall be open to inspection by any person designated by the Association or the ESOP Steering Committee and (so long as the Obligations of the Borrower to the Lender under the Loan Agreement have not been satisfied) by the Lender at all reasonable times. The Fiduciary shall maintain such records, make such computations and perform such ministerial acts as required under the Plan and as the Association, the ESOP Steering Committee or the Lender may from time to time reasonably request.

ARTICLE 8: REPORTS

Within a reasonable period of time after each Anniversary Date of the Plan, or following the removal or resignation of the Fiduciary, and as of any other date specified by the Association, the Fiduciary shall file a report with the Association (or before its formation, with the ESOP Steering Committee). This report shall show all purchases, sales, receipts, disbursements and other transactions effected by the Fiduciary during the year or period for which the report is filed, and shall contain an exact description, the cost as shown on the Fiduciary's books, and the fair market value as of the end of such period, of every asset held on behalf of the Plan and the amount and nature of each liability of the Plan.

ARTICLE 9: DISTRIBUTIONS

As directed by the ESOP Steering Committee or its successor ESOP Governing Committees of the Association, the Fiduciary shall make distributions from individual Plan Accounts, in cash only, at such times and in such amounts as participants and beneficiaries are entitled thereto under the Plan. Any undistributed portion of a Participant's Capital Accumulation under the Plan shall be retained as Plan Assets.

ARTICLE 10: SIGNATURES

All communications required hereunder from the Association or the ESOP Steering Committee to the Fiduciary shall be in writing signed by an officer of the Association or a member of the Committee, authorized to sign on its behalf. The ESOP Steering Committee, or the Association and its ESOP Governing Committees, shall authorize one or more of its members to sign on its behalf all communications required hereunder. The Company or the Association shall at all times keep the Fiduciary advised of the names and specimen signatures of all the individuals authorized to sign communications on behalf of the ESOP Steering Committee or the Association. The Fiduciary shall be fully protected in relying on any such communication and shall not be required to verify the accuracy or validity thereof unless it has reasonable grounds to doubt the authenticity of any signature. If, after request, the Fiduciary does not receive instructions from the Association or the ESOP Steering Committee on any matter in which instructions are required hereunder, the Fiduciary shall act or refrain from acting as it may determine.

ARTICLE 11: EXPENSES

The reasonable expenses incurred by the Fiduciary in the performance of its duties, and all other proper administrative costs of the Plan and Association, shall be charged to and paid out of the Plan Assets. However, if the Plan Assets are insufficient to cover such expenses, the Company shall pay all or any portion of such expenses. The members of the ESOP Steering Committee and any successor ESOP Governing Committee shall not be entitled to compensation for services to the Association hereunder. The Fiduciary shall be entitled to such reasonable compensation for its services as shall be agreed to between the Association (and before its formation, the Company) and the Fiduciary.

ARTICLE 12: LIABILITY OF FIDUCIARY

The Fiduciary shall assume the responsibility and liability for the prudence of investments under Articles 3, 4 and 5, except when made under the direction of the ESOP Steering Committee or the ESOP Governing Committees. The Association shall indemnify each member of the ESOP Governing Committee to the extent permitted by law, against any personal liability or expense, except for liability or expense incurred by reason of his own willful misconduct. The Fiduciary shall not be required to pay interest on any portion of the Plan Assets which is held uninvested.

ARTICLE 13: AMENDMENT AND TERMINATION

The Association, and the Company (prior to the formation of the Association), shall have the right at any time, by an instrument in writing, duly executed and delivered to the Fiduciary, to modify, alter or amend this Agreement, in whole or in part. In no event, however, shall the duties, powers or liabilities of the Fiduciary hereunder be changed without its prior written consent.

ARTICLE 14: NON-REVERSION

Subject to the provisions of Article 13 above and provisions the Plan relating to the disposition of Plan Assets, the rights of the Participants to the Plan Assets, once vested under the Plan, shall be irrevocable and at no time shall any part of the Plan Assets revert to the Company or be used for, or be diverted to, purposes other than for the exclusive benefit of Participants (and their Beneficiaries). However, the ESOP Steering Committee or the Association may, by notice in writing to the Fiduciary, direct that all or part of the Plan Assets be transferred to a successor fiduciary; and thereupon the Plan Assets, or any part thereof, shall be paid over, transferred or assigned to said successor fiduciary; provided, however, that no part of the Plan Assets may be used to pay contributions of the Company under any other plan maintained for the benefit of its Employees.

ARTICLE 15: RESIGNATION OR REMOVAL OF FIDUCIARY

The Fiduciary may resign at any time upon thirty (30) days written notice to the ESOP Steering Committee and, after it is formed, the Association. The Fiduciary may be removed at any time by the ESOP Steering Committee or Association upon written notice to the Fiduciary. The successor fiduciary shall have the same powers and duties as are conferred upon the Fiduciary hereunder.

ARTICLE 16: CONFLICT OF INTEREST

This Agreement acknowledges that all parties to the Share Acquisition Loan for the benefit of Employees are aware that the National Investment Bank of Egypt will be acting in many capacities, including Temporary Borrower on behalf of Employees, founding shareholder of the Company on behalf of Employees, pledgor of shares as collateral, escrow agent for the Lender, loan administrator for the Lender, and Fiduciary of plan assets for the Employees, and agree to hold the National Investment Bank harmless against any future claim that these varying roles constitute a conflict of interest.

ARTICLE 17: ACCEPTANCE

The Fiduciary hereby agrees to hold and administer Plan Assets, and all additions and accretions thereto, subject to all the terms and conditions of the Plan and this Agreement. In the

4

event that any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity thereof shall not affect the remaining provisions of this Agreement, but shall be fully severable, and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been inserted herein.

ARTICLE 18: GOVERNING LAW AND LITIGATION

This ESOP Fiduciary Agreement shall be construed and enforced in accordance with the litigation and governing laws of the Arab Republic of Egypt. Any litigation which may arise from the execution of this ESOP Fiduciary Agreement is within the jurisdication of the General Assembly of the Council of State of Egypt.

IN WITNESS WHEREOF, the Company and the Fiduciary have caused this ESOP Fiduciary Agreement to be executed this _____ day of ____________, 19 ____.

FOR THE FOUNDERS' COMMITTEE OF THE ALEXANDRIA TIRE COMPANY

S.A.E.:
By : ___________________________
Name:
Date:

FOR THE NATIONAL INVESTMENT BANK OF EGYPT (FIDUCIARY FOR THE EMPLOYEES OF THE ALEXANDRIA TIRE COMPANY S.A.E. AND THE TRANSPORT AND ENGINEERING COMPANY S.A.E.):

By : ___________________________
Name:
Date:

PART II-9

CHARTER OF THE ATC EMPLOYEE SHAREHOLDERS' ASSOCIATION

87

CHARTER OF THE ALEXANDRIA TIRE COMPANY EMPLOYEE SHAREHOLDERS' ASSOCIATION

1. *Introduction.* We, [*enter names of founding members*], are all Egyptian employees of the Alexandria Tire Company (the "Company") or the Transport and Engineering Company, both of which are engaged in the manufacture of vehicular tires. We voluntarily associate ourselves to form an employee shareholders' association, for the purpose of acquiring through personal accounts in an employee share ownership plan beneficial interests in shares of common stock in the Alexandria Tire Company, thereby enabling members of the Association to participate personally as shareholders of the Company, and otherwise assisting members and their families to accumulate income-producing property during their working careers to meet their personal retirement and family needs.

2. *Name.* The name of the Association is the Alexandria Tire Company Employee Shareholders' Association.

3. *Purposes.* The purposes of this Association are (a) to provide and obtain for its members access to productive credit to accumulate equity capital and earn property incomes for their future economic security; (b) to perform or make available any other services needed to operate an employee share ownership plan; and (c) to exercise all of its powers on a voluntary association basis.

4. *Powers.* The Association has the power to:

(a) *Shares of Company Stock.* Acquire, hold legal title to and transfer shares of common stock in the Alexandria Tire Company according to a plan adopted by the Association and to distribute cash dividends to members according to their Company share accounts.

(b) *Dividends.* Receive and distribute dividends and other income on assets of the Association to supplement members' incomes from other sources, to establish a fund to serve as a market to repurchase equity interest of its members, or to repay loans used to purchase shares on behalf of its members.

(c) *Borrow Money.* Borrow money, without limitation, and give a lien or pledge on any of its property as security for any borrowing.

(d) *Advances.* Make cash advances to members.

(e) *Act as Agent.* Act as an agent or representative of anyone participating in the Association's activities.

(f) *On Real and Personal Property.* Buy or lease any real or personal property that is needed or useful in the operation of the Association.

(g) *Instruments and Obligations.* Draw, make, accept, indorse, guarantee, and issue promissory notes, bills of exchange, drafts, warrants, certificates, and all other kinds of obligations, including negotiable or transferable in truments, for any purpose for which this Association was created, and give a lien on any of its property as security for these obligations.

(h) *Other Powers.* Exercise all other powers, privileges, and rights granted to ordinary corporations and employee beneficial associations by the laws of the Arab Republic of Egypt and all other powers and rights that are needed to carry out the purposes for which this Association was formed, unless those powers and rights are inconsistent with the laws under which this Association is incorporated.

(i) *No Restriction on Powers.* The enumeration of powers in this Section is not a limit or restriction on any general powers given to the Association by law.

5. *Place of Business.* The Association's principal place of business is in the City of ____________.

6. *Duration.* The Association shall exist for an indefinite duration.

7. *Directors.* This Association will have _______ directors. The first elected Board of Directors will consist of ________ directors elected for one year; ________ elected for two years; and _________ elected for three years. Thereafter, all directors will be elected for three years. The names and addresses of the incorporating directors, who will serve until the first annual meeting of members or until their successors are elected and qualified are:

Name	*Address*
____________________	____________________
____________________	____________________
____________________	____________________

8. *Membership and Voting.* This Association will not have capital stock, but will admit applicants to membership based on uniform conditions set out in its bylaws. Membership will be restricted to persons employed by either the Alexandria Tire Company or by the Transport and Engineering Company. This Association will be operated for the mutual benefit of its members.

Each member will have one vote on each Association matter submitted to a vote at any meeting of members. On matters of Alexandria Tire Company which are subject to vote of its shareholders, members will vote on all Company shares held on their behalf by the Association on a one-share, one vote basis.

Property rights and interests of each member in the Association will be unequal and will be determined by an allocation of Company shares acquired on behalf of each employer group, in the proportion that each member's compensation in that employer group bears to the total compensation of all other members in the same employer group. Upon dissolution, however, the equity interests of members will be determined as provided in the bylaws.

IN WITNESS WHEREOF, we have set our hands this ________ day of ____________, 19______.

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PART II-10

ATC ESOP
(Bylaws of the Employee Shareholders' Association)

BYLAWS

OF

THE ALEXANDRIA TIRE COMPANY EMPLOYEE SHAREHOLDERS' ASSOCIATION

PART II
GOVERNANCE OF THE EMPLOYEE SHARE OWNERSHIP PLAN

91

INDEX

92

ALEXANDRIA TIRE COMPANY S.A.E.

EMPLOYEE SHARE OWNERSHIP PLAN

Article 1. Nature of Plan.

The Alexandria Tire Company Employee Shareholders' Association "The Association" was formed to implement on Employee Share Ownership Plan (the "Plan"). The Plan is based on the idea that access to productive credit largely determines who will participate in the future ownership, profits and basic decisions of productive enterprises. The purpose of this Plan is to enable Employees of Alexandria Tire Company S.A.E. (the "Company") and of Transport and Engineering Company S.A.E. ("TRENCO") to share in the growth, prosperity, projected dividend incomes and governance of the Company, and to provide Participants with an opportunity to gain access to productive credit to accumulate equity capital for their future economic security.

Once eligible, each Participant as a member the Association, will have a personal account in the Plan, reflecting Company Shares and other assets acquired through the Plan, which will not require any deductions from compensation payments personal risk or investment of personal savings on the part of any Participant.

The primary purpose of the Plan is to enable a broad base of Participants to acquire share ownership interests and participate as shareholders in the Company. Consequently, Assets of the Plan will be invested primarily in Company Shares.

The Plan is also designed to be available as a technique of corporate finance to the Company. Accordingly, it may be used to accomplish the following objectives:

(a) To meet general financing requirements of the Company, including capital growth and transfers in the ownership of Company Shares;

(b) To provide Participants with beneficial ownership of Company Shares, substantially in proportion to their relative Covered Compensation, without requiring any cash outlay, any reduction in pay or other benefits, or the surrender of any other rights on the part of the Participants; and

(c) To receive loans (or other extensions of credit) to finance the acquisition of Company Shares, with such loans to be repaid by Employer Contributions to the Fiduciary and dividends received on such Company Shares.

This Plan, adopted by the board of directors of the Company on the ______ day of _______ , 19___ will be effective for future Employees of the Company after (i) the Company has in its employ at least 200 full-time Employees, (ii) this Association, has its charter approved by the Ministry of Social Affairs as a qualified employees association under the Executive Regulations of Law 159 for 1981 and of Law 32 for 1964, and (iii) this Plan has been ratified and incorporated in the bylaws of the Association by the ESOP Governing Committee representing Employees of the Company, which was done on the _____ day of ________, 19__. It will be effective for Employees of TRENCO when (i) the TRENCO board of directors adheres to this Plan and (ii) such adherence is ratified by the ESOP Governing Committee representing TRENCO Employees, which was done on the ____ day of _____, 19__ and the_____, day of _____, 19__, respectively.

All Plan Assets acquired as a result of dividends on Company Shares, Employer contributions, other income and other additions to the ESOP will be administered, distributed, forfeited and otherwise governed by the provisions of this Plan and the related Fiduciary agreement. The Plan is administered by the Fiduciary under the direction of the ESOP Steering Committee (and ESOP Governing Committees) for the exclusive benefit of Participants (and their Beneficiaries).

Article 2. Definitions.

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine or neuter gender shall each be deemed to include the other, the terms "he", "his", and "him" shall refer to a Participant, and the capitalized terms shall have the following meanings:

Account .... One of two accounts maintained to record the interest of a Participant in the Plan, including a Company Share Account and an Other Investments Account.

Acquisition Loan ...... A loan (or other extension of credit) used by the Association to finance the acquisition of Company Shares ("Leveraged Shares") and repayable wholly from future cash dividends on such Shares, committed or guaranteed Employer cash contributions, voluntary Employer or Employee Contributions or earnings, on Employee Contributions, or earnings on Plan Assets. See Articles 5(b) and 7.

Allocation .... See Article 3 and 7.

Allocation Date .... The last day of the fiscal year of the Company.

Approved Absence ...... A leave of Absence (without pay) granted to an Employee by an Employer under its established leave policy. See Article 3.

Association .... The Alexandria Tire Company Employee Shareholders' Association, a legal entity established by the Employees or by the Company and approved by the Ministry of Social Affairs as an employees' association for the purpose of implementing the ESOP through a Fiduciary. See Articles 5 and 17.

Beneficiary .... The person (or persons) entitled to receive any benefits under the Plan in the event of a Participant's death. See Articles 10,12 and 14.

Break in Service ...... A period of time commencing with the date on which an Employee terminates Service and ending on the date he resumes Service. See Article 11.

Capital Accumulation .. A Participant's vested (nonforfeitable) interest in his Accounts under the Plan. Each Participant's Capital Accumulation shall be determined in accordance with the provisions of Section 7 and 10 and distributed as provided in Sections 12, 13 and 14.

Company .... Alexandria Tire Company S.A.E., an Egyptian joint-stock company organized under Law No. 43 of 1974, as amended by Law No. 32 of 1977 and its executive regulations, under a joint venture agreement between the Transport and Engineering Company S.A.E., an Egyptian public sector joint-stock company; the Pirelli Coordinamento Pneumatici S.p.A., an Italian joint-stock company; and other investors.

Company Share .... A Share of capital stock issued by the Company, which shares are voting common stock (or preferred stock convertible into voting common stock.)

Company Shares Account An Account of a Participant which reflects his interest in Company Shares held in the Plan. See Articles 5(b) and 7(a)(1).

Compensation.......... The total cash compensation a Participant receives from the Company for each Plan Year, including salary, wages, bonuses, commissions and overtime pay but not exceeding L.E__________; but excluding all deferred compensations and contributions to this Plan or any other deferred compensation plan.

Contributed Share ..... A Share of capital stock issued by either the Company or TRENCO, which is contributed to the Plan by that Employer on behalf of its own Employees. See Article 7(a)(3).

Credited Service ...... The elapsed period of an Employee's Service. See Article 11.

Disability .... The total and permanent inability of an Employee to perform the usual duties of his employment with his Employer, determined by a licensed physician approved by the Association. See Article 11.

Distribution .... See Articles 12, 13, 14, and 15.

Eligibility .... See Article 3.

Employee .... Any person employed by the Company or TRENCO. See Article 3.

Employer .... The Company or TRENCO which adopts the Plan for the benefit of its Employees.

Employer Contributions .... Payments in cash or Contributed Shares made to the Association by an Employer for the benefit of its Employees. See Articles 4, 7(a)(3), and 17.

Employee Contributions .... Voluntary cash payments made by an Employee to the Association to increase the Plan Assets in his ESOP Accounts. See Articles 7(a) and 17.

ESOP .... The Employee Share Ownership Plan

ESOP Governing Committee .... The permanent committee of the Association which represents Employees of an Employer for the purpose of giving instructions to the Fiduciary on behalf of the ESOP Accounts of its Employees. See Articles 3, 5, 6(c) and 17.

ESOP Steering

Committee	The temporary Committee appointed by the Founders Committee of the Company for the purpose of implementing the Plan and giving structions to the Fiduciary before the Company becomes operational and the ESOP Governing Committee is formed. See Article 17.
Fair Market Value......	The fair market value of Company Share, as determined by the Steering Committee or the Association for all purposes under the Plan based upon a valuation by an independent professional appraiser. See Articles 5 and 18.
Fiduciary	The Fiduciary (or Fiduciaries) designated initially by the Company's Board of Directors and subsequently by the Association (and any successor Fiduciary), which agrees to serve by executing the Fiduciary Agreement.
Fiduciary Agreement ...	The Agreement between the Company or the Association and the Fiduciary (or any successor Fiduciary) specifying the duties of the Fiduciary in holding and managing Plan Assets.
Forfeiture	Any portion of a Participant's Accounts which does not become part of his Capital Accumulation and which is forfeited under Article 10.
Hour of Service	Each hour of Service for which an Employee is cerdited under the Plan.
Leveraged Shares	Company Shares acquired by the Association with the proceeds of an Acquisition Loan. See Articles 5(b), 6 and 7(a)(1).
Liquidity Fund	A sub-account within the Other Investments Account designed to meet repurchase requirements on Company Shares held by terminated Participants. See Articles 5 and 17.
Other Investments Account	The Account which reflects each Participants' interest under the Plan attributable to Plan Assets other that Company Shares. See Article 7.
Participant	Any Employee or former Employee who has met the applicable eligibility requirements of Articles 3 and who has not yet

received complete distribution of his Capital Accumulation. See Articles 3, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, and 18.

Participation.......... See Article 3.

Plan .... The Alexandria Tire Company Employee Share Ownership Plan, which includes this Plan and the Association.

Plan Assets .... The Company Shares and other assets held by the Fiduciary or in the Association for the benefit of Participants. See Articles 5(a) and 20.

Plan Year.............. The twelve-month period ending on each Allocation Date and coinciding with each fiscal year of the Company.

Pledged Collateral Account .... An escrow account maintained by the Fiduciary on behalf of a lender to the Plan to hold Leveraged Shares as collateral on such lender's Acquisition Loan. See Articles 5(b) and 7(a)(1).

Retirement .... Termination of Service on or after attaining age 60 or the retirement age established by the Employer.

Service .... Employment with the Company or TRENCO.

Share Allotments ..... The subdivision of Leveraged Shares between Company and TRENCO Employee groups in the Association prior to their Allocation among Participant's Accounts, as reflected in the Share Acquisition Loan. See Article 6.

Share-Equivalents..... The accounting term describing Company Shares for Allocation, Distribution and voting purposes.

TRENCO .... Transport and Engineering Company S.A.E., a joint venture investor of the Company.

Vested Interest .... The portion of a Participant's Account which may not become a Forfeiture. See Article 14.

Voluntary Employee Contribution Account .. An Account for handling voluntary Employee contributions. See Articles 7 and 17.

Article 3. Eligibility and Participation.

(a) Eligibility to Participate - Subject to the provisions of this Article 3, each Employee of the Company shall automatically become a Participant in the Plan on the first date he is credited with an Hour of Service following the effective date of the Plan as specified in Article 1. An Employee of TRENCO may also become a Participant from his first Hour of Service. The plan becomes effective for TRENCO Employees.A former Participant who is reemployed by an Employer shall become a Participant as of the date of his reemployment. A Participant who is on an Approved Absence shall continue as a Participant during the period of his Appproved Absence.

(b) Exclusions from Participation.

(1) There shall be excluded from participation in this Plan those Employees who are either:

(A) Hired only for a period of temporary employment commonly referred to as "summer employment," if it is understood at the time of hire that such employment shall not exceed a period of four months; or

(B) Enrolled as a full-time student in school, or on a definite period of vacation or absence from school with the intent of resuming enrollment as a full-time student after the conclusion of such period.

(C) A Participant is entitled to share in the Allocation of Employer Contributions and Forfeitures under Article 7 for each Plan year in which he is an eligible Employee on the Allocation Date. A Participant is also entitled to share in the allocation of Employer Contributions and Forfeitures for the Plan Year of his Retirement, Disability or death. A Participant is entitled to share in dividends in any Plan Year on Company Shares or Share-Equivalents remaining in his Capital Accumulations at the time such dividends are declared by the Company.

Article 4. Employer Contributions.

(a) Voluntary Contributions. Discretionary Employer Contributions may be paid to the Association for each Plan Year in such amounts (or under such formula) as may be determined by the Employer's Board of Directors.

(b) Employer Contributions may be paid to the Association in cash, Company Shares, or Contributed Shares, as determined by the Employer's Board of Directors. Mondatory Contribution in cases where the Employer guarantees an Acquisition Loan for Leveraged Shares allotted for its Employees under Article 7, the Employer shall pay Employer Contributions to the Association in cash in such amounts, and at such times, as needed to provide the Association with cash sufficient to pay any currently maturing debt obligations (including interest) under such guaranteed Acquisition Loan. If the Employer is the lender with respect to an Acquisition Loan, Employer contributions may be paid in the form of foregiveness of indebtedness under the Acquisition Loan.

(c) In the event Employer Contributions are paid to the Association by reason of a mistake of fact, such Employer Contributions may by returned to the Employer by the Fiduciary (upon direction of the ESOP Governing Committee) within one year after the payment to the Association.

(d) No Participant shall be required to make contributions to the Plan.

Article 5. Investment of Plan Assets

(a) In General - Plan Assets will be invested by the Fiduciary primarily in Company Shares or Contributed Shares. In the case of the Employees of the Company, Employer Contributions (and other Plan Assets) may be used to acquire Company Shares from Company shareholders (including former Participants or Beneficiaries) or from the Company or any of its shareholders. In the case of Employees of TRENCO, Employer Contributions may be used to acquire TRENCO shares. The ESOP Fiduciary may also invest Plan Assets in such other prudent investments as the Fiduciary deems to be desirable for meeting the objectives of the Plan (including savings accounts, certificates of deposit, high-grade short-term securities, high-grade stocks and bonds, or other prudent investments), or Plan assets may be held temporarily in cash. All purchases of Company Shares or Contibuted Shares shall be made at prices which do not exceed the Fair Market Value of such Shares as of the Allocation Date preceding or coinciding with the date of such purchase, as determined in good faith by the Fiduciary in accordance with the provisions of Article 17. Except for the funding of a Liquidity Fund to meet projected repurchases of Company Shares from terminated Participants, the Fiduciary may invest and hold up to 100% of the Plan Assets in Company Shares.

(b) Acquisition Loans - The ESOP Steering Committee or the Association may direct the Fiduciary to incur Acquisition Loans from time to time to finance the acquisition of Company Shares (Leveraged Shares) for the Association, or to repay a prior Acquistion Loan. An installment obligation incurred in connection with the purchase of Company Shares shall be treating as an Acquisition Loan. An Acquisition Loan shall be for a specific term, shall bear a reasonable rate of interest and shall not be payable on demand except in the event of a default. An

Acquisition Loan may be secured by a pledge of the Leveraged Shares so acquired (or acquired with the proceeds of a prior Acquisition Loan which is being financed.) No other Plan Assets may be pledged as collateral for an Acquisition Loan, and no lender shall have recourse against Plan Assets other than any Leveraged Shares remaining subject to pledge.

(c) Employer Guaranteed Acquisition Loans- Any Pledge of Leveraged Shares acquired with an Acquisition Loan which has been guaranteed by the Employer must provide for the release of the shares so pledged as payments on the Acquisition Loan are made by that Fiduciary and such Leveraged Shares (or share-equivalants of such shares) are allocated to Participants Company Share Accounts under Article 7(b).

(d) Acquisition Loans with Employer Guarantees- Where there is no Employer (or comparable) guaranty of loan repayment on an Acquisition Loan,

(i) the release of Leveraged Shares may be postponed until the Acquisition Loan has been repaid in full, if required by the lender, and

(ii) dividends on such Leveraged Shares must first be used to meet scheduled debt obligations (including accrued interest) on such Acquisition Loan. In such a case, the release formula for Leveraged Shares in Article 7(b)(2) shall apply and credits for share-equivalents will be allocated to Participants' Company Share Accounts as if an actual release occurred.

(e) Acquisition Loan Payments - Payment of principal and/or interest on any Acquisition Loan shall be made by the Fiduciary (as directed by the Steering Committee or the Association) only from Employer contributions and Employee Contributions paid in cash to enable the Fiduciary to repay such Acquisition Loans, from earning attributable to such Employer and Employee Contributions and from any cash dividends received by the Fiduciary on the Leveraged Shares (whether allocated or unallocated) purchased with the proceeds of such Acquisition Loan; and the payments made with respect to an Acquisition Loan for a Plan year must not exceed the sum of such Employer and Employee Contributions, earnings and dividends for that Plan year (and prior Plan years), less the amount of such payments for prior Plan Years. If the Company is not the lender with respect to an Acquisition Loan, the Company may elect to make payments on the Acquisition Loan directly to the Lender and to treat such payments as Employer Contributions.

(f) Dividends - Cash dividends on Leveraged Shares in excess of scheduled repayment on Acquisition Loans shall be credited to Participants Other Investments Accounts based on previous allocations of Share-Equivalents to such Particpants' Company Shares Accounts (or if no such allocations have yet

101

occurred with respect to unreleased Leveraged Shares, on the basis of relative Compensation). As directed by the ESOP Steering Committe or its successor ESOP Governing Committees, such dividends may be paid out in cash, put into a reserve for future repayments on the Acquisition Loan, invested for the benefit of Participants Other Investments Accounts, or put into a special reserve fund (a "Liquidity Fund" within the Other Investments Accounts to meet future Share repurchase requirements as Participants terminate their employment.

(g) <u>Sales of Company Shares-</u> Subject to the approval of the board of directors of the Company, the Association may direct the Fiduciary to sell Company Shares to any person (including the Company), provided that any such sale must be at a price not less favorable to the Plan than Fair Market Value as of the date of the sale. Notwithstanding the provisions of Article 5(e), the Steering Committee or the Association may direct the Fiduciary to apply the proceeds from the sale of unallocated Leverage Shares to repay the Acquisition Loan (incurred to finan ce the purchase of such Leveraged Shares) in the event of the sale of the Company or the termination of the Plan or if the Association ceases to be a qualified employees' association under Egyptian Law. If the Fiduciary is unable to make payments of Prinicipal and/or interest on an Acquisition Loan when due, the Steering Committee or the Association (with the approval of the Company's board of directors) may direct the Fiduciary either to sell any Leveraged Shares that have not yet been allocated to Participants' Company Share Accounts or to obtain a new Acquistion Loan in an amount sufficient to make such payments.

Article 6. <u>Share Allotments of Founding Leveraged Shares</u>.

Shares allotments of the 421,000 Company Shares acquired as Leveraged Shares with the initial Acquisition Loan from the Ministry for International Cooperation, dated __________,19___, to enable Employees to become founding shareholders of the Company, shall be as follows:

(a) Sixty percent (60%) or 252,600 of the Leveraged Shares shall be allotted and reserved for future allocations under Article 7 of the plan for Employees of the Company.

(b) Forty percent (40%) or 168,400 of the Leveraged Shares shall be allotted and reserved for future allocations under section 7 of the Plan for Employees of TRENCO, as the domestic mother company and principal sponsor of the joint venture which established the Company.

If employees of TRENCO are enable to join the Plan, the 168,000 shares will be added to the other Leveraged Shares reserved for Employees of the Company.

Article 7. <u>Allocations to Participants' Accounts</u>

102

(a) Types of Participant Accounts - A Company Shares Account, and an Other Investments Account shall be maintained by the ESOP fiduciary to reflect the interest of each participant under the Plan.

(1) Company Share Account - The Company Shares Account maintained for each participant will be credited annually with his allocable number of Company Shares (including fractional shares) purchased and paid for by the Plan or contributed in kind by the Company to the Plan as an Employer Contribution, with any forfeitures of Company Shares, and with any stock dividends on Company Share allocated to his Company Shares Accounts.

(2) Other Investments Account - The Other Investments Account maintained for each Participant will be credited annually with his allocable share of Employer Contributions that are not in the form of Company Shares, with any voluntary Employee Contributions in cash, with any Forfeitures from Other Investments Accounts, with any cash dividends (other than currently distributed dividends) on Company Shares or Share-Equivalents allocated to his Company Share Account, and any net income (or loss) of the Plan. Such Acccount will be debited for the Participants' share of any cash payment made by the Fiduciary for the acquisition of Company Shares or for the payment of any Principal and/or interest on an Acquisition Loan.

(b) Formuli for Allocation Among Participants' Acounts. The Governing Committee of the Company shall maintain Participants' Accounts for Company Employees and the Governing Committee of TRENCO will maintain Participants' Accounts for TRENCO Employees based on different data for the two employer groups. The Allocations to Participants Accounts for each Plan year for each Employer group will be made as follows:

(1) Employer Contributions, Forfeitures and Cash Dividends on Inallocated Company Shares - Employer Contribution under Article 4(a), Forfeitures under Article 11(b) and cash dividends on unallocated Company Shares for each Plan Year will be allocated as of the Allocation Date among the Accounts of Participants so entitled under Article 3(c) in the ratio that the Compensation of each Participant bears to the total Compensation of all such Participants.

(2) Leverage Shared- Any Leveraged Shares acquired by the Plan for each of the two Employers shall initially be credited to a "Loan Suspense Account" for that Employer and Share-Equivalents representing such shares will be allocated to the Company Share Accounts of Participants only as payments on the Acquisition Loan are made by the Fiduciary. The number of Leveraged Shares to be released or credited from the Loan Suspense Account for allocation to Participants' Company Shares Account for each Plan Year shall be determined by the Governing Committee for that Employer group (as of each Allocation Data) as follows:

The number of Financed Shares held in the Loan Suspense

Account immediately before the release for the current Plan Year shall be multiplied by a fraction. The numerator of the fraction shall be the amount of Principal and/or interest paid on the Acquisition Loan for that Plan Year. The denominator of the fraction shall be the sum of the numerator plus the total payments of Principal and interest on the Acquisition Loan projected to be paid for all future Plan Years. For this purpose, the interest to be paid in future years is to be computed by using the interest rate in effect as of the current Allocation Rate.

In each Plan Year in which Plan Assets are applied to make payments on an Acquisition Loan, the Leveraged Shares released from the Loan Suspense Account in accordance with the provisions of this Article 7(b) shall be allocated among the Company Shares Accounts of Participants in the manner determined by the Governing Committee based upon the source of funds (Employer Contributions, Employee Contributions, earnings attributable to such Employer Contributions or Employee Contributions, and cash dividends) used to make payments on the Acquisition Loan. If cash dividends on Leveraged Shares allocated to a Participant's Company Share Account are used for payments on an Acquisition Loan, Share-Equivalents of such Leveraged Shares (representing that portion of such payments) released or credited for release from the Loan Suspense Account shall be allocated to that Participant's Company Shares Account.

(3) Voluntary Employee Contribution- Each Participant's Other Investments Account will be credited directly with any voluntary Employee Contributions made by that Participant during any Plan Year.

(4) A Net Income (or Loss) Of The Plan- The net income (or loss) of the Plan for each Plan Year will be determined as of the Allocation Rate. Prior to the Allocation of Employer Contributions and Forfeitures and of Employee Contributions for the Plan Year, each Participant's share of any net income (or loss) will be allocated to his Other Investments Account in the ratio that the total balances of both his Accounts on the preceding Allocation Rate (reduced by any distribution of Capital Accumulation during the Plan Year) bears to the sum of such Account balances for all Participants as of that date. The net income (or loss) of the Plan includes the increase (or decrease) in the fair market value of Plan Assets (other than Company Shares), interest income, dividends and other income and gains (or losses) attributable to Plan Assets (other than dividends on Company Shares) since the preceding Allocation Rate, reduced by any expenses charged to the Plan Assets for that Plan Year. The determination of the net income (or loss) of the Plan shall not take into account any interest paid by the Plan under an Acquisition Loan.

(5) Dividends on Company Shares. Any cash dividends received on Company Shares allocated to Participants' Company Share Accounts will be allocated to the respective Other Investments Accounts of such Participants in the ratio that the member of

104

Share-Equivalents of each Participants bears to total Share-Equivalents allocated to all such Participants on the preceding Allocation Date. Any cash dividends received on unallocated Company Shares (including any Leveraged Shares credited to the Loan Suspense Account) shall be allocated among the Participants' Other Investments Accounts in the ratio that Compensation of each Participant bears to the total Compensation of all such Participants. Any stock dividends received on Company Shares shall be credited to the Accounts (including the Loan Suspense Account) to which such Company Shares were allocated. Any cash dividends which are currently distributed to Participants (or their Beneficiaries) under Article 14 shall not be credited to their Other Investments Accounts.

(6) Accounting for Allocations - The Association shall establish accounting procedures for the purpose of making the Allocations to Participants' Accounts provided for in this Article 1. The Association shall maintain adequate records of the aggregate cost basis of Company Shares allocated to each Participant's Company Shares Account. The Association shall also keep separate records of Leveraged Shares and of Employer Contribution and Employee Contributions (and any earning thereon) made for the purpose of enabling the Plan to repay any Acquisition Loan. From time to time, the Association may modify the accounting procedures for the purpose of achieving equitable and nondiscriminatory allocations among the Accounts of Participants in accordance with the general concepts of the Plan.

Article 8. Voting Company Shares.

All Company Shares held by the Association shall be voted by the Fiduciary in accordance with instructions from the ESOP Steering Committee and ESOP Governing Committee of each Employer. If the ESOP Steering Committe or the ESOP Governing Committee shall fail or refuse to give the ESOP Fiduciary timely instructions, the Fiduciary shall not exercise its power to vote such Company Shares.

Before the first hundred (200) Employees are hired by the Company the ESOP Steering Committee will direct the Fiduciary on the manner of voting Company Shares.

Prior to the first allocation of Share-Equivalents to Participants' Accounts, each Company's ESOP Governing Committee shall solicit instrctions on all matters subject to a shareholder vote from each Participant. The Participants may vote all Company Shares acquired with the Acquisition Loan which have been allotted to their Employer group under Article 6, with the total vote sub-divided among Participants according to the ratio that each Participant's Compensation bears to the total Compensation of all Participants in that Employer group. The ESOP Governing Committee of the Employer shall direct the ESOP Fiduciary to vote accordingly.

After the first credited release of and Allocation of Share Equivalents to Participants' Accounts, voting by Participants will be on a one-share, one-vote basis, linked to allocations of Share-Equivalents among Participants' Accounts. Unallocated Company Shares will be voted by Participants in the same proportion as the Participants' allocated Company Shares.

Article 9. Disclosures to Participants.

(a) Summary Plan Description - Each Participant shall be given a summary of the Plan which is written in a language which shall enable Employees to understand their rights under the Plan. Such summary plan description shall be updated at least once every five years.

(b) Summary Annual Report- Within nine (9) months after each Allocation Date, each Participant shall be given the summary annual report of the Plan (based on information limited to Participants grouped by each participating Employer), providing him with a summary of the activities of the Plan during the Plan Year and the financial status at the close of the year compared to the previous year.

(c) Annual Statement - Following each Allocation Date, each Participant shall be given a statement reflecting the following information:

(1) The balances (if any) in each of his Accounts as of the beginning of the Plan Year.

(2) The amount of Employer Contributions, Employee Contributions and Forfeitures, dividends and net income (or loss) allocated to his Accounts for the Plan Year.

(3) The adjustments to his Accounts to reflect his share of dividends, if any, on Company Shares and any net income (or loss) of the Plan for the Plan Year.

(4) The new balances in each of his Accounts as of that Allocation Date, including the number of Company Shares allocated to his Company Shares Account and the Fair Market Value of such shares as of the Allocation Date.

(5) His years of Credited Service and his vested percentage in his Account balances (under Article 10) as of that Allocation Date.

(d) Additional Disclosure. The ESOP Governing Committee shall make available for examination by any Participant copies of the Association Bylaws (including the Plan), the Fiduciary Agreement, the Association deed of incorporation, the latest annual report and financial statement of the Plan and any other reports required to be available to Participants by any ministry or agency of the Arab Republic of Egypt. Upon written request of any Participant, the ESOP Governing Committee shall furnish copies of such documents, and may make a reasonable charge to cover the cost of furnishing such copies.

WHAT PARTICIPANTS WILL RECEIVE

Article 10. Vesting and Forfeitures

(a) Vesting

(1) A Participant's interest in his Accounts shall become 100% vested and nonforfeitable without regard to his Credited Service if he (A) is employed by the Company of by TRENCO on or after his 60th birthday, (B) incurs a Disability while employed by the Company or TRENCO or (C) dies while employed by the Company or TRENCO.

(2) Except as otherwise provided in Article 10(a) (1), the interest of each Participant in his Accounts (except those resulting from voluntary Employee Contributions which are 100% vested) shall become vested and nonforfeitable in accordance with the following schedule:

Credited Service Under Section 12	Nonforfeitable Percentage of Accounts
Less than Three Year	0%
Three Years	30%
Four Years	40%
Five Years	50%
Six Years	60%
Seven Years	70%
Eight Years	80%
Nine Years	90%
Ten Years or More	100%

(b) Forfeitures - Any portion of the final balances in a Participant's Account which is not vested (and does not become part of his Capital Accumulation) will become a forfeiture as of the Allocation Date of the Plan Year in which he incurs a five-consecutive-year Break in Service. Forfeitures shall first be charged against a Participant's Other Investments Account, with any balanced charged against his Company Shares Account (at Fair Market Value). Leveraged Shares shall be forfeited only after other Company Shares have been forfeited. All forfeitures will be reallocated to the Accounts of the remaining Participants, as provided in Article (6), as of the Allocation Date of the Plan Year in which a five-consecutive-year Break in Service occurs.

(c) Vesting Upon Reemployment - If a Participant who is not

100% vested receives a distribution of his Capital Accumulation prior to the occurrence of a five-consecutive-years Break in Service and he is reemployed prior to the occurrence of such a Break in Service, the portion of his Accounts which was not vested shall be maintained separately until be becomes 100% vested. His vested and nonforfeitable percentage in such separate Accounts upon his subsequent termination of service shall be equal to:

$$\frac{X - Y}{100\% - Y}$$

For the purpose of applying this formula, X is the vested percentage at the time of the subsequent termination, and Y is vested percentage at the time of the prior termination.

Article 11. Credited Service and Break in Service.

(a) Credited Service - An Employee's Credited Service shall be the number of Plan Years, beginning after ______________________, in which he is credited with at least 1000 Hours of Service.

(b) Break in Service - A one-year Break in Service shall occur in a Plan Year in which an Employee is not credited with more than 500 Hours of Service by reason of his termination of Service. A five-consecutive-year Break in Service shall be five consecutive one-year Breaks in Service.

For purposes of determining the period of a Participant's Break in Service, the period of a maternity/paternity leave not exceeding one year shall not be treated as a Break in Service.

(c) Reemployment - If a former Employee is reemployed after a one-year Break in Service, the following special rules shall apply in determining his Credited Service:

(1) New Accounts will be established to reflect his interest in the Plan attributable to Service after the Break in Service. After he completes on a year of Credited Service following his reemployment, his Credited Service with respect to the new Accounts will include his Credited Service accumulated prior to the Break in Service.

(2) If he is reemployed after the occurrence of a five-consecutive-year Break in Service, Credited Service after the Break in Service will not increase his vested interest in his accounts attributable to Service prior to the Break in Service.

(3) In the case of a Participant who is reemployed after a five-consecutive-year Break in Service and who has not attained a vested interest in his Accounts Service

prior to the Break in Service shall not be included in determining his Credited Service.

(d) If an Employee is granted an Approved Absence, his Service is not terminated by the Approved Absence and the period of the Approved Absence will be included in his Credited Service. Failure to return to work by the end of an Approved Absence will terminate Credited Service as of the end of the Approved Absence.

Article 12. <u>When Capital Accumulation Will be Distributed.</u>

(a) Except as otherwise provide in Article 13, a Participant's Capital Accumulation will be distributed following his termination of Service, but only at the time and in the manner determined by the ESOP Governing Committee.

(b) In the event of a Participant's Retirement, Disability or death, distribution of his Capital Accumulation shall commence no later than the Allocation Date of the Plan Year following the Plan Year in which his Retirement, Disability or death occurs. If a Participant's Service terminates for any other reason, distribution of his Capital Accumulation shall commence no later than the Allocation Date of the sixth Plan Year following the Plan Year in which his Service terminates; for distributions on such terminations, if a Participant's Capital Accumulation includes Leveraged Shares, such shares shall not be deemed to be part of his Capital Accumulation until the Allocation Date of the Plan Year in which the Acquisition Loan has been fully repaid.

The following alternative modes of distribution may be selected by the ESOP Governing Committee (after considering the available liquid assets of the Plan):

(1) Distribution of a Participant's Capital Accumulation in a single lump sum; or

(2) Distribution of a Participant's Capital Accumulation in substantially equal, annual installments over a period not exceeding five years (provided that the period over which installments may be distributed may be extended for Capital Accumulations exceeding L.E.______________;or

(3) Any combination of the foregoing.

(c) Distribution of a Participant's Capital Accumulation shall commence not later than 60 days after the Allocation Date coinciding with or next following his 60th birthday (or his termination of Service, if later). If the amount of a Participant's Capital Accumulation cannot be determined (by the ESOP Governing Committee) by the date on which a distribution is to commence, or if the Participant cannot be located, distribution of his Capital Accumulation shall commence within 60 days after the date on which the ESOP Governing Committee locates the Participant.

(d) If any part of a Participant's Capital Accumulation is retained in the Plan after his Service ends, his Accounts will continue to be treated as described in Article 1. However, except as otherwise provided in Article 3(b), such Accounts shall not be credited with any additional Employer Contributions, Forfeitures, and dividends on unallocated Leveraged Shares.

Article 13. In-Service Distributions

(a) Cash Dividends - There is no Company (or comparable) guaranty to support repayment of an Acquisition Loan, cash dividends on Leveraged Shares whether allocated or unallocated, shall first be used to meet current or accrued repayment obligations on the Acquisition Loan which financed such shares. See Articles 5(e) and 5 (f).

As determined by the ESOP Governing Committee, any cash dividends payable on Company Shares allocated as Share-Equivalents to the Company Shares Accounts of Participants, may after required debt service Obligations are made and in accordance with article 5 (f), be paid currently (or within 90 days after the end of the Plan Year in which dividends are paid to the Plan) in cash by the Fiduciary to such Participants (or their Beneficiaries) on a nondiscriminatory basis.

With respect to cash dividends payable on Leveraged Shares which remain unallocated, the ESOP Governing Committee may also direct the Fiduciary to make payments in cash to Participants based on their relative Compensation (see Article 7(b)(1), with the balance added to Participants' Other Investments Accounts.

(b) Withdrawals- Except as provided in this Article 13, a Participant is not entitled to any payment, withdrawal or distribution under the Plan during his Service.

Upon written application by a Participant, the ESOP Governing Committee may, if sufficient cash is available in Participants' Other Investments Accounts, direct the Fiduciary to make a partial cash distribution to him while he remains an Employee and an active Participant in the Plan. Such distribution shall be limited to a Participant who demonstrates (to the satisfaction of the ESOP Governing Committee) a need for personal funds due to a financial hardship. Any hardship distribution shall be limited to 50% of the Participant's then vested interest under Article 10 and shall be treated as an advance against the Capital Accumulation to be distributed following termination of his Service.

Article 14. How Capital Accumulation Will be Distributed.

(a) The Fiduciary will make distributions from the Plan only as directed by the ESOP Governing Committee. The distribution of a Participant's Capital Accumulation will be made entirely in cash, unless both the Company and the Association agree otherwise. No Participant has the right to demand a distribution in Company Shares.

(b) Distribution of a Participant's Capital Accumlation will be made to the Participant if living, and if not, to his Beneficiary. In the event of a Participant's death, his Beneficiary shall be his surviving spouse, or,if none, his estate. A Participant (with the consent of his spouse, if any) may designate a different Beneficiary or Beneficiaries from time to time by filing a written designation with the Fiduciary. A deceased Participant's entire Capital Accumulation shall be distributed to his Beneficiary within five years after his death, except to the extent that distribution previously has commenced in accordance with Article 13(b).

Article 15. Rights, Options and Restrictions on Company Shares.

In the event the Company and the Association both agree to a distribution of all or part of a Participant's Capital Accumulation in Company Shares, such distribution shall be made under the following conditions:

(a) Any Company Shares distributed by the Plan shall be subject to a "right of first refusal." The right of first refusal shall provide that, prior to any subsequent transfer, the shares must first be offered for purchase in writing to the Company, and then to the Association, at the then Fair Market Value. A bona fide written offer from an independent prospective buyer shall be deemed to be the Fair Market Value for this purpose. The Company and the ESOP Governing Committee (on behalf of the Plan) shall have a total of 14 days to exercise the right of first refusal on the same terms offered by a prospective buyer. The Company may require that a Participant entitled to a distribution of Company Shares execute an appropriate stock transfer agreement (evidencing the right of first refusal) prior to receiving a certificate for Company Shares.

(b) The Company shall provide a "put option" to any Participant (or Beneficiary) who receives a distribution of Company Shares. The put option shall permit the participant (or Beneficiary) to sell such Company Shares to the Company at any time during two option periods, at the then Fair Market Value. The first option period shall be for at least 60 days beginning on the date of distribution. The second option period shall be for at least 60 days beginning after the new determination of Fair Market Value (and notice to the Participant thereof) in the following Plan Year. The Company may allow the ESOP Governing Committee to purchase shares of Company Shares tendered to the Company under a put option.

The payment for any Company Shares sold under a put option shall be made within 30 days if the shares are distributed as part of an installment distribution. If the shares are distributed in a lump sum distribution, payment shall commence within 30 days and may be made in a lump sum or in substantially equal, annual installments over a period not exceeding five years, with adequate security provided and interest payable at a reasonable rate on an unpaid installment balance (as determined by the Company on the ESOP Governing Committee).

(c) Company Shares held or distributed by the Fiduciary may include such legend restrictions on tranferability as the Company may reasonably require in order to assure compliance with applicable Egyptian securities laws. Except as otherwise provided in this Section 15, no Company Shares held or distributed by the Fiduciary may be subject to a put, call or other option, or buy-sell or similar arrangement. The provisions of this Section 15 shall continue to be applicable to Company Shares even if the Association and the ESOP cease to exist.

Article 16. No Assigment of Benefits.

A Participant's Capital Accumulation may not be anticipated, assigned (either at law or in equity), alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process, except where specifically required by laws governing assets of employee associations.

Article 17. Administration

(a) Temporary ESOP Steering Committee - Before the Association is formed, as a legal entity approved by the Ministry of Social Affairs, the Founders Committee of the Company, with the approval of the Ministry of International Cooperation, appointed a broadly representative temporary ESOP Steering Commitee to initiate this ESOP. The ESOP Steering Committee was charged with the duties of designing the ESOP, directing the Fiduciary on the management of the Leveraged Shares which were acquired for the benefit of Employees, and voting such shares until the Association was formed.

(b) ESOP Governing Committee- Under the general policy direction of the Board of Directors of this Association, the Plan will be administered by two ESOP Governing Committees, the first, a six-person body representing the Employees of the Company and the second, a four-person body representing the Employees of TRENCO. These 10 persons, half of whom are appointed by management and the other half are elected by the Employees in each of the respective Employer groups, also serve as the Board of Directors of the Association. While each member of the ESOP Governing Committee serves in a fiduciary capacity, the Association may contract with an outside Fiduciary to hold trust assts on behalf of all members of the Association and to serve as a directed Fiduciary, subject to separate instructions received from the two ESOP Governing Committees with respect to investment, distribution and voting matters affecting the segregated Participants' Accounts for the group of Employees each such committee represents. The selection and replacement of members of the ESOP Governing Committee are governed by Part I of these Bylaws,

112

dealing with the governance of the Association.

(c) ESOP Governing Committee Action - Committee action will be by vote of a majority of the members at a meeting or in writing without a meeting. A Committee member who is a Participant shall not vote on any question relating specifically to himself.

The Committee members shall be authorized to execute any certificate or other written direction on behalf of the Committee. The Committee shall keep a record of its proceedings and of all dates, records and documents pertaining to the administration of the Plan.

(d) Powers and Duties of the ESOP Governing Committee - The Committee shall have all powers necessary to enable it to administer the Plan and the ESOP Fiduciary Agreement in accordance with their provisions, including without limitation the following:

(1) resolving all questions relating to the eligibility of Employees to become Participants;

(2 determining the appropriate allocations to Participants' Accounts pursuant to Article 7.

(3) determining the amount of benefits payable to a Participant (or Beneficiary), and the time and manner in which such benefits are to be paid;

(4) authorizing and directing all disbursements of Plan Assets by the Fiduciary;

(5) engaging any administrative, legal, accounting, clerical or other services that it may deem appropriate;

(6) construing and interpreting the Plan and the Fiduciary Agreement and adopting rules for administration of the Plan that are consistent with the terms of these ESOP Bylaws.

(7) compiling and maintaining all records it determines to be necessary, appropriate or convenient in connection with the administration of the Plan;

(8) reviewing the performance of the Fiduciary with respect to the Fiduciary's administrative duties, responsibilities and obligations under the Plan and ESOP Fiduciary Agreement;

(9) selecting an independent appraiser and detremining the Fair Market Value of Company Shares as of such dates as it determines to be necessary or appropriate; and

(10) executing agreements and other documents on behalf of the Plan.

The Committee shall be responsible for directing the Fiduciary as to the investment of Plan Assets. The Committee may delegate to the Fiduciary the responsibility for investing in Plan Assets other than Company Shares. The Committee shall establish a funding policy and method for directing the Fiduciary to acquire Company Shares (and for otherwise investing the Plan Assets) in a manner that is consistent with the objectives of the Plan.

The Committee shall perform its duties under the Plan and the ESOP Fiduciary Agreement solely in the interests of the Participants (and their Beneficiaries). Any discretion granted to the Committee under any of the provisions of the Plan or the ESOP Fiduciary Agreement shall be exercised only in accordance with rules and policies established by the Commitee which shall be applicable on a nondiscriminatory basis.

(e) Expenses - All reasonable expenses of administering the Plan and Plan Assets shall be charged to and paid out of the Plan Assets. The Company may, however, pay all or any portion of such expenses directly, and payment of expenses by the Company shall not be deemed to be Employer Contributions.

(f) Information to be Submitted to the Committee - To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters as the Committee may require, and shall maintain such other records as the Committee may determine are necessary or appropriate in order to determine the benefits due or which may become due to Participants (or Beneficiaries) under the Plan.

(g) Delegation of Fiduciary Responsibility - The Committee from time to time may allocate to one or more of its members and/or may delegate to any other persons or organizations any of its rights, powers, duties and responsibilities with respect to the operation and administration of the Plan that are permitted to be so delegated under the Plan; provided, however, that responsibility for investment of the Plan Assets may not be allocated or delegated other than as provided in Section 17 (d). Any such allocation or delegation shall be made in writing, shall be reviewed periodically by the Committee and shall be terminable upon such notice as the Committee in its discretion deems reasonable and proper under the circumstances.

(h) Bonding, Insurance and Indemnity - The Association shall secure fidelity bonding for the fiduciaries of the Plan.

The Association (in its discretion) or the Fiduciary (as directed by the Committee) may obtain a policy or policies of insurance for the Committee (and other fiduciaries of the Plan) to cover liability or loss occurring by reason of the act or omission of a fiduciary. If such insurance is purchased with Plan Assets, the policy must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary obligation by such fiduciary. The Company shall indemnify each member of the Committee (to the extent permitted by law) against any personal liability or expense resulting from his service on the Committee, except such liability or expense as may result from his own willful misconduct.

(i) Notices, Statements and Reports - The Committee shall assist the Company, as requested, in complying with governmental reporting and disclosure requirements. The Committee shall be the designated agent of the Plan for the service of legal process.

Article 18. Claims Procedure.

A Participant (or Beneficiary) who does not receive a distribution of benefits to which he believes he is entitled may present a claim to the Committee. The claim for benefits must be in writing and addressed to the Committee. If the claim for benefits is denied, the Committee shall notify the Participant (or Beneficiary) in writing within 90 days after the Committee initially received the benefit claim. Any notice of a denial of benefits shall advise the Participant (or Beneficiary) of the basis for the denial, any additional material or information necessary for the Participant (or Beneficiary) to perfect his claim and the steps which the Participant (or Beneficiary) must take to have his claim for benefits reviewed.

Each Participant (or Beneficiary) whose claim for benefits has been denied may file a written request for a review of his claim by the Board of Directors and the Association. The request for review must be filled by the Participant (or Beneficiary) within 60 days after he receives the written notice denying his claim. The decision of the Association will be made within 60 days after receipt of a request for review and shall be communicated in writing to the claimant. Such written notice shall set forth the basis for the Association's decision. If there are special circumstances (such as the needs to hold a hearing) which require an extension of time for completing the review, the Association's decision shall be rendered not later than 120 days after receipt of a request for review.

Article 19. Limitation on Participants' Rights.

A participant's Capital Accumulation will be based on his vested interest in his Accounts and will be paid only from the Plan Assets. The Association, the ESOP Governing Committee, the Company, TRENCO or the Fiduciary shall not have any duty or liability to furnish the Plan with any funds, securities on other assets, except as expressly provided in the Plan.

The adoption and maintenance of the Plan shall not be deemed to constitute a contract of employment or otherwise between the Company or TRENCO and any Employee, or to be a consideration for, or an inducement or condition of, any employment. Nothing contained in this Plan shall be deemed to give an Employee the right to be retained in the Service of the Company or to interfere with the right of the Company to discharge, with or without cause, any Employee at any time.

Article 20. Future of the Plan.

The Association reserves the right to amend or terminate the Plan (in whole or in part) and the Fiduciary Agreement at any time, by action of its board of directors. Neither amendment nor termination of the Plan shall retroactively reduce the vested rights of

Participants or permit any part of the Plan Assets to be diverted to or used for any purposes other than for the exclusive benefit of the Participants (and their Beneficiaries).

If the Plan is terminated (or partially terminated), participation of Participants affected by the termination will end. The Accounts of Employees affected by the termination will become nonforteitable as of the date of termination. A complete discontinuance of Employer Contributions, dividends on Company Shares, and voluntary Employee contributions shall be deemed to be a termination of the Plan for this purpose. After termination of the Plan, the Plan will be maintained until the Capital Accumulations of all Participants have been distributed. Capital Accumulations may be distributed following termination of the Plan or distributions may be deferred as provided in Section 12, as the Company shall determine.

In the event of the merger or consolidation of this Plan with another Plan, or the transfer of Plan Assets (or liabilities) to another plan, the Account Balances of each Participant immediately after such merger, consolidation or transfer must be at last as great as immediately before such merger, consolidation or transfer (as if the Plan had then terminated).

Article 21. Governing Law.

The provisions of this Plan shall be construed, administered and enforced in accordance with the laws of the Arab Republic of Egypt.

Article 22. Execution.

To record the adoption of this Plan, the Association, has caused its appropriate officers to affix its association name and sead hereto this ________ day of ____________ 19__.

ALEXANDRIA TIRE COMPANY
EMPLOYEE SHAREHOLDERS'
ASSOCIATION

BY ______________________
President

(SEAL)

BY ______________________
Secretary

To record its concurrence with this Plan, The Company has caused its appropriate officers to affix its corporate name and seal hereon this ________ day of __________, 19__.

ALEXANDRIA TIRE COMPANY S.A.E.

By ______________________
President

(SEAL)

By ______________________
Secretary

To record its concurrence with this Plan, the TRENCO has caused its appropriate officers to affix its corporate name and seal hereto this __________day of __________, 19__.

TRANSPORT AND ENGINEERING
COMPANY S.A.E.

By ______________________
President

(SEAL)

By______________________
Secretary

PART II-11

ESOP SPECIFIC PROVISIONS OF THE ATC JOINT VENTURE AGREEMENT AND STATUTE OF INCORPORATION

PART II-12

THE ATC ESOP TEMPORARY STEERING COMMITTEE

PART III-1

STRATEGY FOR EMPLOYEE COMMUNICATIONS

PART III-2

THE ATC ESOP EMPLOYEES' HANDBOOK

122

PART III-3

ESA CHAIRMAN'S LETTER TO THE PARTICIPANTS

PART III-4

ATC CORE VALUES

DRAFT, July 8, 1988

"WHAT ALEXANDRIA NATIONAL TIRE COMPANY MEANS TO ME: OUR CORE VALUES"

• We believe in the dignity and worth of every person, and that **every person** is our most important asset:

- each customer
- each supplier
- each worker-owner

• We believe in providing our customers the best products and the best service possible -- the highest value for a fair price.

• We believe that every person who works in our company should have the opportunity to earn as much as they want to through what they produce, and to be happy in their work.

• We believe that private property ownership is fundamental to justice in every business and every society, but only to the extent that property is accessible to all.

• We believe that ownership participation means to share responsibilities and risks, as well as the full rewards for our individual and team performance.

• We believe that a leader is one who earns respect daily and who inspires the people he leads by consistently acting on the highest human values. A leader constantly strives to raise the self-worth, dignity and well-being of each person with whom he interacts.

• We believe that each person has the opportunity to become such a leader and to realize his or her own fullest human potential by working together and thinking together about how to improve our company and ourselves.

• We believe that people should be rewarded on the basis of their performance and commitment to our company's core values,\not\on the basis of charity.

• We believe that income security cannot be guaranteed through wages alone, but that our jobs are most secure when we work, share, grow, improve, invest and risk together in our own common future, while constantly inventing new ways to reduce waste, conflict and negative thinking.

• We believe that time is a precious commodity and that each moment of life is an opportunity to improve ourselves, our company and the world we leave behind for future generations.

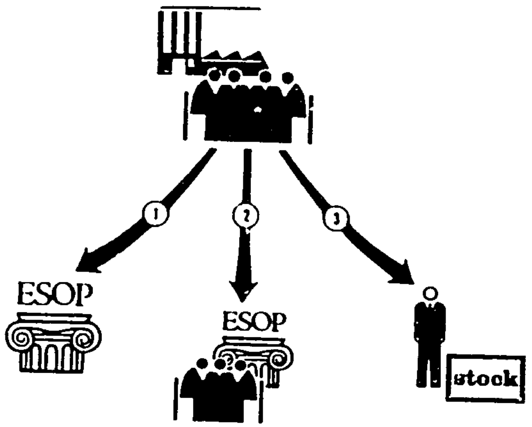
PART III-5

ATC CODE OF ETHICS

PART IV-1

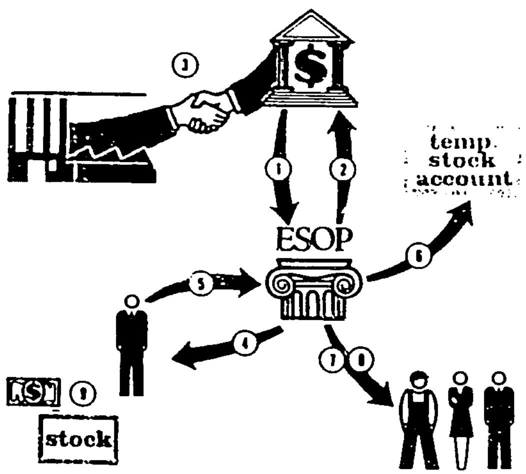
OVERVIEW:
BASIC DIFFERENCES OF THE GENERIC AND THE ATC CASE

STAGE 1:
STOCK CORPORATION FORMS ESOP



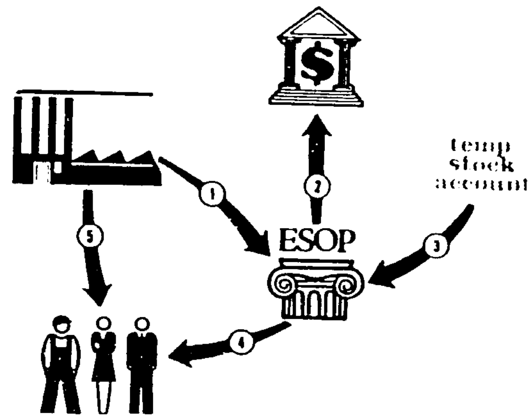
1. Board approves ESOP.
2. Appoints ESOP trustees.
3. Approves purchase by ESOP of seller's shares.

STAGE 2:
EXISTING STOCK PURCHASED WITH LOAN TO ESOP



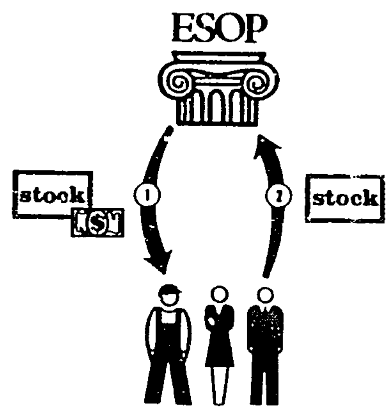
1. Bank loans money to ESOP at reduced interest rates.
2. Trust signs note to bank.
3. Corporation guarantees to make contribution to ESOP to repay loans.
4. ESOP pays seller for shares.
5. Seller transfers shares to ESOP.
6. Shares pledged as collateral or held in suspense account.
7. ESOP accounts set up for each employee.
8. Credit purchase requires no cash or guaranty by employees.
9. Seller avoids capital gains taxes by buying new shares.

STAGE 3:
COMPANY PAYS OUT PROFITS FOR REPAYING BUYOUT LOAN, BONUSES, AND DIVIDENDS AS NEW EMPLOYEE BENEFITS



1. Company makes annual contribution and dividends to ESOP for loan repayment (tax deductible).
2. ESOP pays annual principal and interest due on loan.
3. Shares released for annual allocations.
4. Released shares allocated and held in ESOP accounts of participants (non-taxable).
5. Distribution of monthly and annual cash bonuses and dividends, if available.

STAGE 4:
DISTRIBUTION OF VESTED SHARES UPON RETIREMENT OR TERMINATION



1. Distribution of cash and ESOP shares (taxable).
2. Sale of distributed shares at appraised fair market value.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE WORKER:

• ELEVATES THE DIGNITY AND STATUS OF EACH WORKER TO THAT OF AN OWNER.

• DIVERSIFIES WORKERS' INCOME BEYOND WAGES ALONE TO INCLUDE PROFIT SHARING BONUSES, STOCK ACCUMULATIONS, DIVIDEND INCOME AND THE PARTICIPATORY RIGHTS OF A SHAREHOLDER IN THE COMPANY.

• NO TAXES ON THE EQUITY ACCUMULATIONS UNTIL SHARES ARE DISTRIBUTED FROM THE ESOP TRUST, GENERALLY UPON RETIREMENT.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE SELLER:

• LEAVES CONTROL OF COMPANY IN FRIENDLY HANDS.

• REWARDS LOYAL WORKERS WHO CONTRIBUTED TO BUSINESS SUCCESS.

• CREATES AN IN-HOUSE MARKET FOR TOTAL OR PARTIAL EQUITY SALES.

• TAX-EXEMPT CAPITAL GAINS — TAX INCENTIVES PERMIT A TAX-FREE INVESTMENT ROLLOVER FOR OWNERS WHO SELL THEIR SHARES OF STOCK TO AN ESOP AND USE THE PROCEEDS TO INVEST IN OTHER SECURITIES.*

*SUBJECT TO FAVORABLE OPINION OF SELLER's TAX ADVISORS AND COUNSEL

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE LENDER:

• LENDERS (BANKS, INSURANCE COMPANIES AND MUTUAL FUNDS) CAN CHARGE LOWER INTEREST COSTS ON LOANS TO ESOPS AND GAIN ADDED SECURITY FROM THE ABILITY OF THE ESOP TO SERVICE ITS ENTIRE DEBT, PRINCIPAL AND INTEREST, ON PRE-TAX CORPORATE DOLLARS.

• MORE HARMONIOUS LABOR-MANAGEMENT RELATIONS FURTHER ENHANCES SECURITY OF DEBT REPAYMENT.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE WORKER (continued):

• PROVIDES WORKERS AS A GROUP WITH ACCESS TO PRODUCTIVE CREDIT FOR "LEVERAGED" PURCHASES OF UP TO 100% OF ALL SHARES OF THEIR COMPANY'S EQUITY, SECURED AND REPAYABLE OUT OF FUTURE PROFITS.

• JOB SECURITY CUSHIONED DURING BAD YEARS BY FLEXIBLE OWNERSHIP INCENTIVES LINKED TO PRODUCTIVITY AND PROFITS.

• GREATER HARMONY AND COOPERATION BETWEEN MANAGEMENT AND NONMANAGEMENT WORKERS.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE COMPANY:

• DISCOUNTED INTEREST RATES — LENDERS CAN REDUCE CREDIT COSTS ON LOANS TO ESOPS WHICH RESULT IN LOWER INTEREST RATES FOR CAPITAL GROWTH AND EQUITY TRANSFERS.

• EASIER DEBT SERVICE — LOWER INTEREST PLUS THE FULL DEDUCTIBILITY OF LOAN PRINCIPAL AND INTEREST RE-PAYMENTS MAKES DEBT SERVICE EASIER.

• POSITIVE CASH FLOW — BOTH TAX SAVINGS AND REDUCED INTEREST COSTS PRODUCE ADDED CASH FOR THE COMPANY.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE GOVERNMENT:

• REDUCED POLITICAL PRESSURES FOR SUBSIDIES, PUBLIC SECTOR PAYROLLS AND FISCAL DEFICITS.

• EXPANDED PRIVATE SECTOR PRODUCTIVITY AND A BROADER BASE OF TAXATION FROM RISING PROPERTY AND JOB INCOMES AMONG WORKERS.

• A BROADER POLITICAL CONSTITUENCY AGAINST RE-DISTRIBUTIVE TAXATION AND OVER-REGULATION OF BUSINESS.

PART IV-2

GENERIC BOARD RESOLUTION APPROVING THE ESOP TRANSACTION

PART IV-3

GENERIC SALE OF STOCK AGREEMENT

131

SALE OF STOCK AGREEMENT

This Agreement, entered into this _____ day of ________________, 19____, by and between __________________ (hereinafter called "Seller"), and **National Investment Bank, as Fiduciary For the Alexandria Tire Company Employee Share Ownership Plan**, hereinafter called "Buyer").

Witnesseth:

Whereas, Buyer is the Fiduciary of the **Alexandria Tire Company Employee Share Ownership Plan** (hereinafter called "Plan") under a Fiduciary Agreement, dated __________________, entered into with **Alexandria Tire Company**, an Egyptian shareholding company organized under Law No. 43 of 1974, as amended by Law No. 32 of 1977 and its executive regulations, (hereinafter called "Company"); and

Whereas, Seller is the owner of ____________ (#) shares of capital stock of Company; and

Whereas, Buyer wishes to purchase from Seller, and Seller wishes to sell to Buyer, __________ (#) shares of capital stock of Company to be held for the benefit of the employes of the Company who are participants in the Plan;

Now, Therefore, in consideration of the covenants and the agreements hereinafter set forth, Seller and Buyer hereby agree as follows:

1. *Sale of Common Stock.* Subject to the terms and conditions of this Agreement, Seller does hereby sell and deliver to Buyer, and Buyer does hereby purchase from Seller, ____________ (#) shares of capital stock of Company (hereinafter called "Stock").

2. *Purchase Price.* The total purchase price which Buyer shall p to Seller for the Stock shall be _________________ Egyptian Pounds (LE__________), based upon a price of LE_________ per share.

3. *Payment of Purchase Price.* The purchase price shall be paid by Buyer to Seller in the amount of ____________ Egyptian Pounds (LE__________) in cash at the time of this Agreement, with the balance of __________ Egyptian Pounds (LE________) due under a credit arrangement, as evidenced by a promissory note executed by Buyer in the form and containing the terms of the promissory note attached hereto as Exhibit A (the "Note"). The Note shall be secured by a guarantee agreement executed by the Company, as evidenced by the guarantee agreement attached hereto as Exhibit B (the "Guarantee Agreement"). The Note shall be for the principal amount of LE__________ and shall be payable in ______ (#) equal, ann al payments of __________ Egyptian Pounds (LE__________) on the _____ day of __________ of each of the years _____ through ________. Such payments shall represent amortization of principal and interest, with interest computed on the principal amount outstanding at the rate of _______ percent (____%) per annum fom the date of this Agreement. Buyer may not prepay any amount due hereunder without first obtaining the written consent of Seller.

4. *Representations and Warranties of Seller.* Seller, to induce Buyer to conclude the transaction contempiated hereunder, hereby makes the following represent itions and warranties, each of which shall constitute and be determined a condition of this Agre ment:

132

A. Seller is the owner of the Stock being transferred hereunder and has the right to sell or otherwise dispose of such Stock; and
B. There are no other agreements or instruments which impair or preclude Seller's right to consummate the sale and transfer contemplated hereunder, nor will consummation of the transaction result in the breach of, or constitute a default under, any agreement or instrument to which Seller is a party or by which Seller is bound.

5. *Representations and Warranties of Buyer.* Buyer, to induce Seller to conclude the transaction contemplated hereunder, hereby makes the following representations and warranties, each of which shall constitute and be determined a condition of this Agreement:

A. Buyer serves as the Trustee of the Plan pursuant to a Fiduciary Agreement entered into by Company and Buyer under the laws of the Arab Republic of Egypt;
B. Buyer has full power, and is duly authorized by law and the Fiduciary Agreement, to incur debt obligations and to otherwise obligate itself to pay monies for the purpose of acquiring capital stock of Company;
C. The obligations of Buyer to Seller for the payments of principal and interest provided for in Paragraph 3 have been guaranteed by Company under the terms of a Guaranty Agreement entered into between company and Seller herewith on this date; and
D. The consummation of the transaction contemplated by this Agreement will not result in the breach of, or constitute a default under, any agreement or instrument to which Buyer is a party or by which Buyer is bound.

6. *Liability of Buyer.* Seller understands and agrees that the execution by Buyer of this Agreement is done in Buyer's capacity as Fiduciary of the Plan, and that the obligations and liabilities of Buyer in connection therewith are limited to the assets which Buyer holds as Fiduciary of the Plan. The liability of Buyer (and of the Plan) for the payments specified in Paragraph 3 shall further be limited to the periodic cash contributions received by Buyer from Company for the purpose of satisfying the obligations to Seller hereunder; to any earnings attributable to such contributions; and to any cash dividends received by Buyer on the Stock purchased from Seller hereunder. Buyer shall not be liable to Seller under this Agreement except to the extent of Buyer's failure to make the payments specified in Paragraph 3 at the times said payments are due. If the Buyer shall fail to make the payments due under this Agreement, the Seller hereby waives its rights of recourse against the Buyer and agrees to pursue its rights and remedies against the Company as specified in said Guaranty Agreement.

7. *Valuation.* Seller and Buyer agree that the purchase price specified in Paragraph 2 represents not more than the fair market value of the Stock to be transferred hereunder, as determined in good faith by the Buyer pursuant to a valuation report prepared by an independent appraiser. In the event that there shall be a final determination by an Egyptian court or other competent public authority that said purchase price exceeds "fair market value", Seller hereby agrees that the purchase price shall be adjusted, by Seller's refund to Buyer, by transfer of additional shares of capital stock of Company by Seller to Buyer or by reduction in the balance of the installment payments due to Seller.

8. *Amendments and Entire Agreement.* This instrument contains the entire agreement between the parties hereto with respect to the transaction contemplated hereby, and may be changed or modified only by an instrument duly executed by both parties hereto.

9. *Parties in Interest.* This Agreement shall inure to the benefit of, and be binding upon, the parties named herein and their respective successors and assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any other person any rights or remedies under, or by reason of, this Agreement.

10. *Governing Law.* This Agreement shall be construed and governed in accordance with the laws of the Arab Republic of Egypt.

11. *Section and Other Headings.* The section and other headings contained in this Agreement are for reference purposes only and shall not affect the interpretation of meaning of this Agreement.

In Witness Whereof, the parties hereto have executed this Agreement on the day and year first above written.

Seller:

____
Name

Buyer

By______________________
Name

For the National Investment Bank,
as Fiduciary for the
Employee Share Ownership Plan of
Alexandria Tire Company

134

PART IV-4

GENERIC LOAN DOCUMENT

PART IV-5

GENERIC PROMISSORY NOTE

136

PROMISSORY NOTE

LE__________ ____

____

Date

For value received, National Investment Bank, as Fiduciary for the Alexandria Tire **Company Employee Share Ownership** Plan (the "Maker"), does hereby promise to pay to the order of ___________________________ (the "Payee") at the current address of the Seller referred to in the Sale of Stock Agreement and the Guaranty Agreement described below, the sum of ____________ Egyptian Pounds (LE__________) with interest at the rate of _________ percent per annum, in ten equal annual installments of LE______________, the first of which shall be payable on the _____ day of _____________, 19___ and the remaining installments on the same day in each succeeding year. All payments are to be made at the last current address of the Payee unless written notice of a change of address is given to the Maker at least 14 days prior to a scheduled payment.

This Note is the Note referred to in a certain Sale of Stock Agreement dated as of _________________, 19____, between the Maker and the Payee hereof, and in a certain Guaranty Agreement dated __________________, 1985, between the Alexandria Tire Company (the "Guarantor") and the Payee hereof, and incorporates by reference all terms and conditions of said Sale of Stock Agreement and said Guaranty Agreement.

In witness whereof, the National Investment Bank, as Fiduciary for the Alexandria Tire Company Employee Share Ownership Plan, and the duly authorized officers of the Alexandria Tire Company, hereby execute this Note.

National Investment Bank,
Fiduciary for the Alexandria
Tire Company Employee
Share Ownership Plan
as MAKER:

By______________ _________________
Name

Alexandria Tire Company,
as GUARANTOR:

By______________ __________________
President

By_________________________________
Secretary

137

PART IV-6

GENERIC GUARANTY DOCUMENT

GUARANTY AGREEMENT

This Agreement, entered into this _____ day of ____________________, 19____, by and between **Alexandria Tire Company**, an Egyptian shareholding company organized under Law No. 43 of 1974, as amended by Law No. 32 of 1977 and its executive regulations, (hereinafter called "Company") and ____________________ (hereinafter called "Seller").

Witnesseth:

Whereas, Company has provided a means for its employees to acquire stock ownership interests in the Company through the **Alexandria Tire Company Employee Share Ownership Plan**(hereinafter called "Plan"); and

Whereas, the **National Investment Bank**, as Fiduciary of the Plan, intends to purchase certain shares of capital stock of Company from Seller under a Sale of Stock Agreement of this date; and

Whereas, Company desires to induce Seller to extend credit to the Plan in the amount of ____________ Egyptian Pounds (LE____________) for the purpose of enabling the Plan to purchase and pay for such stock of Company on an installment basis; and

Whereas, Seller is ready and willing to extend such credit to the Plan, provided that Company will execute and deliver this Agreement:

Now, Therefore, in consideration of the covenants and the agreements hereinafter set forth, Company and Seller hereby agree as follows:

1. *Guaranty.*

(a) Subject to the terms and conditions of this Agreement and the aforementioned Sale of Stock Agreement entered into herewith on this date between Seller and the Fiduciary of the Plan, Seller will extend credit to the Plan in the amount of ____________________ Egyptian Pounds (LE__________), as evidenced by a promissory note executed by the Board of Trustees (the "Note").

(b) To provide security to Seller for the installment payments of principal and interest due to Seller under such Note, Company hereby unconditionally guarantees to Seller that the obligations of the Plan to Seller under said Note shall be paid in full when due.

(c) Notwithstanding the above, contributions by Company to the Plan need not be made in amounts which would result in said contributions being in excess of any limitations imposed by Egyptian laws.

2. *Events of Default.* The occurrence of any of the following events shall be deemed Events of Default hereunder:

(a) Non-payment by the Plan of any installment payment due to Seller under the terms of the Note.

(b) Failure by the Plan to perform any term, covenant or agreement contained in the Note and the Sale of Stock Agreement, which default is not cured within thirty (30) days of written notice by Seller to the Plan and to Company of its occurrence.

(c) Failure by Company to perform any term, covenant or agreement contained herein, which default is not cured within thirty (30) days of written notice by Seller to Company of its occurrence.

3. *Remedies.* Upon the occurrence of any Event of Default, Seller shall have the right to declare immediately due and payable (by Company) all or any indebtedness secured hereby, including the future installment payments due to Seller under the Note. Seller shall have all other rights, privileges, powers and remedies afforded to Seller by the or otherwise possessed by Seller under the laws of the Arab Republic of Egypt; the rights, privileges, powers and remedies of Seller shall be cumulative; and no single or partial exercise of any of them shall preclude the further or other exercise of the same or any other of them.

4. *Termination.* This Agreement will terminate upon the payment of all indebtedness of the Plan to Seller under the Note.

5. *Miscellaneous.*

(a) No delay or failure of Seller in exercising any right, power or privilege hereunder shall affect such right, power or privilege; nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power or privilege preclude any further exercise thereof or of any other right, power or privilege of Seller. The right and remedies of Seller hereunder are cumulative and not exclusive. Any waiver, permit, consent or approval of any kind by Seller of any breach or default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in such writing.

(b) No amendment or termination of the Plan, or the Fiduciary Agreement under the Plan, shall diminish, modify or otherwise affect the obligations of Company to Seller hereunder.

(c) Company will reimburse Seller for all costs, expenses and reasonable fees of attorneys expended or incurred by Seller in enforcing this Agreement or in collecting any sum which becomes due to Seller under the Note.

(d) This Agreement shall be construed in accordance with the laws of the Arab Republic of Egypt.

In Witness Whereof, the parties hereto have executed this Agreement on the day and year first above written.

Seller: Company:

_______________________________ By_______________________________

Name

For the Alexandria Tire Company

PART IV-7

GENERIC PLEDGE DOCUMENT

PART IV-8

GENERIC FIDUCIARY DOCUMENT

PART IV-9

GENERIC ESA BYLAWS AND ESOP

PART V-1

ESOP ANNUAL CHECKLIST

144

PART V-2

ACCOUNTING AND ADMINISTRATION MANUAL (WITH ADMINISTRATION FORMS)

145

EXCERPTS FROM
EEI/ESOP ADMINISTRATION FORMS MANUAL
FOR
ALEXANDRIA NATIONAL TIRE COMPANY

Letter C

PURPOSE: To advise participants or their beneficiaries who have elected to receive a stock distribution, of "right of first refusal" and "put option."

WHEN SENT: As soon as possible after receiving request for stock distribution (Encl. 3).

ENCLOSURES:

Encl. 4 Form for participant to elect whether to exercise "put option."

Encl. 5 Stock Transfer Agreement, including "right of first refusal" legend to be added to stock certificates distributed by ESOP Plan Fiduciary.

Encl. 6 Exhibit A to Encl. 5. Form providing notice to company of intent to sell or transfer of company stock under "right of first refusal."

Letter C

ALEXANDRIA NATIONAL TIRE COMPANY
Employee Share Ownership Plan
Board of Governors

[Date]

Dear [Name of ESOP Participant]:

On [Date of Letter B], we advised you regarding your interest in, and rights to, shares of Company Stock under the ESOP. Accordingly, we are pleased to inform you that legal title to those shares has been transferred to you and that stock certificates issued in your name are now available. Upon execution and return of the enclosed Share Transfer Agreement, you will receive a stock certificate for [whole number of shares (not including fractional share)] shares of common stock of Alexandria National Tire Company and a check for $[value of fractional share] representing the value of the fractional share.

The stock to be distributed to you will be subject to a "right of first refusal," which requires that prior to any sale or transfer of your shares you must first offer to sell the shares to the Company, and then, if refused by the Company, to the Plan at the price which the prospective buyer is willing to pay. The provisions applicable to the right of first refusal are contained in the enclosed Share Transfer Agreement.

Please also be aware of your right under the ESOP's "put option" to sell all of your shares to the Company (or the Plan if it wishes) at any time during the 60-day period beginning on this date. The price will be $[full value of vested shares] representing the value of all your shares as of [Anniversary Date], as determined in accordance with the provisions of the ESOP. The sales price will be paid to you in a lump sum [or: in equal annual installments over [number] years, together with interest at [percent]% per annum on the unpaid principal balance].

In the event you do not sell your stock during the next 60 days, you will be offered another opportunity to sell your stock following the next annual determination of its fair market value. At that time the Company will grant you an additional option for a 60-day period to sell all of your shares to the Company or to the Plan. The price which the Company or the Plan will offer to pay will depend upon the fair market value of your shares at that time. As you know, the market price of stock varies over time, so the amount which the Company or the Plan will pay may be greater or less than the amount shown above.

You should decide and notify the ESOP Board of Governors promptly as to whether you wish to sell all of the stock now at this price, or to keep the stock. If you elect to keep the stock, please remember that your right to require repurchase by the Company or the Plan will expire in six months.

Please indicate your choice on the attached letter and return the letter to the Plan as soon as possible. The ESOP Board of Governors will then take prompt action to carry out your wishes.

With best wishes,

Board of Governors
Employee Share Ownership Plan
Alexandria National Tire Company

By____________________________

Encl. 4

To: Board of Governors, Employee Share Ownership Plan
Alexandria National Tire Company

Gentlemen:

I have your letter of [Date of Letter C] and I wish to:

______ exercise my option to sell to Alexandria National Tire Company or to the ESOP, the shares of Company Stock to which I am entitled, at the option price referred to in your letter. I hereby tender such shares for sale. Please send me a check representing the proceeds of the sale.

______ not exercise my option to sell any of the Company shares distributed to me. Enclosed is the executed Share Transfer Agreement applicable to such shares. Please send me a stock certificate representing these Company shares.

Signed:

Date

Participant/Beneficiary

Print Name

Address

Social Security Number

Encl. 5

SHARE TRANSFER AGREEMENT

AGREEMENT, entered into this _____ day of __________________, 19___, by and between the undersigned, hereinafter referred to as "Shareholder" and Alexandria National Tire Company, hereinafter referred to as "Company".

W I T N E S S E T H :

WHEREAS, Shareholder has terminated his participation under the Company's Employee Share Ownership Plan ("ESOP") and is entitled to receive [total number of shares (including fractional share)] shares of the stock of the Company as a distribution under the ESOP; and

WHEREAS, Section [Section # in ESOP on "right of first refusal"] of the ESOP provides that shares of Company Share distributed to a Participant from the ESOP shall be subject to a right of first refusal in favor of the Company and the ESOP;

NOW, THEREFORE, it is hereby agreed as follows:

1. Void Transfer. Shareholder shall not sell, transfer, assign, hypothecate or otherwise alienate any of his shares of Company Stock or any right or interest therein until he first offers said shares to the Company and then to

the ESOP in the manner hereinafter set forth. Any sale or transfer, or purported sale or transfer, of Company Stock shall be null and void unless the terms, conditions, and provisions of this Agreement are strictly observed and followed.

2. Notice of Intent to Transfer. If the Shareholder desires to sell, transfer, assign, hypothecate or otherwise alienate any of his shares of Company Stock, he shall first give written notice to the Secretary of the Company and the ESOP Board of Governors of his intention to do so in the form of notice attached hereto as Exhibit A. Such notice shall designate the proposed purchaser or transferee, the number of shares to be sold or transferred, the price per share, and the terms upon which the offeror intends to make such sale or transfer. Such notice shall constitute an offer to sell all or any part of said shares at said price and on said terms to the Company or the ESOP as hereinafter provided. In the event that the proposed transfer constitutes a gift or similar transfer, the price per share shall be the current fair market value of Company Stock, as determined by the ESOP Fiduciary, for purposes of administration and operation of the ESOP.

3. Purchase by Company. Within fourteen (14) days after the Company is notified by the Shareholder as provided in Section 2 above, if the Company desires to purchase or acquire all or part of said shares of Company Stock, the Company shall mail or deliver to Shareholder a written notice

of the Company's intent to purchase or acquire a specified number of shares at the price and upon the terms stated in the notice to the Company.

4. Purchase by ESOP. Within fourteen (14) days after receipt by the Company of said notice, if the Board of Governors desires to have the ESOP purchase or acquire all or any part of said shares of Company Share which the Company does not elect to purchase, the Board of Governors shall mail or deliver to Shareholder a written notice that the ESOP will purchase or acquire a specified number of such shares at the price and upon the terms stated in said notice to the Company.

5. Release of Transfer Restriction. If within fourteen (14) days after receipt by the Company of the notice provided in Section 2 of this Agreement, both the Company and the ESOP fail to exercise the right of first refusal regarding any Company Share in connection with such notice, such Company Share shall be released from restriction upon transfer; provided, however, that said shares shall be released solely for the purpose of the proposed sale or transfer to the proposed purchaser or transferee specified in the notice to the Company at the price per share and on the terms specified in said notice. After said sale or transfer or after the expiration of thirty (30) days after the giving of notice to the Company as provided in Section 2 above, whichever occurs sooner, said shares shall again become and shall remain subject to the restrictions upon transfer.

6. Share Certificate Legend. The company shall endorse upon the face of each stock certificate for Company Stock issued to Shareholder the following legend:

> "The shares of stock evidenced by this certificate are subject to a Share Transfer Agreement available for inspection at the offices of Alexandria National Tire Company entitling Alexandria National Tire Company and the Alexandria National Tire Company Employee Share Ownership Plan to repurchase these shares under conditions set forth therein and restricting sale or transfer of these shares."

> "These shares have not been registered under applicable Egyptian securities laws. In the absence of an effective registration statement under such laws, these shares may not be offered, sold, transferred, or otherwise disposed of, except to the issuer or the Alexandria National Tire Company Employee Share Ownership Plan, without first obtaining an opinion of counsel, satisfactory to the issuer, that such disposition may be made without registration of the shares under such applicable laws."

7. Binding Effect. All the terms, conditions and provisions of this Agreement restricting the sale or transfer of shares of the Company shall apply to and bind the heirs, successors and assigns of each of the owners or holders of any of said shares.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

____
Shareholder (Signature)

ALEXANDRIA NATIONAL TIRE COMPANY

By______________________________

Encl. 6

EXHIBIT A

To: Secretary of Alexandria National Tire Company

Notice of Intention to Sell or Transfer
Shares of Alexandria National Tire Company

Gentlemen:

Pursuant to the Share Transfer Agreement dated ________ ____________, 19___, between me and Alexandria National Tire Company, I intend to sell or transfer shares of Alexandria National Tire Company stock as described below:

Proposed Purchaser or Transferee ______________________

Number of shares ______________________

Price per share ______________________

Terms of sale: State whether [1] for cash, [2] for a down payment with installment payments over a period of time, with rate of interest, if any, or [3] some other arrangement. Please give full details.

____

____

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Alexandria National Tire Company and its Employee Share Ownership Plan are hereby offered said shares, or any lesser number at the price per share and on the terms stated above. This offer shall remain in effect for fourteen days from the receipt by you of this notice.

154

Acceptance of this offer shall be by written notice to me from the Company or the ESOP Board of Governors, as to the number of shares to be purchased. The written notice should be addressed as follows:

____
Name (printed)

____
Street Address

____
City State Zip Code

Very truly yours,

____
Shareholder (Signature)

PART V-3

VALUATION ISSUES RELATED TO THE FORMATION OF THE ALEXANDRIA TIRE COMPANY

156

VALUATION ISSUES RELATED TO THE FORMATION OF THE ALEXANDRIA TIRE COMPANY

EXECUTIVE SUMMARY

This report is designed to be a briefing on ESOP valuation techniques as they might affect the Alexandria Tire Company (ATC - a joint venture of TRENCO of Egypt, Pirelli Tire of Italy and eleven other investors) and other Employee Stock Ownership Plan ("ESOP") privatization ventures in Egypt. It is being prepared specifically for Egyptian officials, the management of the new venture, USAID personnel and other individuals involved in the Alexandria Tire Company as well as future ventures of this kind.

The report is not a comprehensive overview of the business valuation discipline or even a complete overview of that discipline as it relates to ESOPs. It is simply a brief discussion designed to serve the purpose mentioned in the previous paragraph.

Following the introduction, Section II discusses why stock is valued for ESOP transactions. Subsequently, various valuation-related issues are covered:

First, we will go over the various definitions of value that might be used for ESOP valuations in any particular country - including cost, liquidation value, fair market value, etc.. Then we will discuss the various factors that must be considered in valuing a closely-held company, such as the world and national economies, as well as the financial condition of the company being valued. The report will then discuss various methods of determining the fair market value of a closely-held company (under the assumption that fair market value is the proper definition of value that should be used), the various methods of valuation that should be considered, including market value, comparable approach, capitalization of income, book value, etc.

After discussing the general methods of valuing a closely-held company, we then discuss the effects that the marketability or lack of marketability has on value. This is followed by a review of the effects that "control" has on value. [By control we mean the degree of managerial control that might be exercised by the particular block of stock being valued.]

Finally, we end the report with a discussion of various special considerations that are made when valuing ESOP shares as opposed to non-ESOP shares.

\61

TABLE OF CONTENTS

I. Introduction

A. The Venture

The venture is a new private sector company to be known as the Alexandria Tire Company. The Venture (the "Venture" or "Company") consists of the construction and operation of an all-steel radial truck tire manufacturing plan at a site at the Ameryea Industrial Complex near Alexandria, Egypt. The project, which will create 750 new private sector jobs, will be implemented under Egypt's Private Sector Encouragement Act of 1974 (Law 43).

B. Sources of initial capital

Project costs, estimated at £E345 million or over $150 million, will create a facility capable of producing 350,000 truck tires annually for the domestic Egyptian market, roughly 30% of the total market demand now being satisfied mainly by foreign imports. Of the total capitalization costs, 60% will be in the form of debt financing (£E207 million) and 40% will be in equity financing (£E138 million).

C. Time to complete

The tire plant will be completed in approximately three years.

D. ESOP Funding

An Employee Shareholders' Association (ESA) is being formed, with an Employee Share Ownership Plan (ESOP) as its by-laws, to acquire 30.5% or 421,000 shares of the founding 1,380,000 common stock of the Venture. Of these 421,000 shares, 252,600 shares are to be divided among the 750 newly-hired employees and 168,400 shares among the 3,500 employees of TRENCO, the "mother company" of the Venture. Initially, these shares will be acquired on behalf of the employees by the National Investment Bank of Egypt, using £E42.1 million in funds borrowed from the Special Account of the Ministry of International Cooperation and secured by the pledge of the newly issued shares. When the ESA is formed, it will assume liability on the loan and legal title to the shares. Unlike most leveraged ESOP transactions, the Company will not guarantee the ESA loan, which will be repaid from projected future dividends of the Company.

E. ESOP valuation consideration

In order to implement this ESOP, it is the desire of all parties to the ESOP portion of the transaction, that the valuation issues regarding the stock to be owned by the ESOP should be outlined, explained and discussed with those parties.

15

F. Description of the outline.

The following is an outline of the valuation issues that need to be discussed with the parties associated with the ESOP portion of the transaction.

II. Why value the stock for an ESOP?

A. Initial purchase-**[This does not apply to the Alexandria Tire Company transaction]**

The stock that the ESOP initially purchases for itself from outside parties must be valued. The reason for this is to determine whether the ESOP is receiving fair exchange for the price that it is paying for the stock, on the part of the ESOP participants.

From the standpoint of the ESOP participants, the price can be too high, but not too low. If the price is too high, then the ESOP has not received the benefits of a fair exchange. If the price is at or less than *fair market value*, then the consideration is deemed to be adequate.

B. Subsequent transactions in Company stock

There will be a need to regularly value the stock owned by the ESOP **after** the initial stock is purchased by the ESOP from an outside party.

As each employee terminates his employment with the Company, his stock will be purchased back from him by the ESOP or the Company. The stock should be valued at least annually in order to determine the price that these terminating employees are to be paid for their stock. Also, each employee should be informed at least annually of the value of his stock account. In this way the employee is advised of the benefit that he is receiving by being an "owner" of the enterprise.

C. Release of shares from escrow

Typically, the corporation guarantees the loan which is made to the ESOP for the purchase of its stock. The stock of the ESOP is used as collateral for the loan. In that case, a valuation is needed in order to determine the value of shares that are to be released from escrow to the individual participants' accounts. Within the United States this release and valuation is typically done annually.

In the Alexandria Tire Company transaction, the shares are held as collateral at par value, and no shares will be released by the financing institution until the entire amount of the loan is paid off. Instead, "share-equivalents" will be allocated to employee accounts as the loan is paid off. As far as the employees are concerned there will be no difference.

III. Definition of value

A. General definition (fair market value).

When there is an active market for the stock of a company, there is no need to determine a value. One need only look to the quotes in the financial page of the newspaper. When there is no active market, however, it becomes necessary to go through a more difficult exercise as will be explained below.

Normally, the value to be determined for an ESOP is the *fair market value*. If the enterprise to be valued is a going concern[1], the fair market value is typically the relevant value of the enterprise. Fair market value is sometimes referred to as a *going concern value*. This definition is usually as follows:

> [t]he price at which an asset would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, and both parties are able, as well as willing, to trade and are well informed about the asset and the market for such asset.[2]

This is the definition rendered by the U.S. Department of Labor in a draft of proposed regulations having to do with ESOP valuations of closely-held[3] companies.

B. Other types of value.

Before one discusses the benefits of using fair market value for the ESOP valuations, it is desirable to know what the alternatives are and what economic and political connotations they may have. The types of value discussed below are not going concern values. That is, they do not take into account the future earning capacity of the enterprise.

1. Cost

This can be defined as the sum total of the expenditures incurred to put the company in operation.

---

[1]Here we define *going concern* as an operating business that expects to conduct business for the foreseeable future. It is an operating business as opposed to an investment holding company. It therefore carries out some sale and/or manufacturing of goods and/or services rather than simply investing in real estate or the stock of other companies.

[2]Proposed U.S. Department of Labor Regulation § 2510.3-18(b)(2)(i).

[3]Here *closely-held* is defined as stock that is not traded on a recognized public market. This market could be either an exchange or an over-the-counter market.

a. What costs include

Normally, the *costs* do not include operating expenses (losses), but only capital and other start-up expenditures including the initial working capital.

b. Cost value

The cost definition of value is often politically expedient when, during the privatization process, an enterprise is sold to a foreign investor. It is desirable for the government to recover at least the costs related to the initial funding of the enterprise as long as those initial costs were reasonable.

2. Book Value.

The book value is basically the cost of the assets currently owned by the enterprise reduced by an allowance for the depreciation or amortization of those assets and reduced by the liabilities of the enterprise.

a. How book value is computed

The book value is typically the shareholders' equity of the enterprise, as determined by the auditing accountants. This can be found on the balance sheet.

b. Book value as an indication of value

The book value, or shareholders' equity, as it is sometimes referred to, is sometimes used as a very basic indication of value.

c. Shortcomings of book value as an indication.

Often, because of accounting conventions practiced by various enterprises, book value can be very deceptive in a valuation sense. It is possible, for example, for land that is held by the enterprise at cost to have a fair market value which is many times that initial cost, or which is less than the cost.

3. Liquidation Value

This is the *fair market value* of the individual assets of the enterprise, less its liabilities. Normally, the fair market value of the assets allows for the assets to be exposed to the market (whatever market might exist for them) for a "reasonable" period of time. A lower value is sometimes attributed to the assets if it is assumed that those assets must be sold in a much shorter period of time as a distress sale. In this situation, we will assume that there is no distress sale, but that the assets will be exposed to the market for a reasonable period of time.

a. This method is often politically expedient.

When the government is attempting to market an enterprise to a foreign investor, it is desirable that the price received by the government should be at least as much as the liquidation value.

b. How does this value compare to other values?

This value may be more or less than the cost or book value, depending upon nature of the assets of the enterprise.

4. Other types of value

There are other types of value, but they are not relevant to this discussion.

C. Should fair market value be used as the "value"?

Before one considers which type of value is appropriate for any given situation, one must consider the purpose for determining the value. More specifically, which parties to the transaction will benefit from a high price and which ones will benefit from a low price?

1. Who benefits?

Who benefits from a high or low price in the initial ESOP transaction?

The initial ESOP transaction, as mentioned above, typically involves the purchase of shares by the ESOP from an outside party.

a. A high price would benefit the outside party.

If that outside party is the government, which represents the people of the country as a whole, then a higher price might encourage the government to enter into the privatization transaction.

If, on the other hand, the outside party is a foreign investor, then the transaction must be more closely scrutinized by the ESOP for its fairness to the employee/participants.

b. Who would benefit from a lower price?

Clearly, the ESOP and its individual participants would benefit from a low price. The lower the price that the ESOP pays for its stock relative to its realizable value, the better off it and the individual participants are.

2. Who benefits from a high or low price in the subsequent ESOP transactions?

Here, we will assume that the subsequent transactions are purchases of stock by the ESOP or the Company from terminating employee/participants.

a. Terminating employees

The terminating employee, being the sellers in this transaction, benefit from a **high** price.

b. The Company and remaining shareholders

The Company and its remaining shareholders or the ESOP and its remaining participants benefit from a **lower** value. A high value paid to a number of participants terminating in the space of a very short period of time could put a strain on the finances of the Company.

3. Which type of value is *fair*?

This question is a political as well as an economic one. Every party to the transaction naturally wants at least what is fair to itself. In this specific situation, we are concerned with what is fair to the employee/participants of the ESOP.

a. The government is not selling a public enterprise.

Since the government is not selling an existing enterprise in the ATC transaction, we need not be concerned with balancing fairness in the initial purchase transaction. Clearly, it is desirable that the ESOP receive as many shares for its contribution to capital as is possible. If the government were selling a public enterprise, then the benefits that would accrue to the population at large, (through the receipt of the sales proceeds by the government) would have to balanced against the fair price to be paid by the employee/participants through the ESOP.

b. What about the subsequent termination transactions?

Here, we are pitting employee against employee. The seller is a terminating employee and the buyer is either the Company in which the employees own shares through the ESOP, or the ESOP itself.

A **higher** price benefits the terminating employees, while a **lower** price benefits the existing employees. In this situation, we must make a prudent effort to be *fair* to both parties.

4. *Fairness* in different terms

So far, we have discussed *fairness* in terms of who would benefit from a high price as opposed to who would benefit from a low price. In a sense, this begs the question of what type of value should be used. It is possible for fair market value, cost, book value or liquidation value to yield the highest price or the lowest price.

Perhaps *fairness* should be addressed in terms of *accuracy* and/or *consistency* rather than high or low prices.[4]

a. *Accuracy*

When we discuss the methods of valuation below, it will become apparent that accuracy is a very relative term in the valuation of closely-held companies.

Still, if a thorough study is conducted resulting in a well-conceived valuation, there should be a feeling among the concerned parties that the value determined is as fair as it can be.

It is certainly easier to be determine cost and book value than it is fair market value or even liquidation value. Fair market value, however, is more accurate in that it takes into account the *going concern* value of the enterprise.

If there is no market for the stock of the Company as a going concern, then a liquidation approach might be

[4] In addition to *fairness* we must also address the *ability* of the Company or the ESOP to pay for the stock of terminating employees.

165

more appropriate. If, however, there is a going concern value, then it would not be appropriate, in a sense, to use other than the fair market value as an indication of value.

In this sense, the fair market value yields a more accurate and, hence, fair value.

b. *Consistency*

Cost and book value will typically yield a more consistent annual valuation. That is, the price is likely to deviate less using these two methods than when the liquidation approach or fair market value is used. It should, however, be mentioned that this is not always the case (although it usually is).

Where the fair market value is derived from ratios of publicly-traded comparable companies (a method that will be explained below), the value can deviate very radically from year to year. Highly fluctuating values may be a drawback when fair market value is used.

Let us take an example where using a value that is not the fair market value might create some valuation difficulties. Let us say that some or all of the stock of the Company is purchased by an outside party, pursuant to an acquisition, at fair market value, and that fair market value price is significantly more[5] than the price that terminating employees had been paid. In the United States, this created some legal problems for the management of the company because a group of retired employees sued the company to recover an amount that would allow them the higher price.[6]

5. Conclusion

Should fair market value be used? I believe that fair market value should usually be used for ESOP valuations of going concerns. There are cases, however, that may demand that some other type of value be determined. This must be decided, however, on a case by case basis.

[5] It could also be significantly less.

[6] *Charles S. Foltz et al v. U.S. News & World Report, Inc.* 663 F. Supp. 1494; 1987.

IV. Factors to be considered in a valuation analysis

A. *The top down approach* to valuation

Many factors affect the fair market value of the stock of a company. Those factors are typically broken down in the top down approach format. We begin with the macro view – the world economy (this is the *top* part of the top down approach) – and then end up with company-specific factors (this is the *bottom* part of the top down approach). There is no reason that the approach cannot be top up, but we will stick with the convention of security analysts and address the top down method.

B. The economy

The economy, in general, ultimately affects all business activity. It affects various businesses in different ways to varying degrees. Some businesses may benefit from a general economic slow-down while others are devastated. Others may be barely affected depending upon the nature of the slow-down.

1. World economy

As the lines of communication draw the world's trading partners closer together they begin to depend upon one another to a greater degree. If we are valuing a tire company, it is not enough to know what the tire market is like in that country or even in that region of the world. We must know what the tire demand is in Japan and Brazil. We must also know the availability and prices of the materials that are used to make the tires as well as labor costs.

A world-wide recession would significantly lower the overall demand for tires. On the other hand it is likely that materials used to make tires would cost less.

2. Regional economy

Certain regions of the world have different economic characteristics such as ease of shipping, different types of communications capabilities and differing patterns of demand for various goods and services. These factors must be taken into account with regard to the activities of the Company.

Since most of the tires produced by the Company would be used in Egypt, the world and regional economy will affect the operations of the Company only indirectly.

As the world and regional economy affect the demand for tires in Egypt, the operations of the Company will be affected.

D. The company itself

Naturally, there are factors affecting the operations of the Enterprise that are Company-specific.

1. General

Many factors that appear to be Company-specific actually overlap with economic factors, such as the general demand and supply for the Company's products. This section of a valuation report concentrates on the Company-specific portion of those factors.

2. Market for the Company's products and Competition

The only Company specific nature of this factor would have to do with competition for truck tire sales in the same market place that the Company intends to operate. It appears, based on the market study that was completed pursuant to this venture, that there is a sufficiently large market to accommodate the Company and other units of TRENCO, as well as foreign suppliers.[8]

3. Supply sources

What is the availability of labor and materials and what are their costs relative to existing and potential competitors? This is the question that must be answered in this discussion. Here, it appears that sufficient supplies and labor are available at competitive costs.

4. Management

Ultimately, the quality of management is the most important factor in determining the success of a venture. As long as the market exists for the Company's products, the supplies are available at reasonable prices, and there is no political crisis, the success of the Company rests with its individual managers. We assume that the quality of management is high and that Pirelli personnel will be working with management personnel to help assure their success. Pirelli's substantial investment is a good guarantee that they will supply meaningful help in this area.

A strong management team will naturally enhance the earning capacity of the Company and reduce the general risk level associated with ownership in that Company.

[8] *Feasibility Study of A New Radial All Steel Truck Tyre Factory in Egypt*, (September, 1987), p. 30. It was estimated that Egyptian production of truck tires would lag demand by 385,000 in 1992 and 457,000 in 1996 with the new Venture in operation.

5. Financial condition

An enterprise must have initial capital for both capital expenditures and working capital in order to carry on a business. In addition, investment capital and working capital must be available on an on-going basis to maintain liquidity and profitability.

a. Initial capitalization

Considering the qualifications of the personnel involved with the preparation of the business plan, the initial capital needs that have been projected should be met.

b. On-going working capital needs

We must carefully examine the projections and redo the projections of operations as the plant nears completion in order to monitor the working capital needs of the Company. A shortage of capital will, of course, increase the risk level of the business.

c. The currency situation

Since most of the materials and labor are available domestically, and most of the tires will be likely to be consumed domestically, the currency situation should affect domestic shareholders only indirectly. If this is not the case, we should discuss it.

d. Other sources of capital

The feasibility study covers this point.

V. General valuation methods

A. Why are there different methods?

The question is often asked of those who value closely-held companies: Why doesn't one valuation method apply to all closely-held businesses? In this way, investors could apply the same factors that affect the value of a business to come up with close to the same value. Unfortunately, many investors have different views as to what adds value to a business enterprise. It is for this reason that there are many methods for valuation.

1. What is the difference between a valuation definition and a valuation method?

   The type of value dictates which valuation methods can be used. Here, we will assume that the type of value is the fair market value as defined above.

2. What is appropriate?

   In determining the fair market value of the stock of a closely-held business, we do not have a public market that gives us a daily indication of the price at which a willing buyer and willing seller would exchange shares. The most *appropriate* valuation method should be an indicator of what valuation method investors would be most likely to use if they were considering buying or selling the stock. This method can vary, depending upon the facts and circumstances of the case.

B. Going concern versus liquidation

As mentioned above, I believe that the type of value to be applied here should be the fair market value, which is the going concern value.

1. Who would buy the stock from shareholders?

   As indicated above, part of the implicit presumption in the definition of fair market value is that there exists, somewhere, a willing buyer for the stock.

   After all, how practical is the exercise to determine at what price a willing buyer and willing seller would be able to trade a share of stock if there is, in fact, no willing buyer?

   The answer to this question is that an investment asset **has value** even if there is no market for it. At this point, we can define term *investment* as:

   > [t]he current commitment of funds for a period of time in order to derive a future flow of funds that will compensate the investing unit for the time that the funds are committed, for the expected rate of inflation, and also for the uncertainty involved in the future flow of funds.[9]

   A market for the investment is not a prerequisite here. The potential sales proceeds, if any, to be received at some yet undetermined time in the future is simply a portion of the funds that are expected to be derived by the investing unit.

[9]Frank K. Reilly, *Investment Analysis and Portfolio Management* (New York: The Dryden Press, 1985), p. 4.

170

For our purposes, we can conclude here that an investment can have a going concern value if it expects that it might be able to pay dividends or some other form of funds in the future. The fact that there is no market for the investment itself does not negate the fact that there is a going-concern value. The lack of a market for the investment does, however, negatively affect the value as will be explained below when marketability is discussed.

2. What if the liquidation value is higher than the going concern value?

This can only happen if there are non-economic considerations which would continue the operation of the Company for political or psychological reasons. Here we must address the intent of the parties involved with the company being valued. If, for example, it is the stated intent of the government and the management of the Company that the Company will continue to be a going concern for at least the next twenty years, then we may be forced to ignore the higher liquidation value or render it very little weight.

If, on the other hand, the Company has been losing money consistently and appears to be close to bankruptcy, then a liquidation value must be given significant weight.

Also, we must consider the possibility of a market for the stock of the Company at or near liquidation value. In the United States and now in some parts of Western Europe, many buyouts of publicly-traded companies are launched because the publicly-traded price is less than or little more than the estimated liquidation value. Here, however, the liquidation value usually refers to the value of the individual operating subsidiaries rather than tangible operating assets. Nonetheless, it is feasible that there might be a market for the stock at or near liquidation value. To the extent that such a market might exist, liquidation value must be given more weight in the valuation process.

C. Going concern methods of valuation

1. Market value method

If there has been a *recent* trade of the stock of a company, between *unrelated parties* conducted at *arm's length*, then that trading price either dictates the value or, at least is a very influential factor in determining the value.

The terms above that are italicized have been legally defined in the United States through court precedence. In order to give a particular transaction significant weight in determining the value of the stock all of these conditions must be met. How recent the transaction must be, what circumstances must exist to assure that the parties to the transaction were independent and what circumstances must exist to make the transaction arm's length is very subjective and must be based on the facts and circumstances of the case.

The market value method is normally the best indication of value. In this case, it is unlikely that such transactions will occur. It is thus unlikely that we will be in a position to apply this method in future valuations unless outside transactions do take place.

2. Market determined methods

In some industries in some parts of the world or the region, specific methods are *normally accepted* as valuation methods for closely-held companies in a given industry.

For example, accounting firms in the United States typically trade for an amount close to the firm's most recent gross revenue. Restaurants typically trade for a price equal to three to six times the average monthly revenue.

We will do additional research in the subject, but we do not believe that there is any prescribed method of valuing tire companies in any region of the world.

The place to look for an industry approach to valuation would typically be an industry association.

3. Comparable approach

One way to determine the value of a closely-held business is to compare the business to publicly-traded businesses in the same industry. This comparison can be based on a multiple of earnings, book value or some other ratio that might be appropriate, considering the facts and circumstances of the case. This method is normally the second most preferred valuation method (second to the market value method).

The use of this method in valuing the stock of a closely-held company does, however, have its shortcomings. The most important shortcoming is comparability. In this case, there is no significant domestic public security market where shares of tire companies are traded. More often than not, publicly-traded companies are much larger, better capitalized, more diversified and have better market positions than their closely-held counterparts. The second most important factor is the lack of marketability of the shares of the closely-held companies. This second factor is dealt with below.

We can, however, give some weight to the prices of other publicly-traded companies if they have an active market for their stock. To the extent that they may tell us how tire manufacturers are valued relative to companies in other industries, we will give some consideration to such comparables.

4. Discounted future cash flow or earnings

We defined the term *investment* above in terms of a flow of funds. The *value* of that investment is defined as:

> [t]he present value of the expected returns from the asset during the holding period.[10]

These returns are the funds that are mentioned in the definition of *investment*. There are basically two factors that must be determined in order to value a company using the discounted future earnings or cash flow approach - the future cash flow (or income) and the rate at which those flows will be discounted (the *discount rate*).

The discounted cash flow method of valuation is most often used for acquisitions by operating corporations, and for start-up and development stage companies.

a. The projection of cash flows (or income)[11]

The *Project Feasibility Study* (the "feasibility study") projects the future income for the Company.[12] We do, therefore, have a projection of the future cash flow and income. The base case projection forecasts that the internal rate of return on the initial investment of £E345 million would be approximately 16.9%.[13]

In theory, the cash flow is projected until the company ceases to produce cash flow. Normally, however, projections for business valuation purposes will be for five to ten years. There will be an additional cash flow in the last year of the projection that will represent the

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[10] *Ibid.* p. 273.

[11] There has been some disagreement among analysts as to whether cash flow or net income should be used for this valuation computation. I believe that it depends on the situation. In this outline, I will use the term cash flow or income where I feel that either term might be more appropriate.

[12] *Feasibility Study of A New Radial All Steel Truck Tyre Factory in Egypt*, (September, 1987), p. 179 (Table 3).

[13] *Ibid.* p. 185 (Table 6).

173

terminal value. This terminal value will approximate either the market value at the end of the projection period or an estimate of the net present value of the remaining unprojected income as of the last year of the projection. In theory, these two values should be the same.

b. The *discount rate* (sometimes referred to as the *expected return*)

The *discount rate* is the compounded annual rate of return that a prudent investor would normally expect to receive on his investment, considering the risk associated with that investment.

We can say that if an investor should normally expect an investment return of **more** than the 16.9% internal rate of return projected by the feasibility study, then the Company is currently worth **less** than the £E345 million investment. On the other hand, if the expected return is **less** than the 16.9% internal rate, then the Company is worth **more** then the initial investment of £E345 million.

How is this discount rate derived?

(1) Discount rates where there is a public securities market.

The discount rate is a function of current interest rates, inflation, and risk. These are all factors that can, and often do, change in a nonlinear manner. When one values a company in a country where there is a ready public market for securities, it is sometimes possible to derive an expected return from a study of the returns on publicly-traded securities within that country.[14]

(2) Discount rates where there is no active public securities market.

When it is difficult to tap a source that might indicate what investors might expect from an investment in a given risk category, deriving a discount rate can be troublesome.

[14] For example, in the United States the most often quoted source is: Roger Ibbotson, *Stocks, Bonds, Bills and Inflation 1988 Yearbook*, (Ibbotson Associates Capital Management Research Center: Chicago, 1988), p. 25.

The problem is twofold. First, we have no statistics that show what investors prefer. More significantly, however, particularly in this situation, it is not certain how relevant the expectations of outside investors are.

In order to determine how relevant the return opinions of outside investors are, it is necessary to consider whether there is a potential market for the stock of the Company outside the ESOP. To the extent that there is a potential market, we must address the return expectations of the potential buyers in that market. If there is no market or there is no reliable source of expected return figures expected by market participants, then we are forced to look elsewhere for expected return figures.

Normally, we would look to various macro-economic statistics such as return on capital, return on labor, and general economic and industry growth rates. In situations such as these, it is sometimes necessary to get very creative.[15]

Whatever statistics are used to derive the discount rate, it must be kept in mind that the rate so derived must exceed the risk-free cost of capital enough to account for the risk assumed by the ESOP participants.[16] The risk-free cost of capital includes the interest rate (unadjusted for inflation) plus a premium for the cost of inflation. In the case of a leveraged ESOP, the expected return must also exceed the borrowing costs of the ESOP.

5. Capitalization of income

This valuation method is typically used for operating companies that have been in business for at least five years. It is usually used only when the market value or comparable approach cannot be used. To compute the value using this method, it is necessary to have two factors - the *earning capacity* and the *capitalization rate*.

[15] I am continually searching for informative literature on the subject of discount (expected return) rates in various parts of the world. The best discussion we have to date been able to find is: Dennis Anderson, *Economic Growth and the Returns to Investment*, (The World Bank: Washington, D.C., 1987). Particularly helpful was a table (Table 2, p. 62) that lists average rates of return from various sample countries - including Egypt.

[16] [illegible]lly under a leveraged buyout workers assume no personal risk. After they have accumulated their equity, [illegible]r, the workers would have something to lose.

175

This is the indicated average future earning power.[17] Ignoring cyclical swings in net income caused by the cyclical nature of the industry or the economy, in general, and ignoring extraordinary gains and losses, what is the future capacity of the company to produce net income? This ignores future growth of the earning capacity.[18]

Typically, the Company's historic earning record might give some insight as to what this earning capacity figure should be. The applicable figure for reference could be the most recent year's earnings, a simple mean average of the last few years or some type of weighted average. It is also possible, however, that the historic earnings may yield very little insight into the future earning capacity. If this is the case, then a projected earning capacity figure would have to be given significantly more weight than historic earnings. This situation might occur if the business of the Company were to change significantly or it made a large acquisition of another company.

In any case, the earning capacity figure must be one that is **representative** of the **future** ability of the Company to earn profits.

b. *Capitalization Rate*

This rate is typically manifested in the form of a percent figure. The earning capacity is divided by the capitalization rate in order to determine the value of the Company.

The capitalization rate is related to the discount rate by the expected growth rate of earnings. Unlike the discounted future cash flow approach, the capitalization of income approach makes no explicit assumption about a terminal value separate from the anticipated cash distributions from the company being valued. The value determined by dividing the earning capacity by the capitalization rate is the net present value of the cash flows and terminal value.

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[17] Benjamin Graham, David L. Dodd and Sidney Cottle, *Securities Analysis, Principles and Technique*, (New York: McGraw-Hill Book Company, 1962), p. 28.

[18] The growth of income will be taken into account by the capitalization rate as explained below.

Mathematically, therefore, one subtracts the expected average earnings growth rate from the discount rate in order to arrive at the capitalization rate.

The capitalization of income method is sometimes referred to as the investment method. This is because it results in the *intrinsic* valuation of the enterprise, purely based on expected returns rather than any market-based data.

Technically, the capitalization of income method and the discounted future income (or cash flow) method are both investment approaches. Theoretically, they should yield the same value. The earning capacity should be based on the expected future earnings of the company being valued. In the last year of the projections used for the discounted future income (or cash flow) method, the final year's income should be *capitalized* by a capitalization rate that is equal to the discount rate less the expected average earnings growth rate (to yield a terminal value). The values derived from each method should be the same if the assumptions were the same.

The capitalization of income method, however, is preferred when there are historic earnings that yield some insight into the current earning capacity. The discounted future income or cash flow method is usually necessary when such insight is not available.

D. Liquidation or asset-based methods

The liquidation approach was covered above. The book value and cost definitions of value were also mentioned. There is another valuation method, however, that should be mentioned here. It is typically referred to as the *formula approach*.

This approach is a combination of an asset-based approach and an income-based approach. More specifically, it is a combination of the adjusted[19] book value and the capitalization of income method. The theory here is that the fair market value of the underlying assets of the Company (net of liabilities) represents a limit on the risk of the investment. That is, if the operations of the Company are forced to be discontinued because of operating losses, the assets can be sold, leased or otherwise utilized on a passive basis, allowing the investors to recover, at least, some of their investment.

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[19]The *adjusted* here means that all assets will be increased (or reduced) to their individual fair market value as opposed to including them at cost less depreciation. This method also excludes intangible assets unless those assets have some market for their sale or rental.

177

I will not get into a technical discussion of how the value is computed using this method, but it is worth mentioning that this method does exist. It should be considered in our final analysis.

E. Reconciliation of methods

In the case of the Alexandria Tire Company, it is likely that we must use the discounted future income method until the plant has been in operation for several years.

The capitalization of income method will be the most likely method to be used thereafter.

Generally, it is possible to use more than one method and take some type of weighted average. This, of course, depends on the facts and circumstances of the company being valued.

VI. Marketability considerations in general

A. Why consider marketability?

It is certainly logical that an investor, when purchasing the stock of a corporation, should be willing to pay a per share premium to have a ready public (or even non-public) market for his stock.

There was some discussion above regarding the fact that if the stock of a company does not have a ready market, it should be worth less, all other factors being equal. The open question was what adjustment to the value otherwise determined would be necessary to reflect this marketability effect.

B. Is there a market?

This can sometimes be very difficult to determine. Often one does not know whether there is a market until one puts the stock up for sale and solicits offers.

C. What is the market?

When we think of a market for stock, we typically think of a public market centered in one of the world's larger financial centers such as Tokyo, London, New York or Hong Kong. There are also regional public markets and other, more private markets.

1. National market system

It is possible that there may be some type of domestic or regional public market. There are several stock markets in the Middle East that might offer some type of market for the stock of an Egyptian company aside from the large money centers.

We must consider the probability that the stock of the Company could eventually be offered in a domestic or regional stock market. How much value the existence of such a market might add will depend upon the facts and circumstances of the case.

2. Domestic acquisitions

If there were an active domestic or regional acquisition market, it might be possible to say that some type of active market may exist. Clearly, such a market would not be as favorable as a public market, but it would be better than no market at all.

The existence of such a market depends upon the number of potential participants and government regulations and laws regarding acquisitions, mergers and securities transactions.

In the case at hand, it appears that the number of participants is so small, that no local acquisition market for the stock of the Company would be likely to exist for the foreseeable future.

3. International acquisitions

Even if there were no domestic or regional acquisition market for the stock of the Company, there might be an international market.

It might be possible, for example, that Pirelli may have an interest in acquiring a larger share in the enterprise in the future.

This, to a great extent, would depend on the state of the domestic economy and government laws and regulations regarding acquisitions, mergers and securities.

In this case, such a market would be too speculative to give it significant weight to at this time.

D. Investment method

In theory, if we take an investment method approach, we are not considering the existence of a market for the stock. Actually, this depends upon the source of our discount rate and/or capitalization rate.

As mentioned above, these rates are sometimes derived from statistics of publicly-traded securities. When this is true, the value determined using these rates must be reduced to account for the reduced marketability of the stock of the company being valued.

If, however, the rate is derived from domestic investment return rates, then no such adjustment is necessary.

E. What effect does the marketability situation have on value?

First, it should be pointed out that, in this case, there should be no need for a negative adjustment for lack of marketability.

This is because it is likely that the discount rate applied to the projected income (or cash flow) will be divided from domestic returns on invested capital and labor rather than a study of publicly-traded securities.

Should any such adjustment be necessary in the future (for example, a different method would be used to value the Company), the choice of a discount would be very subjective and would have to be considered at the time.

In the United States, marketability discounts have typically ranged between 10% and 70%, averaging about 30-35%.

The general structure of the ESOP, however, does create some market for the employee/participants of the plan. This will be discussed below when the ESOP effects on value are considered.

VII. Control as a Valuation Factor

A. Examining control premiums in general.

Sometimes another adjustment to value is necessary. This takes into account the fact that some blocks of stock represent an interest which exercises management control [or other types of control] over the company being valued, while other blocks of stock do not allow the owner to exercise such control.

If publicly-traded securities are used in a comparable approach or as a basis for deriving the discount or capitalization rate, then an adjustment may or may **not** be necessary. Publicly-traded shares typically represent a minority (or non-controlling) interest in the issuer. If publicly-traded securities are used to value a non-controlling interest in a company, then there should be little control adjustment necessary because we are comparing minority interests with minority interests. If, on the other hand, we are valuing the whole company, then some **control premium** may be appropriate.

B. Control premiums as they might apply to the Company.

The ESOP would own a minority interest. We will have to examine further what elements of control it will be most likely to possess, based upon legal documents and applicable law, before we can determine whether the ESOP participants may be able to exercise some effective control (even though they represent a minority interest).

180

We are not yet sure about which source we will use to derive our discount and capitalization rates. We will have to examine the case more closely to ascertain which factors will be used to derive the rates. Such choices may affect the applicability of a control premium or minority discount.

VIII. Special ESOP considerations for company-guaranteed leveraged ESOPs

The ESOP transaction that is currently being structured creates some rather unique factors that must be considered with regard to the valuation of Company stock. This section will address the most important of these factors.

It is important to remind the reader that the Alexandria Tire Company transaction will not involve a guarantee by the Company, as is typical in a leveraged ESOP transaction. The following discussion regarding the effects of such a guarantee on the valuation of the company being valued would, therefore, **not** be applicable to the Alexandria Tire Company transaction.

A. A general explanation of the transaction.

The effects of this transaction that impact directly on the value of the Company are two - cash flow and liquidity. The cash flow is adversely affected by additional debt service and the liquidity is reduced by the additional debt itself.

This discussion is based upon existing literature on the subject, discussions with other appraisers who also have experience in ESOP valuations, and my own theories of how ESOP valuation should be affected by the ESOP transaction itself. The regulatory authorities that deal with ESOPs in the United States, including the Department of the Treasury and the Department of Labor, have yet to offer much guidance in this area. What help has come from the Department of Labor's draft proposed regulations has offered very little guidance in some of the key valuation issues. To the extent that such proposed regulations and existing U.S. Internal Revenue Service regulations yield some guidance, they will be cited accordingly.

B. Accounting for ESOP debt.

The Accounting Standards Division of the American Institute of Certified Public Accountants requires a company-guaranteed ESOP loan to be shown on the balance sheet as a liability.[20]

The offsetting posting is a reduction in the equity of the Company. For appraisal purposes, we believe that the AICPA was correct in recognizing the reality of this transaction. Normally, the ESOP trust

[20] ASEC-Statement of Position No. 76-3. *Accounting Practices for Certain Employee Stock Ownership Plans.*

will not be able to service this debt without contributions from the Company. The debt is normally a liability of the guaranteeing corporation. The Alexandria Tire Company is **not** going to guarantee the debt. The discussion, below, relates to a situation where the employer does guarantee the debt. In a sense, however, the Company is somewhat committed to making the necessary dividend payments to the ESOP that would allow it to pay the debt. If this were not the case, then the transaction would not be prudent. In that respect, the following explanation does have some significant relevance in this situation.

When a company borrows cash for expansion or for working capital, a liability is created on the balance sheet. The loan proceeds, however, that are deposited in the company's bank account and later spent on company business become an offsetting asset. The book value of the Company is, therefore, not immediately affected by this normal borrowing transaction. The ESOP transaction, as mentioned above, creates no such offsetting asset as is recognized by the AICPA in number six above. The book value of the Company, therefore, is immediately reduced by the amount of the ESOP loan.

If the method of valuation is book value, it is clear that there would be a direct reduction in the value of the Company caused by the creation of the ESOP debt. If the valuation of the Company is based upon an income approach, then the total debt service of the ESOP would reduce the net income and cash flow considerably, thus leading to a reduced value of the Company.

Other financial effects of the ESOP.

1. Risk Level

   In addition to the reduction in book value and earnings/cash flow, there is another negative effect created by the ESOP transaction. The addition of debt and the debt service creates an additional risk factor. In investment theory, additional debt service, even if it is expected that the debt proceeds will be effectively utilized, adds an element of risk to an investment. In valuation theory, this additional debt is normally reflected in a lower earnings/cash flow/dividend multiple, a higher capitalization rate, or a lower book value multiple. In any case, the creation of this debt results in an additional reduction in the value of the Company.

2. Productivity effect

   In addition to the increased risk associated with significant debt, there is a productivity effect. The drain in cash flow used to service the ESOP debt represents cash that otherwise would have been used to expand the business or pay dividends. To the extent that the cash would have been invested in the business at a particular return on equity, there would have been some growth. For example, if we assume a 30% return on equity applied to the ESOP after-tax debt cost, the amounts so invested would yield a value of almost $326 million at the time of the last loan payment. Discounted at a discount rate of 30%, this would yield a value of $1.7 million.

If we thus apply a capitalization rate of 30% (assuming no growth in earnings), this transaction would reduce the value of the Company by $1.7 million. Since this amount is speculative, the full $1.7 million should not reduce the value dollar for dollar. In addition to the direct reduction in equity growth, there is the reduced ability to increase working capital and operations, particularly with regard to inventory and employees to meet potentially more efficient competition.

3. Dividend capacity

The reduced ability to pay dividends should not be overlooked either. Ultimately, the value of any investment is measured by the present value of its cash flow. If the cash flow is deferred for the period of the ESOP loan, this would have a significant effect on the value similar to the effect of the lost growth in equity (except that an external or financial market rate would be applied instead of the Company's return on equity).

D. The Argument for Ignoring the ESOP Transaction.

We feel that we should discuss the fact that there is an extreme argument that would allow the appraiser to ignore the ESOP transaction in valuing the ESOP stock. This argument contends that the value of the Company itself should be the basis for determining the value of the ESOP shares. How an investor finances his purchase of shares should not be relevant to determining the value of the shares that represent the investment.

A parallel can be drawn to a real estate purchase and valuation. The real estate appraiser for a bank, for example, will appraise the real estate itself, ignoring debt service and debt burden when submitting a value. How the purchaser finances his real estate purchase is not considered relevant to the actual value of the land and its improvements.

What we find wrong with this argument is the improper parallel drawn. To find a proper parallel, we would value the entity owning the real estate rather than the real estate itself. It is true (for the most part) that the financing does not normally directly affect the value of the real property. It is also true, however, that corporate debt does not affect the value of the tangible assets of a corporation.

That debt does, however, affect the value of the corporation itself. If the corporation were to purchase real estate, then the financing debt would reduce the value of the corporation, even though it does not reduce the value of the real estate itself.

We thus reject this argument and, therefore, consider the ESOP transaction's effect on the Company in its valuation. Now we must determine what the effect of the ESOP will be.

E. Adjustments to Income

1. Interest expense of the ESOP loan.

We believe that the interest associated with the ESOP debt should reduce income. This interest expense will occur for a long period of time and will have a significant effect on the earnings and cash flow of the Company. It does not, however, permanently affect the operating earning capacity of the Company.

2. Principal payments of the ESOP loan.

The principal payments must be addressed separately. Normally, principal payments on corporate debt do not reduce corporate income for either accounting or income tax purposes (U.S.). It appears to be a prevailing opinion among other appraisers we have had discussions with that the principal payment might be considered to be an expense item, since it represents a contribution to an employee benefits plan. In this case, however, the contributions are in the form of dividends. Again, we may make the argument that there is some moral obligation that exists with regard to the payment of this dividend.

If the principal payments on the ESOP loan represent a pension and/or profit sharing contribution that had been made up to the point of the creation of the ESOP, then these payments should reduce pre-tax earnings. If, however, there had been no previous pension and/or profit sharing plan, then, we believe, the principal payments on the ESOP loan, if deducted initially, should be added back to pre-tax income before the income is capitalized or a multiple is applied. In this case, the contributions are in the form of dividends. Since dividends represent profits, there is no need to add them back.

IX. Special considerations for non-company-guaranteed leveraged ESOPs

How the lack of Company guarantee affects the value.

Since the Company will not be guaranteeing the ESOP loan in this transaction, the ESOP loan will not directly affect the value of the Company. We believe, however, that we must consider the ability of the ESOP to make the payments on the loan, as well as any affects that a default on such a loan may have on the operations of the Company (due, for example, to the political considerations of such a default).

X. Marketability of the Shares.

With regard to the shareholders, in general, as mentioned above, there is no recognized market for the shares of stock of the Company. With regard to the employee/participants, however, there is a market.

There is usually an obligation on the part of the ESOP and/or Company to repurchase shares of stock from employee/participants when they terminate their employment with the Company.

To the extent that the Company has such obligation that is recognized by law and to the extent that it has the financial resources to honor that liability, a valid limited market exists for the stock held by the employee/participants.

In this case, the existence of that limited market may slightly increase the value of the shares from the value that they otherwise might have.

PART V-4

FUNDING OF ESOP REPURCHASE LIABILITY

PART V-5

STRATEGY FOR ESOP AUDITS AND EVALUATIONS

187

V-5: FUNDING OF ESOP REPURCHASE LIABILITIES

Through a leveraged ESOP, employees acquire shares of the company for which they work on the basis of credit financing. At retirement, death or termination, the employees need to convert these shares into cash. The majority of ESOP companies in the U.S., and probably almost all Egyptian ESOP companies, are not traded on the stock market. Therefore the ESOP needs to accumulate sufficient cash reserves to buy back the shares of departing employees at their appraised fair market value. This is the ESOP repurchase liability.

Some companies ignore this repurchase liability, hoping that whenever employees retire there will be sufficient dividend income in the ESOP to buy back their shares. If, however, these hopes are not realized, the very basis of the employees' confidence in the ESOP will be destroyed, or the company will have to bail out the ESOP with cash contributions or loans. Worse yet, the company may be forced to be sold to outsiders to generate the cash needed to repurchase employee shares. On the other hand, if the ESOP administrator plans ahead and accumulates funds to meet the foreseen liabilities, repayment of the repurchase obligations should not normally present a problem.

Calculation of the repurchase obligation is done on the basis of actuarial tables, like those used by insurance companies to determine the likelihood of persons dying at various ages. This is combined with information regarding the age, salary and ESOP holdings of every employee, the turnover rate, the ESOP vesting schedule and payout provisions, the current and the projected future value of company shares, and other relevant information. These data are keyed into a computer program which produces a projection of the ESOP repurchase liabilities. One such program is produced by "ESOP Services Inc." The ESOP administrator normally sends the data to an ESOP consulting firm for producing the repurchase projections. These projections should be updated annually.

The attached "International Sample Liquidity Study" shows the kind of repurchase liability projection which is generated. This sample study is for the general case; the specific case of the ATC ESOP is simpler, since there are no company cash contributions to the ESOP and no diversification of a part of the employees' assets into shares of other companies is planned at present.

The sample report is followed by a "Repurchase Liability Questionnaire." In a new company such as ATC, this questionnaire should be completed and processed on the first year that shares are allocated to employees. For an ongoing company, the liability projection should be done as a part of the feasibility study to determine whether the ESOP will be able to both repay its loan and meet its repurchase obligations.

ANNEX B

SCHEDULE OF EVENTS
FOR IMPLEMENTING THE ATC ESOP

189

ANNEX C

PROJECT HISTORY

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TRIP REPORT FOR FIRST PHASE OF THE EGYPT ESOP ASSIGNMENT

June 11-20, 1988

1. Mission Objectives.

Within the framework of the annexed Scope of Work, the expert team was to start activities leading to the establishment under Egyptian law of an ESOP (Employee Stock Ownership Plan) to turn employees into owners of 30.5% of the shares of ANTC (Alexandria National Tire Company), a new joint venture to be established by TRENCO (the only existing tire manufacturer in Egypt), Pirelli, and other investors, through credit provided from the USAID Special Account.

The assignment holds considerable interest since ANTC will be the first ESOP in a developing country and has many features which could allow it to serve as a model for future ESOPs in Egypt and elsewhere.

2. Schedule of Activities.

June 11: Team members Jalil Shoraka (team leader and financial specialist -- The Aries Group), Norman Kurland (ESOP legal expert -- Equity Expansion International), and Ilil Asmon (economist -- Equity Expansion International) departed from Washington, D.C. and San Francisco respectively and met at JFK airport.

June 12: The team arrived at Cairo and was welcomed by the USAID/Cairo Private Enterprise Officer.

June 13: After a strategy session with the PRE officer, the team travelled with him and his assistant to Alexandria, where they dined with the Chairman and the Financial Director of TRENCO (Transport and Engineering Company).

June 14: Visit through the TRENCO tire production plant. Meetings and dinner with the TRENCO management team. Review of the ANTC feasibility study.

June 15: Another meeting and lunch with the TRENCO management team, and return to CAIRO. Team strategy session.

June 16: Meeting with Vice-Chairman and advisor of NIB (National Investment Bank), the proposed fiduciary for the employees. Meeting with Undersecretary and Director for Private

Enterprise of MIC (Ministry of International Cooperation), the source of financing.

June 17-18 (weekend): Preparation of a draft ESOP Loan Agreement and draft of the objectives and composition of the ESOP Steering Committee. Review of documentation assembled.

June 19: Meeting with the Legal Counsel of the Ministry of Economy. Meetings with representatives of three law firms which had made bids to serve as local legal consultants for formation of the ESOP.

June 20: Mr. Shoraka returns to U.S. Visit to the office of the Helmi and Hamza Law Office. Session with TRENCO Chairman, Financial Officer, and Legal Council for selection of the local legal advisor for shaping ESOP legal structure to conform to Egyptian law. Debriefing meeting with USAID/Cairo Private Enterprise Office.

June 21: Mr. Kurland returns to U.S. Mr. Asmon remains for engagement of the local counsel chosen and for follow-up meetings with NIB and MIC.

2. <u>Persons Encountered</u>.

Bruce Mazzie -- USAID/Egypt PRE Officer
Amal Amin Ibrahim -- USAID/Egypt PRE Assistant Officer
M. Fathi El Feky -- TRENCO Chairman of the Board
Mohamed Mansour M. - TRENCO Financial Director
Saber M. Hadrami -- TRENCO Production Director
M. Fawzi Ahmed El Sayed -- TRENCO Commercial Director
Mrs. Rashida -- TRENCO, Head of Quality Control
Nabil Sabri -- TRENCO Engineering Director
Saad Hossein -- TRENCO Administrative Director
Ahmed Farrag -- TRENCO Legal Advisor
Zafer El Bishry -- NIB Vice-Chairman
Ismail Badrawi -- NIB Legal Counsel
Ahmed Abd El Salam Zaki -- MIC Undersecretary
Mrs. Seham Haridi -- MIC Director of Private Enterprise Program
El-Sayed Omar -- Counselor of the State: Legal Advisor to the Minister of Economy
Mahmoud M. Fahmi -- Legal Advisor; former Deputy Chairman of the Investment Authority and Chairman of the Capital Market Authority
Samir M. Hamza -- Attorney at Law, Helmi and Hamza
Dr. Aksam Amin Alkholy -- Attorney and Professor of Law
Dr. Kamal Abu El Magd -- Partner, Helmi and Hamza
Ruth Steinholtz Orsucci -- Attorney at Law, Helmi and Hamza

3. <u>Present Status</u>.

ANTC (Alexandria National Tire Company) is a radial tire plant to be established near Alexandria at a cost of LE 345 million (US$ 150 million) and with 610 employees, later to be increased to 750. The plant will manufacture 350,000 truck and bus tires, and will be the first of its kind in Egypt. The feasibility study for the proposed plant shows high market demand, strong cash and dividend flows, and an IRR of about 17%. The two key partners of the joint venture are TRENCO (Transport and Engineering Company), the only manufacturer of tires in Egypt (one of the few Egyptian public enterprises which is turning a profit) and Pirelli Tire Company of Italy, one of the world's leading tire manufacturers.

The steps leading to the establishment of ANTC are proceeding apace under the dynamic leadership of Fathi El Feky, the TRENCO chairman. Three technical agreements with Pirelli (a machinery supply contract, a know-how and engineering contract, a royalty agreement with 10 years of continuing technical assistance) are expected to be signed within weeks, adding a technology transfer component which greatly strengthens the demonstration value of the venture. A Founders Committee has been established and a Shareholders Agreement is being finalized. The partners intend to deposit the subscription capital by the end of June, and to register the new company with the Investment Authority by the end of July.

The TRENCO Chairman and his management team show understanding and enthusiasm for the introduction of employee ownership. MIC has indicated its willingness to allocate LE 42.1 million (US$ 18.3 million) for purchasing 30.5% of the shares on capital credit for the employees. This would make the employees the largest block of shareowners. Due to the high capital intensity of the plant, which would result in a disproportionately high share of ownership if 30.5% of the shares were allocated only to the approximately 700 future ANTC employees (an average of about LE 60,000 or US$ 26,000 each), it is proposed from many sides to allocate a part of the employees' shares to employees of TRENCO (3,500 at present) and the balance to other national ANTC shareholders. This would make ANTC more advanced than any existing ESOP toward the objective of building private property ownership through widespread access to capital credit into large sectors of the population.

4. Accomplishments of the Mission.

The following advances were achieved during the first phase of the ESOP consulting:

(a) Excellent working relationships were established with the TRENCO management, MIC, and NIB.

(b) The TRENCO Chairman indicated his decision to establish an ESOP Steering Committee composed of 2-3 members of the Founders Committee (the other investors), 1 representative of MIC, 1 representative of NIB, and two representatives of TRENCO employees: one of the four elected members on the TRENCO board, and the leader of the ESOP syndicate (labor union). TRENCO employees serve in this case as

193

proxies for ANTC employees, since the latter have not yet been hired. It is expected that the involvement of tire industry workers' representatives in the design of the ESOP from the very beginning will maximize employee involvement in the plan and consequent sense of belonging and motivation. (Employee participation is called for in the Egyptian Constitution, but giving workers shares, one of the three options required in the Company Laws to accomplish "employee participation", has never been tried; the ANTC ESOP would be a first for testing this third means and, if properly done, could remove some of Egyptian labor's opposition to privatization.)

(c) The ESOP Steering Committee "scope of work" was drafted.

(d) After intensive interviewing of three highly qualified candidates, Mahmoud M. Fahmi, a distinguished Egyptian lawyer, was selected unanimously by the TRENCO Chairman and the consultant team as the local legal advisor on the consultancy. Mr. Fahmi was former Deputy Chairman of the Investment Authority and Chairman of the Capital Market Authority, has 35 years of public service, is one of the drafters of Egypt's "open door" investment legislation, and practices as a corporate and investment law expert. He also served as Deputy President of the Council of State until 1984.

(e) NIB indicated its readiness to serve as ESOP fiduciary and loan administrator on behalf of the future employees of ANTC (and possibly the employees of TRENCO and other national ANTC shareholders), as long as NIB is not at risk on the loan beyond payment for the shares with the projected dividend cash flow.

(f) MIC indicated its willingness to lend LE 42.1 million (US$ 18.3 million) to NIB on behalf of the future employees and accept 30.5% of ANTC shares as collateral.

(g) A Loan Agreement between NIB and MIC was drafted.

(h) A Pledge Agreement for pledging 30.5% of ANTC shares as loan collateral to MIC was drafted.

(i) Financial projections for loan repayment out of the dividend cash flow were made. These projections show the feasibility of loan repayment, at a 10% interest rate over an 18-year period, with significant dividend distributions to the employees as of the second year of operation, and large cash reserves for share repurchases from retiring employees.

5. <u>Problems to be Surmounted</u>.

(a) The main problem is the establishment of an appropriate legal structure to represent the future ANTC employees as shareholders. This is a chicken-or-the-egg problem: ANTC must be established before employees are hired; employees must exist to form an ESOP; the ESOP must exist to borrow capital credit from MIC; the capital must be subscribed in order to establish ANTC. After consulting with various Egyptian legal authorities and examining various options, the consultant team recommended making NIB the temporary owner of the shares, under an agreement to turn ownership title over to the ESOP once the latter is legally established. The legal authorities consulted expressed the opinion that this could be done within the existing Egyptian legal framework. Some people expressed serious concern, however, about whether the process could be completed by July 31st, especially since July is a month of vacation for governme and other workers, with the national holiday Eid El . tr celebrated on July ?1-28.

(b) The commitment of some of the prospective national ANTC partners seems less than certain. If some of them drop out, it might be necessary to prevail upon MIC to increase the loan from the USAID Special Fund for augmenting the employees' share of the founding capital.

(c) The amount allocated in the consultancy contract for local legal expertise (US$ 4,000) proved grossly inadequate, since the lowest offer after a round of negotiations with the offerors was $28,000. The problem resides in a serious underestimate of the unit costs, which were set in the consultancy contract at $100/day; whereas the offers from local legal experts with the required stature ranged from $150 to $190 per <u>hour</u>. After negotiations, one of the offerors (fortunately, the one deemed most appropriate for the task at hand) reduced his fee to $100/hour, resulting in the above cost (for 280 hours) of $28,000. An application to USAID/Cairo is being prepared to bridge this gap. It should be underlined that <u>the success or failure of the entire effort hinges on this local legal expertise</u>. Without AID approval of the legal consultancy, nothing will happen.

<u>Conclusion</u>.

Provided the above problems can be solved, the macro-picture is encouraging. There is real readiness and enthusiasm for broadened ownership on the part of Egyptian decision-makers (not least due to the efforts of the AID/Cairo PRE officer). The Mission has received numerous requests for capital credit for other ESOP ventures. The challenge is to crystallize this goodwill into a prototype loan agreement and establish the company. In pursuing this objective, the team intends to follow a "prime-mover strategy" -- gain access to key decision-makers who can give their blessing to middle-level officials to bring all the pieces together. If the ANTC deal goes through, its catalytic value in Egypt and elsewhere is likely to be considerable.

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July 28, 1988

TRIP REPORT

FOR SECOND PHASE

OF THE EGYPT ESOP ASSIGNMENT

July 8-23, 1988

I. General.

This is the second phase of the Egypt ESOP assigment. The objectives of this assignment are:

(a) To establish under Egyptian law an operating Employee Stock Ownership Plan (ESOP) for turning employees into owners of 30.5% of the shares of the Alexandria Tire Company (ATC), a new joint venture of TRENCO (Transport and Engineering Co.), Pirelli Tire of Italy, and other investors. With state-of-the-art technology, 800 employees will produce 300,000 steel-belt radial tires annually for the Egyptian truck and bus market. To that end, a loan of 42.1 million Egyptian Pounds ($18.3 million, at $1 = LE 2.3) has been set aside from the USAID Special Account.

(b) To generate generic ESOP documents which would facilitate the creation of future ESOPs in Egypt and other developing countries ("the cookie cutter").

The first phase of this assigment was carried out during the period June 11-20, 1988, by Mr. Jalil Shoraka, Mr. Norman Kurland, and Mr. Itil Asmon, CFP consultants (see the First Phase Trip Report). The present (second) phase was carried out by Mr. Norman Kurland, Mr. Itil Asmon, and Mr. Mahmoud Fahmy (a distinguished Egyptian legal counsel), in close cooperation with the parties concerned (mainly TRENCO, the Ministry of International Cooperation (MIC), the National Investment Bank (NIB), and USAID/Cairo).

The principal objective of the second phase was to draft and prepare for MIC and NIB approval the Loan Agreement and the Pledge Agreement. These are the two basic documents necessary for moving the loan funds of LE 42.1 million from MIC to NIB, so that NIB can invest on behalf of the employees in purchase of 30.5% of the shares of the Alexandria Tire Company. This investment is necessary for completing the subscription of ATC equity capital, so that the Statutes and the Joint Venture Agreement can be signed and ATC can be established.

2. Schedule of Activities.

July 8: Mr. N. Kurland and Mr. I. Asmon arrive at Cairo.

July 9: Planning of Phase II activities and discussion of ESOP design issues.

July 10: A meeting at NIB with NIB, MIC, TRENCO, USAID, and National Bank of Egypt (NBE) representatives, including NIB Deputy Chairman, NIB Legal Counsel, and MIC legal counsel. Drafts of Loan and Pledge Agreements were discussed. Agreement in principle was obtained that NIB will serve not only as a Fiduciary but also as a Temporary Borrower. Various options for legal form of ESOP under Egyptian law were discussed.

July 11: A meeting with Mr. Michael O'Farrell (African-American Labor Center).
Meeting with Mr. Ahmed el Amawi (President of the Egyptian Trade Union Federation, head of the chemical workers' syndicate representing the workers affected by the project and a major leader in Egypt's ruling party) and Mr. Moustafa Ibrahim (President of the General Trade Union for Hotels and Tourism) to seek labor involvement and support for project. Initial reactions to ESOP concept were positive.
Meeting at NIB with NIB, MIC, USAID, and NBE representatives to come to closure on some options raised at the June 10 meeting. Preparation of a memo to the NIB board of directors to obtain their agreement for NIB to act as Temporary Borrower and Fiduciary.

July 12: A working session with the TRENCO management team for incorporating the decisions obtained into a new version of the Loan and Pledge Agreements.

July 13: Another working session with TRENCO management. Review of the various options for establishment of the ESOP under Egyptian law, based on an option paper presented by Mr. Mahmoud Fahmy.

Working session with USAID on preparation of Mr. Fahmy's contract.

July 14: A working session with TRENCO Financial Director. Discussion of various options and mechanisms for employee representation in the Employee Shareholders' Association.

July 15: Preparation of another version of the Loan and Pledge Agreements to take into account the comments received from all parties concerned.

July 16: A meeting of the TRENCO management team, the consultant team, and its Egyptian legal counsel for

197

incorporating all previous inputs to the Loan and Pledge Agreements into a version suitable for presentation as TRENCO's proposal to NIB and MIC.

July 17: A line-by-line review of the draft Loan and Pledge Agreement at NIB. NIB and MIC feedback was received, and NIB agreed to serve as Temporary Borrower on behalf of future employees and ESOP Fiduciary.

The consultants also attended the 3-day Partnership in Development Association seminars sponsored by the Public Policy Analysis and the International Development Group, where contacts were made with key Egyptian decision-makers whose support is essential for achieving the goals of the mission.

July 18: A key meeting at MIC -- A line-by-line review of the revised agreements. Agreement obtained from MIC representatives at the working level to provide the loan under agreed-upon conditions. Preparation by MIC representatives of a memorandum for approval by the Minister of International Cooperation.

In the evening at the above-mentioned seminar, Mr. Kurland gave a brief presentation and answered questions on ESOP principles and their application in Egypt. The session was chaired by the Minister of International Cooperation.

July 19: Integration of MIC's comments into the Agreements and preparation of final drafts. Meeting with TRENCO management team, USAID, and NBE representatives to review changes proposed by the team's legal counsel in the new company's statutes of incorporation and Joint Venture Agreement to accomodate to the ESOP features.

July 20-21: Further development of internal ESOP documents (the ESOP by-laws, terms of reference of the temporary Steering Committee).

July 22: Mr. Kurland departs for the U.S.A.

July 22-23: Mr. Asmon remains for producing clean drafts of the ESOP Plan and Fiduciary Agreement.

III. <u>Persons Encountered</u>.

Dr. Yousri Ali Moustafa -- Minister of Economy and Foreign Trade
Dr. Abd El Aziz Hegazy -- Former Prime Minister
Dr. Maurice Makramallah -- Minister of International Cooperation
Mr. Fouad Sultan -- Minister of Tourism and Civil Aviation
Dr. Samir Toubar -- Head of Economic Committee of the National Democratic Party
Marshall Brown -- USAID/Egypt Country Director
James Watson -- USAID/Egypt Director of Office for

Finance and Investment
Bruce Mazzie -- USAID/Egypt PRE Officer
Amal Amin Ibrahim -- USAID/Egypt PRE Assistant Officer
M. Fathy El Feky -- TRENCO Chairman of the Board
Mohamed Mansour M. -- TRENCO Financial Director
Ahmed Farraz -- TRENCO Legal Advisor
Zafer El Bishry -- NIB Vice-Chairman
Ahmed Nasr El Din -- NIB Deputy Vice-Chairman
Ismail Badawi -- NIB Counsel
Ahmed Abd El Aziz -- NIB Legal Counsel
Ahmed Abd El Salam Zaki -- MIC Undersecretary
Mrs. Seham Haridi -- MIC Director of Private Enterprise Program
Mamdouh Rady -- MIC Legal Counsel
Mrs. Ayah El Essawy -- NBE Director
Ahmed El Amawy -- President, Egyptian Trade Union Federation and General Trade Union for Chemical Workers
Moustafa Ibrahim -- President, General Trade Union for Hotels and Tourism
General Farouk Mahmoud Helal -- First Undersecretary, Ministry of Local Government
Dr. Alef Agwa -- Chairman of Companies' Authority
Omar Mohanna -- Assistant General Manager, Misr Iran Bank
Dr. Mohamed El Ayoun -- Professor of Economics, Assistant to the Minister of Economics
Maher Khalil -- Director of Private Sector Feasibility Studies Program, Investment and Free Zones Authority
Michael O'Farrell -- African-American Labor Center
Mr. Sakka -- Chairman of Misr Travel

IV. <u>Present Status</u>.

Future ownership follows access to capital credit. The distinguishing feature of the ESOP technology is access to capital credit repayable and secured with future enterprise profits. In the United States and England a legal trust is used as the borrowing entity for the employees. Egyptian law does not recognize such a trust. Hence, an Egyptian legal substitute -- an employee shareholders' association -- was invented by the team's Egyptian counsel with the concurrence of all parties.

Because the project involves a new company with no employees and a plant that will take three years to construct, the credit arrangement for acquiring and transferring shares to employees will be in two phases: First, the National Investment Bank will serve as Temporary Borrower and Initial Shareholder on behalf of the employees in order to allow the new company to incorporate and legally execute its joint venture contracts with Pirelli Tire before they expire; this will allow construction of the new tire plant to begin. The second phase of credit will involve the assumption of the share acquisition loan by and transfer of legal title to the shares to the new company's employee shareholders' association (which will incorporate an ESOP as its by-laws), once at least 200 of the eventual 800 employees are hired.

As a result of this trip, the legal infrastructure for acquisition of shares on behalf of the employees (the Loan Agreement and Pledge Agreement) has been agreed upon by the interested parties (TRENCO, MIC, NIB, NBE, and USAID) at the working level. At present these Agreements are ready for signing before the Minister of International Cooperation, the NIB Board of Directors and the USAID Legal Counsel. Whenever these approvals are secured, the loan and share purchase can go forward.

Likewise, the changes in the Alexandria Tire Company Statutes and Joint Venture Agreement necessary to accommodate share ownership by an Employee Shareholders' Association under an ESOP arrangement have been agreed upon by TRENCO and by NBE (representing the other Egyptian founders). Negotiations with Pirelli are at the final stage. Signature of the above documents will signify the establishment of the Alexandria Tire Company, pending approval by the Investment Authority.

V. Accomplishments During the Second Phase of the Consultancy.

(a) The "chicken-or-egg" problem mentioned in the First Phase Trip Report (the non-existence of a legally constituted Employee Shareholders' Association which could assume the MIC loan for acquiring shares for the employees) was solved by NIB agreeing to act as a Temporary Borrower until such an Association is formed, under an irrevocable obligation to transfer title of the shares to the Association after its establishment and to hold the shares as collateral.

(b) To prevent excessive concentration of shares in the hands of ATC employees, a proposal was defined to allot 40% of the workers' shares to the employees of TRENCO, the "mother company." A memorandum justifying this proposal was prepared.

(c) The Loan Agreement and the Pledge Agreement have undergone numerous redrafts to incorporate the inputs of all interested parties, and final drafts were submitted to the appropriate authorities for approval.

(d) The necessary changes in the ATC Statutes of Incorporation and Joint Venture Agreement to accommodate employee share ownership have been introduced and await approval by Founders.

(e) A legal opinion, pointing out various means and strategies for creating Employee Shareholders' Associations under Egyptian law, has been produced.

(f) A second draft of the "Scope of Work" of the temporary ESOP Steering Committee (which will represent the employees until enough ATC employees have been hired to elect a permanent Governing Committee at ATC and a separate one at TRENCO) has been prepared.

(g) First drafts of the Employee Share Ownership Plan (by-laws of the Employee Stockholders' Association) and of the Fiduciary Agreement between the Association and the Fiduciary (NIB) have been prepared.

(h) Key decision-makers whose consent is essential for establishing the ATC ESOP and future ESOPs in Egypt, notably the Minister of Economy and the Minister of International Cooperation, have been contacted.

(i) Most of the approvals necessary for obtaining USAID/Cairo financing for the second phase of work by Mahmoud Fahmy, the Egyptian legal counsel on the consultant team, have been obtained and the matter is now in the USAID/Cairo Contract Office.

VI. Planned Activities.

The third phase of the consultancy will focus on:

(a) Preparing the ESOP Plan (by-laws of the Employee Shareholders' Association) with active participation by workers' representatives on the Steering Committee;

(b) Preparing generic documents which could be used with minor modifications for establishment of future ESOPs in Egypt;

(c) High-level meetings with the Ministry of Economy, the Investment Authority and the Ministry of Social Affairs to gain legal existence for the Employee Shareholders' Association;

(d) Developing methodologies which are appropriate for Egyptian conditions for future valuation of the ESOP shares and for estimating share repurchase obligations;

(e) Developing an ESOP Accounting and Administration Manual;

(f) Explaining the ESOP to the existing (TRENCO) employees and initiating an employee communications program.

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September 20, 1988

TRIP REPORT
FOR THIRD PHASE
OF THE EGYPT ESOP ASSIGNMENT
August 11 - September 11, 1988

1. General.

This is the third phase of the Egypt ESOP assignment. The objectives of this assignment are:

(a) To establish under Egyptian law an operating Employee Stock Ownership Plan (ESOP) for turning employees into owners of 30.5% of the shares of the Alexandria Tire Company (ATC), a new joint venture of TRENCO (Transport and Engineering Co.), Pirelli Tire of Italy, and other investors. With state-of-the-art technology, 750 employees will produce 350,000 steel-belt radial tires annually for the Egyptian truck and bus market. To that end, a loan of 42.1 millian Egyptian Pounds ($18.3 million, at $1 = LE 2.3) has been set aside from the USAID Special Account.

(b) To generate generic ESOP documents which would facilitate the creation of future ESOPs in Egypt and other developing countries ("the cookie cutter").

The first phase of this assignment was carried out during the period June 11-20, 1988, by Mr. Norman Kurland, Mr. Itil Asmon and Mr. Jalil Shoraka, CFP consultants. The second phase was implemented during the period July 8-23, 1988, by Mr. Norman Kurland, Mr. Itil Asmon and Mr. Mahmoud Fahmy (a distinguished Egyptian legal counsel), in close cooperation with the parties concerned -- mainly TRENCO, the Ministry of International Cooperation (MIC), the National Investment Bank (NIB) and USAID/Cairo (see the First Phase and Second Phase Trip Reports). The third phase was undertaken by Mr. Itil Asmon in cooperation with the above parties, and with inputs of Mr. Norman Kurland via telefax from Washington, D.C.

The third phase can be described as a period of consensus-building and of solidifying the support for ESOPs, both in the GOE and within USAID/Cairo.

2. Macro-Events.

The following ESOP-related events occurred during the present consultancy and set the context within which the consultancy was carried out:

(a) On or about August 18, the Minister of International Cooperation gave the "green light" to the ATC ESOP Loan Agreement by approving the memorandum presented by the Undersecretary for Cooperation with the U.S., and issued instructions to draw up ASAP an Arabic version of the Loan Agreement for his signature.

(b) On August 18, MIC and USAID signed an amendment to the Memorandum of Understanding governing the use of the Special Account, earmarking LE 100 million in Special Account funds for credits for ESOP projects. (This news appeared on August 20 as a major front-page article in "Akhbar El Yom", a leading Cairo newspaper).

(c) The Minister of Economy expressed his support for ESOPs and his readiness to approve Ministerial Decrees which may be necessary for creating the legal basis for ESOPs in Egypt. Other high-ranking Egyptian officials have also expressed to USAID their determination to establish ESOPs in Egypt.

(d) The USAID officials involved have solidified their support for the ESOP effort and expressed their will to establish several ESOP pilot projects besides ATC in order to generate in Egypt a multifaceted experience with ESOPs.

(e) GOFI (the General Organization for Industries) made an official request to USAID for technical assistnce in examining its portfolio of state-owned enterprises for selecting the most appropriate ones for privatization to their employees through ESOPs.

All of these events are building-blocks in the process of the institutionalization of expanded capital ownership through ESOPs in Egypt.

3. Schedule of Activities.

Aug. 11: Mr. Itil Asmon arrives at Cairo.

Aug. 12-15: Establishing the Logical Framework for the introduction of ESOPs to Egypt; writing the Statement of Objectives and Risk Analysis; meetings with USAID legal counsel Mark Ward and TRENCO Chairman Fathy El Feky.

Aug. 17-21: Alexandria - Work with TRENCO (to which the consultant would like to express his thanks for

203

the company's generous hospitality, including the use of TRENCO Guest Apartment) on the following subjects:

-- composition and procedures of the temporary ATC-ESOP Steering Committee;

-- clarification (with the TRENCO legal counsel) of the applicability to and effects on ESOPs of various provisions of ~~the~~ Company Law No. 159, ~~and the~~ Investment Law No. 43, and their Executive Regulations;

-- review of the TRENCO bonus system and study of an appropriate bonus system for ATC;

-- establishment of a spreadsheet program to calculate ESOP benefits and loan repayments on TRENCO's micro-computer

Aug. 22-28: Cairo - The following activities were undertaken:

-- contacts with the USAID Egyptian legal counsel;

-- meetings with TRENCO chairman;

-- meeting with MIC undersecretary;

-- identification of an Egyptian consulting firm which would be a suitable recipient for the transfer of ESOP know-how to the Egyptian private sector consultants;

-- correction of the Logical Framework.

Aug. 29: Meeting with Karen Turner, USAID/Cairo Legal Counsel.

-- A key meeting of the USAID officers concerned with the ESOP enterprise (Industry and Support Director and Deputy Director, Head of the Office of Finance and Investment, Chief Economic Specialist, and Legal Counsels). This meeting has cemented the commitment of the responsible USAID officials for the ESOP. The meeting proposed the initiation of at least two other ESOPs in addition to ATC (preferably in existing enterprises, to gain impact more quickly). It also proposed an independent review of the ATC feasibility study by an auditing firm.

Aug. 30 -
Sep. 1: Updating the Loan and Pledge Agreements according to corrections telefaxed by Norman Kurland from Washington, to integrate the comments made by Ms. Karen Turner in her telex from Rabat;

-- Updating the Fiduciary Agreement.

Sep. 5-6: Consultations with MIC, Bank Misr-Iran and USIPO (U.S. Investment Promotion Office) for preliminary identification of other ESOP candidate companies.

Sep. 7-10: Preparation of the first version of the "Alexandria Tire Company ESOP Manual" (to be updated as new documents are produced).

Sep. 11: Flight back to San Francisco; writing of Trip Report.

4. Outputs of the Consultancy.

Specifically, the third phase of the Egypt ESOP consultancy assigment produced the following outputs:

(a) An Objective Tree and a Logical Framework for the establishment of broadened ownership in Egypt (both in the ATC pilot project and in other Egyptian enterprises);

(b) A Statement of Objectives and Risk Analysis paper;

(c) A Preliminary Social Soundness Analysis;

(d) Annex A of the Loan Agreement (composition and procedures of the ATC ESOP Steering Committee);

(e) Annex B of the Loan Agreement (description of the ATC project);

(f) Updated versions of the Loan and Pledge Agreements integrating the comments of the USAID Legal Counsel;

(g) An updated version of the ATC ESOP Fiduciary Agreement;

(h) Financial projections for the ATC ESOP;

(i) Identification of a potentially suitable Egyptian consulting firm for acquiring and spreading the ESOP financial technology;

(j) A draft ATC ESOP Manual, to be updated as new documents are produced.

5. <u>Other ESOP-Related Events</u>.

During the period of the consultancy, several other processes necessary for the establishment of the ATC ESOP and future ESOPs were set in motion:

(a) USAID/Cairo is drafting the scope of work for engaging an auditing firm to provide an independent review of the ATC feasibility study prepared by TRENCO and Pirelli.

(b) Mr. Mahmoud Fahmy (the Egyptian legal counsel of the consultant team), who had taken ill during a critical period in the legal formulation of the ESOP, has recovered and is preparing a detailed answer to the questions raised by Dr. Na'im Attia (the USAID Egyptian legal counsel) regarding the planned use of employee associations as ESOP vehicles. It is planned to involve Mr. Ali Hassan, Legal Counsel of the Ministry of Social Affairs (which is responsible for regulating private associations) in the process as soon as possible. Apparently a legal precedent has been created in early September 1988 for the principle of an Egyptian association holding title to full-value shares, through the Ministry's approval of such action by the Association of Consulting Engineers.

(c) Mr. Hussein Dabbous, former Governor of El Fayoum and of Beheira (with ministerial rank), and a long-time ESOP advocate, who is presently in the private sector as chairman of Consulting Group for Development (an Egyptian consulting firm), has volunteered his services for strengthening the GOE commitment to privatization through ESOPs. To this end he has met the Minister of Industry, Minister of Economy and Minister of Reconstruction; a meeting with the Minister of Agriculture (who is also Deputy Prime Minister and General Secretary of the National Democratic Party) is scheduled.

(d) The General Organization for Industry (GOFI) has requested technical assistance from USAID in reviewing its portfolio of state-owned companies to determine the most appropriate ones for privatization to their employees through ESOPs. The process is envisioned in four stages:

-- Establishment of selection criteria;

-- Screening of the GOFI portfolio;

-- Selection of the five most suitable enterprises;

-- Performing company profiles on the two best candidates.

6. Subsequent Steps.

The following steps are necessary in the near future for the establishment of ATC and other ESOPs in Egypt.

(a) Resolution by the legal counsels of the Ministry of Social Affairs, USAID and the consultant team, of the issues involved in creation of employee shareholders' associations;

(b) Termination of the independent review of the ATC feasibility study, with positive recommendations;

(c) Approval by the Ministry of International Cooperation and by USAID of the ATC ESOP Loan and Pledge Agreements.

When the above steps are completed, or at least close enough to completion for an ATC ESOP Steering Committee to be nominated, it would be appropriate for the expatriate consultants to undertake the following phase of the consultancy, the major elements of which are:

(a) Refinement of the draft ESOP bylaws of the ATC Employee Shareholders Association, with inputs from the ATC ESOP Steering Committee;

(b) Establishment of procedures for share valuation and for calculation of repurchase obligations;

(c) Creation of an ESOP employee communications program at TRENCO.

The critical assumption for successful completion of the consultancy is, of course, that the TRENCO/Pirelli joint venture deal will hang together long enough for steps (a), (b), and (c) above to be accomplished.

7. Persons Encountered.

MIC: Mr. Ahmed Abd El Salam Zaki, Undersecretary
Mrs. Seham Haridi, Manager of USAID projects

ATC: Mr. Fathy El Feky, Chairman
Mr. Mansour Mohamed, Financial Director
Mr. Ahmed Farrag, Legal Counsel
Mr. Sa'ad Hossein, Administrative Director
Mr. Ismail Kabaary, Electronic Data Systems Manager

USAID: Mr. Bruce Mazzie, Project Director
Mrs. Amal Amin Ibrahim, Deputy Project Director
Mr. James Watson, Head, Office of Finance and Investment
Mr. Gregory Huger, Director, Industry and Support
Mr. George Flores, Deputy Director, Industry and Support
Mr. Paul O'Farrell, Chief Economic Specialist
Ms. Karen Turner, Legal Counsel

207

Dr. Na'im Attia, Legal Counsel
Mr. Mark Ward, Legal Counsel

Ministry of the Interior: Crl. Mamdouh El Badri, Undersecretary

Consulting Group for Development: Mr. Hussein Dabbous, Chairman

U.S. Investment Promotion Office: Dr. Mahamed El-Saharakti, Director

Mr. Ashraf Ansari, promotor of a potential ESOP firm (a manufacture of veterinary products)

Mr. Mahmoud Fahmy, the consultant team's Egyptian legal counsel

108

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TRIP REPORT

FOR THE FOURTH PHASE

OF THE EGYPT ESOP ASSIGNMENT

OCT. 21 - NOV. 7, 1988

1. General.

This is the fourth phase of the Egypt ESOP assignment. The objectives of this assignment are:

(a) To establish an Employee Shareholders' Association (ESA) for turning employees into owners of 30.5% of the shares of the Alexandria Tire Company (ATC), a new joint venture of TRENCO (Transport and Engineering Co.), Pirelli Tire of Italy, and other investors. With state-of-the-art technology, 750 employees will produce 350,000 steel-belted radial truck and bus tires annually. To that effect, a loan of LE 42.1 million ($ 18.3 million) is being provided out of the Ministry of International Cooperation (MIC) Special Account funds, which originate from U.S. assistance.

(b) To produce generic documents which would facilitate the creation of future ESAs in Egypt and other developing contries ("the cookie cutter").

The first three phases of the consultancy took place from June 12 to Sep. 11, 1988, by CFP consultants working in close cooperation with TRENCO management, MIC, the National Investment Bank (NIB) and USAID/ Cairo. The present phase was carried out by CFP consultants Mr. Norman Kurland (legal expert), Mr. Itil Asmon (economist), Mr. Barry Goodman (valuation specialist) and Mr. Mahmoud Fahmy (a distinguished Egyptian legal counsel), in collaboration with the same parties.

The principal objectives of the fourth phase were:

(a) to prepare the documentation necessary for approval of the loan by the USAID/Cairo Executive Committee; and

(b) to terminate the documentation necessary for establishment of the ATC Employee Shareholders' Association and produce the generic models for future ESAs.

2. Schedule of Activities.

Oct. 22: Mr. Kurland and Mr. Goodman arrive at Cairo.

Oct. 23: Mr. Asmon arrives. Planning of work program with Mr. Bruce Mazzei of USAID.

Oct. 24: Team meets Ms. Karen Turner, USAID Legal Counsel. Asmon and Goodman meet Mr. Osama Khalifa (public accountant) and Mr. Omar Mohanna (Misr Iran Bank Director).

Oct. 25: Asmon and Goodman meet Messrs. Hazem Hassan, Mohamed Yehye, Halim Amin Samy and Mohamed Salem of Peat, Marwick, Hassan & Co. (Public Accountants). Team meets Mr. Fathy El Feky and Mr. Mohamed Mansour of TRENCO.

Oct. 26: Team members meet Mr. Abd El Salam Zaki (MIC Undersecretary), Messrs. Fathy El Feky, Mohamed Mansour and Ahmed Farrag of TRENCO, Ms. Karen Turner of USAID, and Mr. Donald Chapin (USAID valuation consultant). Barry Goodman meets Mr. John Briggs of Arthur Andersen Shawki & Co. Mr. Norman Kurland meets Mr. Omar Mohanna.

Oct. 27: Mr. Goodman returns to USA. Kurland and Asmon meet Messrs. Gregory Huger and George Flores of USAID to prepare presentation of project to USAID Executive Committee. Asmon meets Mr. James Watson, head of USAID/Cairo Office of Finance and Investment.

Oct. 28-29: Strategy meeting with Bruce Mazzei. Updating of Loan, Pledge and Fiduciary Agreements to integrate Ms. Turner's comments. Drafting of ESA Deed of Incorporation.

Oct. 30: Asmon meets Mr. Paul O'Farrell, USAID/Cairo Chief Economist. Team (Kurland, Fahmy and Asmon), together with Messrs. El Feky and Farrag of TRENCO, meet Ms. Turner to discuss Loan, Pledge and Fiduciary Agreements.

Oct. 31: Kurland and Asmon edit Loan, Pledge and Fiduciary Agreements. Asmon meets Mr. Fritz Weden, USAID/Cairo Deputy Director.

Nov. 1: Editing of Loan, Pledge and Fiduciary Agreements.

Nov. 2: Kurland, Asmon and Fahmy meet Ms. Karen Turner and Mr. Fathy El Feky to discuss Ms. Turner's further comments on the Loan, Pledge and Fiduciary Agreements.

Nov. 3: Continuation of meeting with Ms. Turner.

Nov. 4: Ms. Turner meets Norman Kurland to finalize her comments on the Loan, Pledge and Fiduciary Agreements.

Nov. 5-7: Asmon edits Loan, Pledge and Fiduciary Agreements to integrate Ms. Turner's additional comments. Kurland prepares an updated version of the ESOP Plan. Fahmy and Asmon prepare the draft amendments to the Executive Regulations of Laws 159 and 32 which are necessary for establishment of the Employee Shareholders' Association.

Nov. 8: Mr. Kurland departs from Egypt.

3. Accomplishments of the Mission.

The main focus of the fourth phase of the consultancy was to secure approval of the USAID/Cairo Executive Committee for the LE 42.1 million loan to be made from the Special Account managed by the Ministry of International Cooperation (MIC) to the National Investment Bank (NIB) for investing in 30.5% of the founding shares of the Alexandria Tire Co. (ATC) on behalf of the employees. This necessitated considerable work with the full collaboration of the USAID/Cairo Legal Counsel to remove any legal impediments to USAID approval.

The above objective was fully achieved. On its meeting of Nov. 8, 1988, the USAID/Cairo Executive Committee has approved the loan with three minor requirements precedent, one of which has been met in the meantime and the others are expected to be met in the near future.

Specifically, the outputs of the fourth phase were:

(a) The Loan, Pledge and Fiduciary Agreements were prepared to USAID's satisfaction (excepting certain final touches by the USAID/Cairo Legal Counsel), and submitted to MIC for translation to Arabic.

(b) In satisfaction of one of the requirements precedent, a memorandum was submitted to USAID/Cairo clarifying the tax situation of the Employee Shareholders' Association (FSA) to be formed.

(c) The amendments to the Executive Regulations of the Company Law No. 159 of 1981 and of the Private Associations Law No. 32 of 1964 which are necessary for the legal establishment of the ESA have been drafted and forwarded by the Minister of International Cooperation to the Minister of Economy and the Minister of Social Affairs respectively, with accompanying letters requesting their approval. The Egyptian Legal Counsel of the consultant team is following up the matter with the ministries concerned for preparation of the necessary Ministerial Decrees.

(d) A draft Deed of Incorporation of the ESA, along with a draft ESOP Plan (which will become part of the ESA bylaws), have

211

been prepared and submitted to TRENCO (Transport and Engineering Co., the main promoter of the Alexandria Tire Co.) and to USAID for their review.

(e) The ESOP valuation consultant, Mr. Barry Goodman, has achieved a consensus with prominent Egyptian appraisers about the methodology to be followed in valuating company shares for employee ownership purposes, and is preparing his report in the U.S.

(f) Based on the ATC Loan, Pledge and Fiduciary Agreements as approved by the USAID/Cairo legal counsel, Mr. Norman Kurland is preparing in the U.S. the generic documents for future ESOPs in Egypt.

4. Parallel Events Advancing Employee Ownership.

Outside the work of the consultant team, the following events have occurred during October-November 1988 to further employee ownership in Egypt:

(a) The Investment Authority has approved in principle the creation of the Alexandria Tire Co. under Investment Law No. 43 of 1974. This removed the last major obstacle to the establishment of ATC, and paved the way for a meeting of the ATC Founders' Committee scheduled for mid-December for signature of the ATC Joint Venture Agreement and Articles of Incorporation.

(b) The Minister of Industry, in a speech on Nov. 21 to the American Chamber of Commerce in Egypt, expressed his strong support for employee ownership, repeatedly highlighting the ATC project.

(c) Several companies have approached MIC and USAID to request Special Account loans for employee buy-ins following the ATC model. One company, presently owned and managed by the public sector, is being given priority consideration for 100% employee ownership.

(d) USAID/Cairo, acting upon a request by the General Organization for Industries (GOFI), has approved a PIO/T for consulting services through the Center for Privatization to review GOFI's portfolio of about 117 public sector companies, establish appropriate criteria, and indicate five companies to be considered for employee ownership.

5. Overall Status of Completion of the Scope of Work.

The present fourth phase concludes the field work of the ATC ESOP consultancy under PIO/T No. 263-0102-3-60116 of 4/24/88. Compared with the 18 items detailed in the Scope of Work (Attachment A), the following have been completed:

212

#1: Hold interviews with executives and company advisors (done);

#2: Conduct preliminary meetings to receive inputs from all interested parties (done);

#3: Assist in the formation of the ESA board of directors (reglamentation for the ESOP Temporary Steering Committee drafted and agreed to by TRENCO);

#4: Assist in negotiations with lenders (done);

#5: Recommend an approach for the valuation of ESOP shares (first draft prepared);

#6: Analyze relevant data and assist management to develop an ownership participation plan (draft ESOP Plan prepared);

#7: Develop specifications for design of the ESOP (draft submitted);

#8: Draft all documents necessary to implement the ESOP (ATC ESA Deed of Incorporation and ESOP Plan prepared and submitted to TRENCO);

#9: Draft all documents necessary for ESOP share acquisition (Loan, Pledge and Fiduciary Agreements prepared);

#11: Prepare a computerized analysis of ESOP financial projections and of liquidity needs for stock repurchase (done);

#13: Take steps to comply with any laws or regulations (started, will continue until the ATC ESA is legally established);

6. <u>Additional Outputs to be Completed under the Present PIO/T</u>.

The following items are in preparation and will be delivered under the present PIO/T:

#5: A methodology for the valuation of ESOP shares (final version, with projections of the future value of ATC shares based on the ATC feasibility study);

#7: ESOP design specifications (final version);

#8: Generic version of the ESOP Plan;

#9: Generic versions of the Loan, Pledge and Fiduciary Agreements for acquisition of ESOP shares;

#10: ESOP Time and Sequence Table, Accounting and Allocation Manual, Administration Checklist and Forms Manual (first draft, to be worked on with the ESOP Steering Committee);

213

#17: A cash productivity bonus program (first draft, to be worked on with the ESOP Steering Committee);

7. Items Delivered Outside the Scope of Work.

In accordance with the requests of USAID/Cairo, the consultant team has delivered the following items which were not contemplated in the Scope of Work:

(a) A Risk Analysis Document, which identified the critical assumptions and helped assure USAID of the viability of the ATC ESOP transaction and formulate the requirements precedent;

(b) Rationale for the selection of beneficiaries of the ATC ESOP transaction;

(c) A social soundness analysis of the ATC ESOP transaction;

(d) Conception of a "fail-safe" mechanism which would provide, in the worst-case scenario that the ESA is not formed or that it defaults on the loan, for sale of the pledged shares to the private sector with maximal distribution;

(e) A summary of the evaluation of the ATC feasibility study carried out by Arthur Andersen Shawki & Co.;

(f) Preparation of the ATC Loan, Pledge and Fiduciary Agreements to an unusual degree of perfection (the texts went through some fifteen drafts).

Another key output which exceeded the requirements of the Scope of Work was to go beyond the legal documents necessary for the ATC transaction, by drafting amendments to the Executive Regulations of Laws 159 and 32 which will allow the establishment of employee shareholders' associations in all enterprises which come under the Company Law.

8. Remaining Work which Requires Contract Extension.

Two important types of outputs specified in the Scope of Work could not be completed until the ESOP loan is approved, the Joint Venture Agreement is signed and the conditions for participation of the TRENCO employees are determined by the ATC Founders' Committee:

(a) Outputs which needed feedback from the ESOP Temporary Steering Committee; and

(b) The employee participation program, which obviously could not be designed without the collaboration of at least TRENCO employees (since ATC employees have not yet been hired).

In addition, the Loan, Pledge and Fiduciary Agreements are likely to require additional work to incorporate the comments of MIC and NIB on the current versions which are being translated to Arabic for their review.

The outputs which could not be finalized without feedback from the ESOP Temporary Steering Committee are:

#3: Assistance in adoption of the ESOP;

#8: Finalization of the ESOP Plan and preparation of regulations concerning the operation of the ESA;

#10: Finalization of the ESOP Accounting and Allocation Manual and forms;

#17: Preparation of an ESOP cash productivity bonus program.

Outputs which need collaboration at least with TRENCO employees are:

#12: Advise and train personnel involved in ESOP administration;

#14: Help in preparing and implementing the employee communications program (this includes the preparation of employee handbooks, explaining the employee representation process, and participating in executive and employee meetings);

#15: Perform computerized ESOP allocations and ESOP statements for each participant;

#16: Work with management in arranging audio-visual materials for a continuing ESOP communications system;

#18: Provide industrial relations consultation for improving communications between supervisors and other employees and increasing productivity (to the extent possible at the present time).

9. <u>The Balance</u>.

The present status of the ATC ESOP consultancy can be summed as follows:

(a) All the outputs which could be provided by the consultants before the signing of the Loan Agreement and the ATC Joint Venture Agreement have been performed or will be delivered in the near future (although a lot more effort than foreseen had to be expended for obtaining USAID's approval for the ATC ESA loan);

215

(b) The macro-picture is extremely encouraging. GOE and USAID commitment to employee ownership is evident both in public statements, in expressed willingness to make the required amendments to the Executive Regulations, in the constitution of a LE 100 million ESOP loan fund, in the numerous applications by various private and public sector companies for participation in the program, and in the approval of a consultancy to GOFI for determining the public-sector companies most appropriate for employee ownership;

(c) An extension of the present consultancy will be necessary for completing those steps which could not be implemented before approval of the Loan Agreement and of the Joint Venture Agreement, namely finalization of the ESOP documents which need inputs from the ESOP Temporary Steering Committee and establishment of an employee communications program.

Attachment A

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) DESIGN AND IMPLEMENTATION

I. PURPOSE OF CONSULTANCY

This consultancy is required to design a framework (terms of reference) for the ESOP and all of the necessary documents, agreements, and contracts required to transfer the ESOP technology to Egypt and implement it. The material produced will; (1) in its "generic" form, provide a technical attachment to the Partnership in Productivity (Privatization) Project Paper and (2) in its "specific" form, provide an ESOP for the TRENCO/Pirelli joint venture. The technology will need to be adapted to Egyptian laws, regulations, and business environment.

II. BACKGROUND

The Employee Stock Ownership Plan (ESOP) financial technology has been introduced by USAID Egypt to the TRENCO/Pirelli joint venture, a project which is to manufacture radial truck tires in Egypt. A loan to finance the purchase of equity (shares) in the new company from the Special Account has been approved by the Ministry of International Cooperation, other appropriate Ministries, and by USAID. A second ESOP privatization opportunity is now developing for a dairy operation joint venture (between the Gore Company of Texas) and the New Salhaiya Agricultural Development Project. The concept is also being discussed with other enterprises as a mechanism to expand ownership participation.

II. OBJECTIVES OF ESOP

1. To purchase equity interests and assets in the operations for the benefit of its employees through an Employee Stock Ownership Plan (ESOP).

2. To enable all employees to earn shares of company stock and thus participate in ownership and growth of the company, without reducing their earnings and savings.

3. To spread the understanding of ownership participation among the employees, in order to increase individual and group productivity, and to improve employee motivation, profit and cost consciousness, and long-term commitment to the enterprise.

4. To attract and retain employees with benefits linked to productivity.

5. To create an optional "in-house" market for: (a) redeeming outstanding shares of company stock from retiring employees at an appraised fair market value, and (b) financing growth through new stock issuances.

217

III. SCOPE OF WORK

To achieve the objectives (specific material for TRENCO and generic material for the project), the contractor will provide the following services:

1. Hold interview meetings with executives and company advisors to explain the technology, mechanics, and design options of the ESOP.

2. Conduct preliminary meetings to receive inputs from groups of employees, board members, executives, lenders, and other affected parties.

3. Assist in the ownership transfer, in the formation of the board of directors and in all steps necessary for the adoption of the ESOP.

4. Assist in negotiations with lenders to achieve the ESOP's stock acquisition program.

5. Work with an independent appraiser to render an assessment of the fairness of the price of the initial acquisition of the shares by the ESOP and the value of the leveraged company stock to be allocated to the ESOP accounts of the employees for the first year of ESOP operation and to recommend an approach for updating this valuation for future transactions, including new equity issues, involving the ESOP.

6. Analyze financial, personnel, and other input data and assist manangement to develop a comprehensive, long-range ownership participation program.

7. Develop specifications for the design of the ESOP, including eligibility, vesting, contribution levels, voting powers, allocations, and distribution rights, in order to satisfy financing requirements, personnel policies and other corporate objectives.

8. With legal counsel, prepare for review, drafts of all documents necessary to establish and implement the Employee Stock Ownership Plan.

9. With legal counsel, prepare for review drafts of all documents necessary to implement the acquisition of company stock by the ESOP. This will include any documents relating to the debt financing of the initial acquisition, including any loan agreements, guarantee agreements, pledge agreements and promissory notes.

10. Provide a Time and Sequence Table, an ESOP Accounting and Allocation Manual, an ESOP Administration Checklist and Forms Manual, relating to annual operation and administrative requirements of the ESOP.

218

11. Prepare for management a computerized analysis of:

    (a) ESOP financial projections to illustrate the impact of the ESOP on company earnings, cash flow, and stockholders equity.

    (b) The cash liquidity needs of the ESOP for planning the repurchase of stock from retiring employees.

12. Advise and conduct training sessions for personnel involved in ESOP administration.

13. Take steps necessary for complying with all requirements of any laws or regulations.

14. Explain the technology, mechanics, and implications of the ESOP ownership sharing programs to employees and otherwise assist in the preparation and carrying out of the ESOP's employee communications program. This will include the preparation of employee handbooks explaining the ESOP, designing and explaining the employee representation process, and participation in execut ve and employee meetings when the ESOP is first implemented.

    (It is our opinion that translating the message and philosophy of the ESOP into language that workers can appreciate is more important to success than many of the ESOP's other technical components).

15. Perform computerized ESOP annual allocations and individual ESOP statements for each participant, and prepare all required reports to participants for the first year of ESOP operation.

16. Work with management in arranging for or reviewing special audio-visual, graphics, artwork, etc. for a continuing ESOP communications system.

17. Design a monthly and annual cash productivity bonus program linked to after-debt service cash flow, as a variable supplement to the cash incomes of employees.

18. Provide industrial relations consultation for helping to improve two-way communications between supervisory and other employees; to overcome labor-managemnet problems; to increase labor and capital productivity; or to design improved ownership oriented incentive systems.

IV. REPORT DELIVERABLES AND SCHEDULE

These deliverables will be used in their generic form as an attachment to the Partnership in Development (privatization) Project Paper and in a specific form for the implementation of the ESOP for the TRENCO/Pirelli joint venture.

	WEEK
1. Appraisal/valuation system for enterprise price assessments.	3
2. Design of an approach (system) for upgrading valuations annually.	4
3. Design for an Ownership Participation Program.	7
4. Specifications for ESOP designs including criteria, standards, and checklist.	9
5. Schedule of events leading to and following transfers of ownership.	10
. Contracts and agreements:	
(a) ESOP Buyer and Seller	11
(b) Seller and Trust Manager (NIB)	12
(c) ESOP and Lender	13
(d) ESOP and Trust Manager	14
7. ESOP Accounting and Allocation Manual.	17
8. ESOP financial projections (and computer based system as mentioned in 11 (a) of Scope).	18
9. Cash liquidity system for projecting retirement and employee turnover needs.	18
10. Employee ESOP Manual.	20
11. Monthly and annual cash bonus program.	22
12. Complete document for attachment to the Project Paper.	26

V. TECHNICAL DIRECTION

Performance will be subject to the technical direction of Bruce L. Mazzie of the USAID Industry and Support Directorate, Office of Finance and Investment.

ANNEX D

LEGAL FRAMEWORK FOR THE INTRODUCTION OF EMPLOYEE OWNERSHIP TO EGYPT

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

9/6/88

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
A. CONTRACTUAL GOAL-LEVEL OBJECTIVES:			
1. ATC and TRENCO employees´ current income and retirement capital increased	1.1 ATC employees´ dividend income equals at least 100% of salaries starting by 10th year of operation 1.2 ATC employees´ retirement capital payout averages at least LE 30,000 each 1.3 TRENCO employees´ income from ATC dividends equals at least LE 800/yr starting by 10th year of operation 1.4 TRENCO employees´ retirement capital payout from ATC shares averages at least LE 4,800 each	1. ATC Employee Shareholders´ Association records	1.1 The financial targets of the ATC feasibility study are achieved, permitting loan reimbursement on schedule and employee dividend payments 1.2 ATC board follows a policy of maximum dividend payout (expansion mainly financed through borrowings rather than retained earnings)
B. EX-CONTRACT GOAL-LEVEL OBJECTIVES:*			
2. ATC productivity and profitability improved	2. High product quality and low wastage (due to increased employee motivation) result in exceeding the financial targets of the feasibility study starting in 1993.	2. ATC records	2. TRENCO management and Pirelli technical assistance are committed to the concept of employee problem-solving teams (creativity circles)
3. Additional ESOPs initiated in Egypt and other countries	3.1 At least 20 ESOPs in implementation or advanced design stages in Egypt by 1993 3.2 ESOPs in implementation or advanced design stages in at least 5 other developing countries by 1993	3. Egypt Equity Expansion Center records	3.1 GOE continues to support employee ownership and approves the legal measures necessary to encourage ESOPs 3.2 Other Middle Eastern and other LDC governments follow Egypt´s lead

* Goals implied by, but not a part of, the present consulting contract

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
A. CONTRACTUAL PURPOSE-LEVEL OBJECTIVES:			
1. NIB receives MIC loan and invests in 30.5% of ATC shares on behalf of employees	1. MIC loan of LE 42.1 M to NIB for investing in 30.5% of ATC founding shares approved by 9/88	1. MIC/NIB records	1.1 MIC approves the ATC loan to NIB 1.2 No other GOE entity objects to the NIB loan
2. ATC legally established, with ESOP represented on its board	2.1 ATC joint venture agreement and statutes signed by all investors in 9/88 and approved by Investment Authority by or before 12/88 2.2 ESOP steering committee formed by 8/88 (with labor representatives) and instructs the 3 NIB directors who temporarily vote the ESOP shares	2.1 ATC records	2.1 Joint Venture partners (esp. Pirelli) adhere to the Joint Venture Agreement and Statutes; Investment Authority approves the agreement without significant changes 2.2 TRENCO and the other founders agree to labor representation on the ESOP temporary Steering Committee
3. ATC Employee Shareholders' Association legally established	3. ATC ESOP bylaws approved by MIC and the Ministry for Social Affairs by 2/89	3. ATC ESOP records	3. The necessary approvals by MIC and Ministry of Social Affairs are obtained

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
4. ESOP Steering Committee functioning with employee + management + union involvement	4. ESOP Steering Committee (composed of TRENCO management, employee and union representatives, MIC and NIB) meets at least once a month starting 9/88 to discuss and approve the ESOP bylaws.	4. Minutes of Steering committee meetings	4.1 Employee and union representatives are included in the Steering Committee 4.2 Committee meetings attain the required quorum
B. EX-CONTRACT PURPOSE-LEVEL OBJECTIVES:			
5. Legal framework is established for creating other ESOPs	5. The Executive Regulations of the Company Law and the Model Statutes are amended by 6/89 to recognize and regulate employee shareholders' associations	5. The Official Gazette	5. The Council of State approves the amendments
6. A system of employee problem-solving teams (creativity circles) established at ATC	6.1 A Creativity Circles Committee (internal to ATC) is established by 6/91 and a facilitator is nominated 6.2 At least one employee problem-solving team is established for each division of the ATC production process 6.2 Circle members and leaders, facilitator committee, and ATC management are trained in applying the new system	6. Minutes of Creativity Circles Committee meetings	6. ATC management and Pirelli technical assistance actively support employee problem-solving

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

LEVEL 2: PURPOSE
PAGE 3

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
7. Egyptian ESOP consulting and investment banking capacity is established	7.1 One or more Egyptian legal firms, asset valuators and industrial relations experts are engaged by 1990 in self-generated ESOP consulting services 7.2 One or more Egyptian banks are involved by 1990 in self-generated ESOP investment banking activities 7.3 Transaction fees are charged on future ESOP deals to finance the costs of consulting and investment banking services	7. Records of the Egypt Equity Expansion Center	7. The principle of charging transaction fees for the establishment and financing of ESOPs is accepted

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
A. CONTRACTUAL OUTPUT-LEVEL OBJECTIVES:			
1. Loan, Pledge and Fiduciary Agreement for ATC ESOP loan prepared	1. All necessary documentation for the ATC ESOP transaction prepared, with participation of all interested parties, by 9/88	1. TRENCO files	1. Active involvement of TRENCO, MIC and NIB in formulation of the legal documents
2. A share valuation methodology, including procedures for updating, is established and applied to ATC	2.1 The U.S. methodology for valuating shares of non-publicly traded companies adapted to Egyptian accounting practices by 9/88 and applied to a hypothetical future ATC balance sheet 2.2 The valuation procedures codified in a valuation manual by 9/88	2. TRENCO files	2. (No important assumptions)
3. ESOP design specifications and employee participation program drafted and embodied in ATC ESOP bylaws	3.1 Design specifications for Egyptian ESOPs drafted 3.2 ATC ESOP bylaws, including the procedures for employee participation, formulated by 9/88 with the active participation of the ESOP Steering Committee	3. TRENCO files	3. Steering Committee is actively involved in formulation of the ESOP bylaws
4. ESOP time and sequence schedules prepared	4. A "performance network" showing the sequencing of all events planned in the present logical framework is established by 9/88	4. Center for Privatization consultants' report	4. (No important assumptions)

226

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

LEVEL 3: OUTPUTS
PAGE 2

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
5. ESOP accounting and allocation manual, including administrative forms, prepared	5. An ESOP accounting and allocation manual, sufficiently specific to be directly usable by the ATC ESOP, with all necessary forms, prepared by 9/88	5. USAID + TRENCO files	5. (No important assumptions)
6. ESOP financial projections and computer model prepared	6.1 A financial projection model for the ATC ESOP, showing loan repayments and dividend distributions, prepared by 8/88 6.2 The model is inserted into the computer spreadsheets of the ATC feasibility study by 8/88 to permit its timely updating	6. Report of consultants + TRENCO files	6. The spreadsheets of the ATC feasibility study are for multi-annual developed into a model ATC financial planning, which is utilized and updated
7. A methodology for projecting ESOP repurchase obligations established	7. A methodology for projecting ESOP repurchase obligations (including emplyee turnover coefficients and actuarial factors) is drafted, applied to TRENCO's existing work force, and formalized in a manual	7. Report of consultants + TRENCO files	7. The necessary employee actuarial and other coefficients are available for TRENCO
8. ESOP employee manual (with Arabic translation) composed	8. The operation of the ATC ESOP, including employees' rights and obligations, is written in a language which can be understood by TRENCO and ATC employees (including diagrams) and translated into Arabic	8. TRENCO files	8. TRENCO employees provide feedback to writing of the manual
9. Generic versions of all ATC ESOP documents prepared	9. Generic versions of all ATC ESOP composed by 9/88 and annexed to the privatization project paper	9. Report of consultants	9. (No important assumptions)
10. ATC employee bonus program designed	10. Bonus program designed to fit with goals of employee share ownership plan and of the employee problem-solving teams, drawing on TRENCO experience	10. ATC management + TRENCO files	10. Employees and union agree to the bonus scheme

227

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
B. EX-CONTRACT OUTPUT-LEVEL OBJECTIVES:			
11. Changes in Egyptian legislation which facilitate ESOPs are drafted	11. Draft amendments are made to the Executive Regulations of the Company Law, the Model Statutes and other relevant legal documents, to provide an adequte legal framework for ESOPs	11. Egyptian Equity Expansion Center and USAID files	11. The key GOE decision-makers consent to the proposed changes
12. System of employee prolem-solving teams designed	12. Creativity circles program is designed as soon as manufacturing operations start	12. Reports of consultants + ATC files	12. ATC management and Pirelli technical assistance are interested in establishing employee problem-solving teams
13. Egyptian Equity Expansion Center established for technical assistance to and promotion of employee ownership	13. USAID funding approved for FY 89 and Center establish- by 1/89, with expatriate and Egyptian professionals (legal, financial and employee communications specialists)	13. USAID records	13. The necessary funding is approved by USAID/WASH and USAID/Cairo
14. Egyptian ESOP consultants trained on the job	14.1 The Egypt Equity Expansion Center establishes by 12/89 subcontracts with Egyptian legal firm(s), valuator(s) and industrial relation expert(s) 14.2 The Egyptian Equity Expansion Center initiates by 12/89 at least 3 leveraged ESOPs in which Egyptian bank(s) undertake investment banking functions	14. Records of the Egypt Equity Expansion Center	14. The Egypt Equity expansion center has sufficient budget to engage consultants
15. Key Egyptians make a study tour to U.S. model ESOPs	15. A delegation of at least 20 Egyptians, including GOE decision-makers (MIC, Min. of Economy, Investment Authority, etc.), union leaders, and chairmen of companies which are ESOP candidates, make by 12/88 a two-week visit to U.S. model ESOPs	15. USAID records	15. Financing for the study tour is approved by USAID

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
16. Egyptian, regional and international ESOP conferences held	16.1 At least 3 short seminars arranged in Egypt in 1989 to broadcast the ATC experience and promote other ESOPs 16.2 A Middle Easern ESOP conference held in Egypt in 1989 to promote ESOP in other Islamic countries 16.3 A international ESOP conference organized in 1989 with the participation or key decision-makers from Middle Eastern, Asian, Latin American and African countries	16. USAID records	16. USAID approves apportunely the budget for seminars and conferences
17. An ESOP implementation manual is written for USAID/ Washington	17. A "How-to-do-it" manual for implementation of ESOPs in developing countries is composed by 12/1989, with international participation	17. USAID/ Washington records	17. USAID/Washington is ready to defray the costs of writing the manual

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

LEVEL 4: ACTIVITIES
PAGE 1

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
A. CONTRACTUAL ACTIVITIES:			
1. Meet ATC founders and TRENCO executives	1. A series of meetings with TRENCO directors, and with National Bank of Egypt as representative of the other founders, in 6/88	1. Activity report of consultant team	1. The key persons involved in establishing ATC are genuinely commited to installing employee ownership
2. Dialogue with employees, board members, executives, lenders, GOE, labor unions	2. A series of meetings in 7/88 to obtain the involvement, from the start, of: (a) Key GOE decision-makers (Ministers of International Cooperation, Industry and Economy, their legal counsels, undersecretaries in charge of investments, the Investment Authority) (b) The financial intermediaries (in this case, NIB deputy chairman and legal counsels) (c) Prospective members of the ATC board of directors (d) Employee representatives (e) Union officials at the local and national levels	2. Activity report of consultant team	2. All of the parties involved are supportive in principle (or at least tolerant of) employee personal share ownership
3. Assist in structuring the deal for ESOP share acquisition	3. Write in 7/88 the necessary financial documents (Loan Agreement, Pledge Agreement, Fiduciary Agreement, etc.) with inputs from all of the interested parties (an iterative process)	3. Texts of the Loan, Pledge and Fiduciary Agreements	3.1 Creative solutions can be found to the legal problems which are certain to occur in the setting up of new structures 3.2 The key government and banking decision-makers are ready to accept such innovative procedures
4. Assist in establishing an ATC board of directors with ESOP representation	4. Obtain in 7/88 the consent of ATC founders to accept employee representation on the ESOP Steering Committee, and to allow the Steering Committee to direct NIB in voting the ESOP shares	4. Text of ESOP bylaws and Fiduciary Agreement	4. ATC founders are willing to give employee representatives a voice in voting the shares held in trust for the employees

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

LEVEL 4: ACTIVITIES
PAGE 2

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
5. Perform ESOP valuations and financial projections	5.1 Appraise ATC stock 5.2 Establish methodology for future appraisals 5.3 Perform computerized ESOP financial projections 5.4 Establish a methodology for calculating ESOP repurchase obligations (These tasks should be completed in 9/88)	5. Activity report of consultant team + TRENCO files	4. Sufficient data is available for doing trustworthy valuations and financial projections
6. Write ESOP documentation	6.1 Develop ESOP specifications 6.2 Draft loan + share acquisition agreements 6.3 Draft Employee Shareholders' Association bylaws 6.4 Compose a time and sequence table for all ESOP activities 6.5 Write ESOP accounting and allocation manual, including forms 6.6 Compose ESOP administrative checklist 6.7 Prepare ESOP employee handbooks 6.8 Design ESOP productivity bonus program (These tasks should be completed in 9/88)	5. Documents produced by consultant team	5. The parties concerned have the time and interest to participate actively through reiterative feedback in the preparation of the necessary documents
7. Carry out training sessions for ESOP administrators	7. Hold in 9/88 a series of meetings with the persons who will be responsible for administrating the TRENCO ESOP, for thoroughly explaining the ESOP bylaws, accounting and allocation manual and administrative forms	7. Activity report of consultant team	7. Relevant TRENCO administators can be identified and have the time and interest to participate in the training sessions
8. Explain the ESOP to employee representatives	8. Hold in 9/88 a series of meetings with the elected members of the TRENCO board, and peferably with TRENCO first-line supervisors (possibly also a meeting of TRENCO Chairman with the entire work force)	8. Activity report of consultant team	8. TRENCO management will schedule the meetings

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
9. Establish ESOP communications program + develop ESOP materials in Arabic	9.1 Set by 9/88 a calender for continus ESOP communications, starting with existing TRENCO employees 9.2 Have the key documents (ESOP bylaws, accounting + allocation manual, forms, employee handbooks) translated to Arabic by 10/88	9. Activity report of consultant team and Arabic documents produced	9. Consultants' time and budget resources suffice for completing this activity, which necessarily comes at the end of the assignment
10. Design employee statements and reports	10. Design by 10/88 Arabic forms (possibly printed on a background resembling a share certificate) for the personal employee statements and standard ESOP reports	10. Forms and standard reports (TRENCO)	10. (No important assumptions)
11. Debriefing seminars in USAID/Cairo, USAID/Washington, Center for Privatization, etc.	11. Seminars in USAID/Cairo, USAID/Washington, Center for Privatization, etc. (throughout the assignment) for explaining the achievements of the consultancy and the necessary follow-up	11. Activity report of consultant team	11. (No important assumptions)
B. <u>EX-CONTRACT ACTIVITIES</u>			
12. Draft changes in legislation needed to promote ESOPs in Egypt	12. Draft the amendments to the existing legislation which are necessary to create in Egypt an adequate legal framework for ESOPs	12. The draft amendments	12. USAID/Cairo is willing to support the cost of local and international legal expertise required

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
13. Select and coordinate Egyptian consultants	13.1 Select at the earliest possible stage a highly qualified Egyptian corporate lawyer with extensive government experience and credibility, to adapt the ESOP concepts to the Egyptian legal structure 13.2 Cultivate throughout the assignment relations with Egyptian laywers, financial advisors and investment bankers and select those who are genuinely committed to employee ownership for participation in later phases of the ESOP program	13. Activity report of consultant team	13. USAID budget permits the contracting of suitably qualified local consultant(s), whose fee requirements may exceed the usual USAID limits
14. Contact potential ESOP companies	14. Develop throughout the assignment relations with chief executive officers and other key officials of companies which are interested in "going ESOP", to assess their commitment and the companies' ESOP potential	14. Activity report of consultant team	14. (No important assumptions)
15. Design a program for employee problem-solving	15. Insist throughout the assignment on the importance of employee problem-solving teams (creativity circles) as a necessary complement to the ESOP for increasing productivity and profitability	15. Activity report of consultant team	15. TRENCO management and potential ATC management are open to the concept of employee problem-solving teams
16. Proposals drafted for: (a) Egyptian Equity Expansion Center (b) ESOP study tour to U.S. (c) ESOP conferences	16. Proposals drafted by 9/88 for: (a) Egyptian center for ESOP promotion and technical assistance; (b) Study tour for key Egyptians to model ESOPs in U.S.; (c) Egyptian, regional and international ESOP conferences	16. USAID files	16. USAID/Cairo leadership supports the idea of organizing ESOP conferences
17. Start preparation of an ESOP manual for USAID/WASH	17.1 Write the generic versions of the ESOP documents so they can have the widest replicability 17.2 Be on the lookout for other potential contributors to a manual for implementation of ESOPs in developing countries	17. Activity report of consultant team	17. There exist ESOP-like experiences in other developing countries from which useful experiences may be learned

LOGICAL FRAMEWORK FOR ESTABLISHMENT OF AN ESOP AT THE ALEXANDRIA TIRE COMPANY

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	DATA SOURCES	IMPORTANT ASSUMPTIONS
A. CONTRACTURAL INPUTS:			
1. International consultants	1. Total level of effort of 96 work days	1. The CFP contract (as amended)	1. All consultants are available when needed and willing to fulfill the assignment
2. Egyptian consultant(s)	2. Deliverables as indicated in the Egyptian legal advisor's scope of work	2. The local advisor's scope of work	2. The problems related to the remuneration of a suitably qualified local consultant are resolved
3. Other resources of the Center for Privatization contract	3. Per diem, travel, support staff, translation and resources as per the CFP contract	3. The CFP contract	3. The budgeted resources are sufficient for the task
4. USAID/CAIRO resources	4.1 Counterpart(s) for participation in meetings and desk officer support 4.2 Inter-urban transportation 4.3 Some secretarial assistance	4. The CFP contract	4. USAID/Cairo can provide the promised support, in view of its other constraints
5. TRENCO resources	5.1 Maximal involvement of key TRENCO management personnel (chairman, financial director and legal counsel) 5.2 Some transport facilities	5. Activity report of consultant team	5. The key TRENCO management personnel can continue this level of involvement after the establishment of ATC, in view of their other obligations

ANNEX E

ATC ESOP FINANCIAL PROJECTIONS

ATC ESOP FINANCIAL PROJECTIONS (IN LE 1000)

PROJECT YEAR	1	2	3	4	5	6	7	8	9
1-NET INCOME (Annex 3 of Feas. study)	0	0	0	2,617	8,861	29,174	37,654	42,574	47,371
2-PERCENTAGE OF NET INCOME DISTRIBUTED	0	0	0	0	25%	70%	70%	70%	70%
3-TOTAL DIVIDENDS (Annex 4 of Feas. study)	0	0	0	0	2,215	20,421	26,358	29,802	33,159
4-ESOP DIVIDENDS = 30.5% OF TOTAL DIVIDENDS	0	0	0	0	786	7,249	9,357	10,580	11,771
5-LOAN INSTALMENTS	0	0	0	0	0	0	4,620	4,620	4,620
6-ESOP FIDUCIARY (NIB) FEES	42	42	42	42	42	42	42	42	42
7-ESOP MANAGEMENT FEES	84	84	84	84	84	84	84	84	84
8-NET ESOP INCOME = (4)-(5)-(6)-(7)	(126)	(126)	(126)	(126)	660	7,123	4,611	5,834	7,025
9-ESOP REPURCHASE RESERVES = 25% OF (8)	0	0	0	0	165	1,781	1,153	1,458	1,756
10-ESOP DIVIDEND DISTRIBUTION = 75% OF (8)	0	0	0	0	495	5,343	3,458	4,375	5,269
11-DISTRIBUTIONS TO ATC EMPLOYEES = 60% OF (10)	0	0	0	0	297	3,206	2,075	2,625	3,161
12-DISTRIBUTIONS TO TRENCO EMPLOYEES =40% OF (10)	0	0	0	0	198	2,137	1,383	1,750	2,108
13-LOAN PRINCIPAL OUTSTANDING	10,525	31,575	42,100	42,100	42,100	42,100	37,890	33,680	29,470
14-AVAILABLE ESOP RESERVES = LINE (9) CUMULATIVE	(125)	(252)	(378)	(504)	(339)	1,442	2,595	4,053	5,810

PROJECT YEAR	10	11	12	13	14	15	16	17	18
1-NET INCOME (Annex 3 of Feas. study)	61,758	65,668	70,252	74,405	52,938	64,035	68,233	70,219	72,250
2-PERCENTAGE OF NET INCOME DISTRIBUTED	70%	70%	70%	70%	70%	70%	70%	70%	70%
3-TOTAL DIVIDENDS (Annex 4 of Feas. study)	43,231	45,968	49,176	52,083	37,057	44,825	47,763	49,153	50,575
4-ESOP DIVIDENDS = 30.5% OF TOTAL DIVIDENDS	15,347	16,319	17,457	18,483	13,155	15,913	15,956	17,449	17,954
5-LOAN INSTALMENTS	4,620	4,620	4,620	4,620	4,620	4,620	4,620	0	0
6-ESOP FIDUCIARY (NIB) FEES	42	42	42	42	42	42	42	42	42
7-ESOP MANAGEMENT FEES	84	84	84	84	84	84	84	84	84
8-NET ESOP INCOME = (4)-(5)-(6)-(7)	10,601	11,573	12,711	13,743	8,409	11,167	12,210	17,323	17,828
9-ESOP REPURCHASE RESERVES = 25% OF (8)	2,650	2,893	3,178	3,436	2,102	2,792	3,052	4,331	4,457
10-ESOP DIVIDEND DISTRIBUTION = 75% OF (8)	7,951	8,679	9,534	10,308	6,307	8,375	9,157	12,992	13,371
11-DISTRIBUTIONS TO ATC EMPLOYEES = 60% OF (10)	4,770	5,208	5,720	6,185	3,784	5,025	5,494	7,795	8,023
12-DISTRIBUTIONS TO TRENCO EMPLOYEES =40% OF (10)	3,180	3,472	3,813	4,123	2,523	3,350	3,663	5,197	5,348
13-LOAN PRINCIPAL OUTSTANDING	25,260	21,050	16,840	12,630	8,420	4,210	0	0	0
14-AVAILABLE ESOP RESERVES = LINE (9) CUMULATIVE	8,460	11,353	14,531	17,967	20,069	22,861	25,913	30,244	34,701

NOTES

LINE 6 :FIDUCIARY FEES ESTIMATED AT 0.1% OF LOAN PRINCIPAL (LE 42.1 MILL.) PER YEAR
LINE 7 : ESOP MANAGEMENT FEES ESTIMATED AT 0.2% OF LOAN PRINCIPAL PER YEAR.
LINE 9 & 10 : NOT SHAWING OPERATING DEFICIT IN FIRST 4 YEARS.
LINE 13: 25% OF LOAN DISBURSED IN YEAR 1,50% IN YEAR 2 AND 25% IN YEAR 3. PRINCIPAL REPAYMENTS OF LE 4,200,000 IN YEARS 7 THROUGH 16.
LINE 14 : LINE (9) CUMULATIVE LESS OPERATILS DEFICIT IN FISRT 4 YEARS.

ANNEX F

PRELIMINARY
SOCIAL SOUNDNESS ANALYSIS

PRELIMINARY SOCIAL SOUNDNESS ANALYSIS 27/8/88

OF THE INSTALLATION OF ESOPS IN EGYPT

A. INTRODUCTION

USAID is currently engaged in the process of introducing to Egypt employee share ownership in productive enterprises by the use of employee-oriented credit. This is done through legal structures inspired by the U.S. ESOPs (Employee Stock Ownership Plans) but adapted to the Egyptian legal and social realities. The pilot project in this process is the allocation of LE 42.1 million in Special Account credit to acquire for employees 30.5% of the shares of the new Alexandria Tire Company (ATC). USAID and MIC (Ministry of International Cooperation), by means of an amendment dated 8/18/88 to the Memorandum of Understanding regarding uses of Special Account funds, have earmarked LE 100 million to such employee-oriented credits (and to contractor claims). Since that date, MIC has apparently received over 100 inquiries from companies interested in obtaining credit through the sale of shares to employees. At this point, it is legitimate to consider what may be the social impact of the introduction of employee ownership on a significant scale in Egypt.

B. EXPECTED SOCIAL IMPACT OF THE ECONOMIC EFFECTS OF ESOPS

Significant employee ownership will substantially increase the employees' income. In the case of ATC employees, their dividend income at full production is projected to exceed their wage income; in addition, they are expected to retire with an average of over LE 30,000 each from the sale of their allocated shares back to the ESOP.

The U.S. experience indicates that significant employee ownership can generate substantial increases in employment generation and profitability. Research has shown that a company which installs an ESOP is expected after 10 years to have 33% higher sales, and50% more employees, than the same company without an ESOP. Other studies have shown that companies with employee ownership in the U.S. and in Canada are 50% and 92% respectively more profitable than their non-employee-owned competitors.

The ownership of a block of shares by employees means that the block of shares in question, and the corresponding profits, will not belong to a smaller group of persons who are already sufficiently well off to make industrial investments. Thus, in a private-sector enterprise, employee ownership necessarily improves income distribution.

The higher employee income and better income distribution are likely to increase market demand, especially for goods of popular consumption which are mostly produced in Egypt. This will stimulate the rest of the economy, creating more employment and consumption in the process.

These positive economic effects are bound to have favorable social effects: more old-age security through capital ownership, more disposable income for nutritional improvements, health, education, etc. Popular satisfaction and adhesion to GOE leadership are likely to increase.

B. EXPECTED IMPACT ON WORK-PLACE RELATIONS

In ESOP companies, management and the work force have a common interest as shareowners. U.S. experience has shown that this has a markedly positive effect on industrial relations. Increased worker satisfaction is evidenced by the decrease in strikes and absenteeism.

It must be stressed, however, that the success of an ESOP in a given company depends on the commitment of the company's top management to employee ownership. Management must be ready to invest considerable efforts in explaining the system to the workers, and in taking their feedback into consideration. It must also feel comfortable with the presence of employee representatives on the company's board of directors. This implies that management must have, from the very beginning, a consultative rather than an authoritarian management style. For the ESOPs to succeed, candidate ESOP companies should be carefully screened to assure that their top management has the right attitude.

C. CULTURAL APPROPRIATENESS OF ESOPS IN EGYPT

Employee ownership seems to be very appropriate to the Egyptian cultural setting. Numerous decision-makers have expressed to the consultant team their feeling that employee ownership fits in very well with Islamic ideas of economic justice. These ideas stress that private ownership of property must be combined with wider distribution of benefits (expressed, for example, in the religiously prescribed Zakat contributions for the benefit of the poor), and that economic relations must create social harmony.

Insofar as generalizations can be made, the Egyptian style of decision-making is less confrontational than the U.S. style and places more emphasis on consensus-building. In the U.S., even the highest authorities are subject to continuous checks and balances (e.g. through Congressional commissions). In the Arab context the authorities have perhaps a more decisive power; but this is offset by an implicit moral obligation of the authorities to take the opinion of their subjects into consideration and togenerate the widest possible consensus before the authoritative decision is announced. This consensus-building style of leadership will be strengthened by the community of economic interests between workers and management created by employee ownership.

D. CONCLUSION

Based on the above considerations and on Egyptian responses up to the present, widespread employee ownership is culturally appropriate in Egypt and likely to generate only positive social effects, provided that top company management has a genuine commitment to the principle of employee ownership from the start. These expectations of a positive impact must be confirmed by the installation of ESOPs in a number of functioning Egyptian enterprises.

ANNEX G

SELECTION AND ROLE OF EGYPTIAN ESOP LEGAL COUNSEL

ANNEX H

LEGAL ALTERNATIVES FOR ESTABLISHING ESOPS IN EGYPT

ANNEX I

LEGAL OPINION REGARDING THE EMPLOYEE ASSOCIATION AS ESOP VEHICLE

ANNEX J

ESOP ACCOUNTING AND ADMINISTRATION

R. K. SCHAAF ASSOCIATES
INCORPORATED

Consultants & Administrator:
ESOP · Profit Sharing · Pension

July 6, 1988

23622 Calabasas Road, Suite 337 • Calabasas, CA 91302-1549
818 / 346-3371 • 800/826-9625 • Outside California 800 / 772-7776
FAX 818/346-0215

Mr. Norman Kurland
EQUITY EXPANSION INTERNATIONAL
4318 North 31st Street
Arlington, Virginia 22207

Dear Mr. Kurland:

Thank you again for your call yesterday. Pursuant to your request I am enclosing one of our sample allocations report and participation statement packages we normally send to prospective clients.

These samples serve as an illustration of the basic formats we use for many of our clients. Most clients' reports are modified to meet their particular needs and desires. We also typically list more than one company stock account in the allocations report as needed to keep track of pre-1987 and post-1986, leveraged and non-leveraged and other stock classifications. This is quite easy because we write our own computer programs.

Other than this package we do not have any marketing literature. Because all our clients come to us by referral we find it more effective to concentrate on providing the best possible services.

Our annual plan administration services fee is approximately $1,250.00 plus $21.00 per participant. For smaller plans we reduce the $1,250.00 basic fee and for larger plans the $21.00 per participant fee. Before quoting a fee to a potential client we like to be sure we know what kind of plan or plans they have and what transactions are contemplated. We bill our clients after the work for the year has been completed. We do not charge any other fees during the year unless we are asked to complete some special project which is not part of the normal plan maintenance requirements.

Unfortunately, I did not find the "Economist" article dealing with E.S.O.P.'s in England. I believe it was an early June issue and must have been discarded.

Please don't hesitate to call me if we can be of service to you or your clients, or if we can provide you with any additional information.

Cordially yours,

Rainer K. Schaaf

RKS/wh
enclosures

245

R. K. SCHAAF ASSOCIATES
INCORPORATED

Consultants & Administrators
ESOP - Profit Sharing - Pension

23622 Calabasas Road, Suite 337 • Calabasas, CA 91302-1549
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FAX 818/346-0215

ANNUAL PLAN ADMINISTRATION SERVICES (ESOP)

A. Annually provide the following services:

1. Analyze employer contributions and forfeitures of cash and/or company stock, ascertain investment gains or losses, allocate each to participants' accounts and value each participant's accounts. Verify compliance with ERISA, TEFRA, DEFRA and REA rules. Determine "Top Heavy" status of the Plan.

2. Where a leveraged purchase of company stock or other use of the Trust is involved, we determine the cost basis of stock purchases, prepare allocations to participants' accounts to record payments of principal and interest and the rights of participants to shares purchased.

3. Prepare an annual allocations report with complete year end accounting of the Plan allocations and listings of all employees on our data files.

4. Prepare an attractive Participation Statement which is individually computed for each participant's accounts. It shows beginning balances, the various transactions during the year, the ending balances in each account, with the current vested percentage and vested value. We can also list other benefits.

B. During the year we provide the following services:

1. Compute all distributions payable to terminated, retired or deceased participants.

2. Prepare year end statements computing the taxability of terminated participants' distributions which are needed by the Trustee. For individual Trustees, we prepare the IRS forms 1099.

3. Consultation on Plan questions, proposed amendments and other matters relating to qualified Plans.

C. We prepare all required reporting forms for the Plan, including:

1. All required Internal Revenue Service forms and Department of Labor reports.

2. All other required reports to be distributed to participants and beneficiaries.

246

YOUR FAVORITE CORPORATION

EMPLOYEE STOCK OWNERSHIP PLAN

ALLOCATIONS REPORT FOR Y/E 12-31-86

YOUR FAVORITE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN PAGE NO. 1
ALLOCATIONS REPORT FOR Y/E 12-31-86 VALUE PER SHARE LAST YEAR = $7.50 THIS YEAR = $10.00

NAME SOC.SEC.NO.	CODE	PARTICIPANT DATA	OTHER INV. ACCOUNT	SHS. IN CO. STOCK ACCT.	STOCK COST BASIS	YRS. SERV. ALLOC/COMP. PERC. VEST.
ALLEN, ROBERT						
123-45-6789	A	12-10-43 (DOB)				
12-31-85 BALANCES		02-15-85 (DOH)	$ 0.00	0.0000	$ 0.00	
INTEREST - EXPENSES		01-01-86 (DOP)	0.00	0.0000	0.00	
CO.STOCK TRANSACTION			-1,200.00	120.0000	1,200.00	
V.I. DISTRIBUTIONS		- - (DOT)	0.00	0.0000	0.00	
FORFEITURES			130.11	12.1633	85.14	2
CO. CONTRIBUTIONS		$8,000.00 (COMP)	1,200.00	0.0000	0.00	18.15%
12-31-86 BALANCES			$ 130.11	132.1633	1,285.14	0.00%
TOTAL VALUE OF ACCOUNTS IS		$1,451.74	VESTED VALUE OF ACCOUNTS IS			$0.00
BERMAN, LYNN WAS 'JONES' * T3-15-85,H5-18-85						
234-56-7890	A	09-15-39 (DOB)				
12-31-85 BALANCES		12-15-83 (DOH)	$ 1,567.98	134.7770	$ 943.44	
INTEREST - EXPENSES		01-01-84 (DOP)	149.37	0.0000	0.00	
CO.STOCK TRANSACTION			-1,500.00	150.0000	1,500.00	
V.I. DISTRIBUTIONS		- - (DOT)	0.00	0.0000	0.00	
FORFEITURES			162.63	15.2041	106.43	3
CO. CONTRIBUTIONS		$10,000.00 (COMP)	1,500.00	0.0000	0.00	18.15%
12-31-86 BALANCES			$ 1,879.98	299.9811	$ 2,549.87	10.00%
TOTAL VALUE OF ACCOUNTS IS		$4,879.79	VESTED VALUE OF ACCOUNTS IS			$487.98
COLLINS, DONALD 10% V.I. PAID Y/E 86						
345-67-8901	T	09-21-39 (DOB)				
12-31-85 BALANCES		11-10-82 (DOH)	$ 1,798.37	141.3980	$ 989.79	
INTEREST - EXPENSES		01-01-83 (DOP)	0.00	0.0000	0.00	
CO.STOCK TRANSACTION			0.00	0.0000	0.00	
V.I. DISTRIBUTIONS		02-15-86 (DOT)	-285.89	0.0000	0.00	
FORFEITURES			-1,512.48	-141.3980	-989.79	3
CO. CONTRIBUTIONS		$0.00 (COMP)	0.00	0.0000	0.00	0.00%
12-31-86 BALANCES			$ 0.00	0.0000	$ 0.00	0.00%
TOTAL VALUE OF ACCOUNTS IS		$0.00	VESTED VALUE OF ACCOUNTS IS			$0.00

YOUR FAVORITE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN
ALLOCATIONS REPORT FOR Y/E 12-31-86 VALUE PER SHARE LAST YEAR = $7.50 THIS YEAR = $10.00

NAME SOC.SEC.NO.	CODE	PARTICIPANT DATA	OTHER INV. ACCOUNT	SHS. IN CO. STOCK ACCT.	STOCK COST BASIS	YRS. SERV. ALLOC/COMP. PERC. VEST.
LEE, ROGER						
901-23-4567	A	11-29-35 (DOB)				
12-31-85 BALANCES		08-09-82 (DOH)	$ 4,957.15	369.8030	$ 2,588.62	
INTEREST - EXPENSES		01-01-83 (DOP)	472.23	0.0000	0.00	
CO.STOCK TRANSACTION			-3,750.00	375.0000	3,750.00	
V.I. DISTRIBUTIONS		- - (DOT)	0.00	0.0000	0.00	
FORFEITURES			406.58	38.0102	266.07	4
CO. CONTRIBUTIONS		$25,000.00 (COMP)	3,750.00	0.0000	0.00	18.15%
12-31-86 BALANCES			$ 5,835.96	782.8132	$ 6,604.69	40.00%
TOTAL VALUE OF ACCOUNTS IS		$13,664.09	VESTED VALUE OF ACCOUNTS IS		$5,465.64	
SMITH, BERNARD	OFFICER & SHAREHOLDER * REACHED NORMAL RETIREMENT AGE					
012-34-5678	AK	07-15-19 (DOB)				
12-31-85 BALANCES		01-05-76 (DOH)	$ 8,119.98	714.0220	$ 4,998.15	
INTEREST - EXPENSES		01-01-80 (DOP)	773.52	0.0000	0.00	
CO.STOCK TRANSACTION			-7,500.00	750.0000	7,500.00	
V.I. DISTRIBUTIONS		- - (DOT)	0.00	0.0000	0.00	
FORFEITURES			813.16	76.0204	532.15	11
CO. CONTRIBUTIONS		$50,000.00 (COMP)	7,500.00	0.0000	0.00	18.15%
12-31-86 BALANCES			$ 9,706.66	1,540.0424	$ 13,030.30	100.00%
TOTAL VALUE OF ACCOUNTS IS		$25,107.08	VESTED VALUE OF ACCOUNTS IS		$25,107.08	
TOTAL						
12-31-85 BALANCES		(DOH)	$ 16,443.48	1,360.0000	$ 9,520.00	
INTEREST - EXPENSES		(DOP)	1,395.12	0.0000	0.00	
CO.STOCK TRANSACTION			-13,950.00	1,395.0000	13,950.00	
V.I. DISTRIBUTIONS		(DOT)	-285.89	0.0000	0.00	
FORFEITURES			0.00	0.0000	0.00	0
CO. CONTRIBUTIONS		$93,000.00 (COMP)	13,950.00	0.0000	0.00	15.00%
12-31-86 BALANCES			$ 17,552.71	2,755.0000	$ 23,470.00	0.00%
TOTAL VALUE OF ACCOUNTS IS		$45,102.71	VESTED VALUE OF ACCOUNTS IS		$31,060.70	
TOTAL FORFEITURES ALLOCATED WERE			$ 1,512.48	141.3980	$ 989.79	

YOUR FAVORITE CORPORATION

EMPLOYEE STOCK OWNERSHIP PLAN

12-31-86 PARTICIPANT DATA FILE LISTING

YOUR FAVORITE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN
12-31-86 PARTICIPANT DATA FILE LISTING PAGE NO. 1

EMPLOYEE NO.	NAME SOC.SEC.NO.	PERC. VEST.	AC. CD.	YRS. SERV.	DOB	DOH	DOP	DOT	COVERED COMPENSATION
	ALLEN, ROBERT								
.....	123-45-6789	0	A	2	12-10-43	02-15-85	01-01-86		8,000.00
	BERMAN, LYNN			WAS 'JONES' • T3-15-85,H5-18-85					
.....	234-56-7890	10	A	3	09-15-39	12-15-83	01-01-84		10,000.00
	COLLINS, DONALD			10% V.I. PAID Y/E 86					
.....	345-67-8901	0	T	3	09-21-39	11-10-82	01-01-83	02-15-86	0.00
	LEE, ROGER								
.....	901-23-4567	40	A	4	11-29-35	08-09-82	01-01-83		25,000.00
	SMITH, BERNARD			OFFICER & SHAREHOLDER • REACHED NORMAL RETIREMENT AGE					
.....	012-34-5678	100	AK	11	07-15-19	01-05-76	01-01-80		50,000.00
	TOTAL								
.....		0		0					93,000.00

251

YOUR FAVORITE CORPORATION

EMPLOYEE STOCK OWNERSHIP PLAN

DATA REQUEST REPORT FOR Y/E 12-31-87

YOUR FAVORITE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN
DATA REQUEST REPORT FOR Y/E 12-31-87 PAGE NO. 1

NAME / SOC.SEC.NO.	LAST YEAR'S AC. CD.	PERC. VEST.	YEARS SERV.	D.O.B. / D.O.H.	MISC.PART.INFORMATION / D.O.P.	D.O.T.	COVERED /COMPENSATION/	HOURS OF SERVICE 0 - / 500/	501- / 999/	1000/ + /	OTHER DATA & / KEY EMPLOYEE INF.
ALLEN, ROBERT				12-10-43							
123-45-6789	A	0%	2	02-15-85	01-01-86		$	/	/	/	/
BERMAN, LYNN				09-15-39	WAS 'JONES' * T3-15-85,H5-18-85						
234-56-7890	A	10%	3	12-15-83	01-01-84		$	/	/	/	/
COLLINS, DONALD				09-21-39	10% V.I. PAID Y/E 86						
345-67-8901	T	0%	3	11-10-82	01-01-83	02-15-86	$	/	/	/	/
LEE, ROGER				11-29-35							
901-23-4567	A	40%	4	08-09-82	01-01-83		$	/	/	/	/
SMITH, BERNARD				07-15-19	OFFICER & SHAREHOLDER * REACHED NORMAL RETIREMENT AGE						
012-34-5678	AK	100%	11	01-05-76	01-01-80		$	/	/	/	/ KEY EMPL.

*** LIST NEW PARTICIPANTS STARTING ON THE NEXT PAGE ***

253

YOUR FAVORITE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN
DATA REQUEST REPORT FOR Y/E 12-31-87 PAGE NO. 2

LIST NEW PARTICIPANTS BELOW - PLEASE REVIEW COVER LETTER AND INDICATE VESTING YEARS OF SERVICE COMPLETED THROUGH PRIOR YEAR END & KEY EMPLOYEE STATUS. PLEASE CALL US IF YOU HAVE ANY QUESTIONS.

NAME SOC.SEC.NO.	LAST YEAR'S YRS.OF SERV.	D.O.B. D.O.H.	MISC.PART.INFORMATION D.O.P.	D.O.T.	COVERED /COMPENSATION/	HOURS OF SERVICE 0 -/ 500/	501-/ 999/	1000/ + /	OTHER DATA & KEY EMPLOYEE INF.
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/
	Y.OF S=/.../				$	/	/	/	/

254

YOUR FAVORITE CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN
PARTICIPATION STATEMENT

FOR **BERNARD SMITH** FOR THE YEAR ENDING DECEMBER 31, 1986

	OTHER INVESTMENTS ACCOUNT	COMPANY STOCK ACCOUNT
THE BALANCES IN YOUR ACCOUNTS AS OF 12-31-85	$ 8,119.98	714.0220 SHARES
EARNINGS AND EXPENSES ALLOCATED TO YOUR ACCOUNTS	773.52	0.0000
COMPANY STOCK PURCHASES ALLOCATED TO YOUR ACCOUNTS	-7,500.00	750.0000
VESTED INTEREST DISTRIBUTIONS PAID TO YOU	0.00	0.0000
FORFEITURES ALLOCATED TO YOUR ACCOUNTS	813.16	76.0204
THE COMPANY'S CONTRIBUTIONS FOR THE YEAR	7,500.00	0.0000
THE BALANCES IN YOUR ACCOUNTS AS OF 12-31-86	$ 9,706.66	1,540.0424 SHARES

EACH SHARE OF THE COMPANY'S COMMON STOCK ALLOCATED TO YOUR ACCOUNT HAD A VALUE OF $10.00 AS OF 12-31-86, AS COMPARED TO $7.50 AS OF 12-31-85.

THE TOTAL VALUE OF YOUR EMPLOYEE STOCK OWNERSHIP PLAN ACCOUNTS WAS $25,107.08

YOUR VESTED PERCENTAGE AS OF 12-31-86 WAS 100.00%

THE VESTED VALUE OF YOUR PLAN ACCOUNTS AS OF 12-31-86 WAS $25,107.08

YOUR VESTED INTEREST IS SUBJECT TO AUDIT UPON YOUR TERMINATION OF EMPLOYMENT. THE PLAN COMMITTEE MAY DIRECT THE TRUSTEE TO USE ANY AMOUNTS IN YOUR OTHER INVESTMENTS ACCOUNT TO PURCHASE COMPANY STOCK. ANY STOCK PURCHASED WILL BE REFLECTED IN YOUR COMPANY STOCK ACCOUNT.

ANNEX K

VALUATION ISSUES RELATED TO THE ESTABLISHMENT OF ESOPS IN EGYPT

256

ANNEX L

FUNDING OF ESOP REPURCHASE LIABILITY

Ronald J. Gilbert

ESOP SERVICES INCORPORATED

President

July 6, 1988

Mr. Norman G. Kurland
President
Center for Economic and Social Justice
4318 North 31st Street
Arlington, VA 22207

Dear Norman,

As we discussed, I am enclosing some sample results from a recent liquidity study we have performed for a client. We provide these studies both as part of a feasibility study for a proposed ESOP, and for established ESOPs. The questionnaire that I have enclosed is for proposed ESOPs, and differs only slightly from the questionnaire for established ESOPs.

The sample I have enclosed does not include the narrative that our normal package contains, and the report is somewhat abbreviated. However, it is representative of the most recent update of our program.

Our normal liquidity study fee is $1,000 for companies with 100 or fewer participants. There is an increased fee for companies with more then 100 participants. However, because of my strong interest in and support of the work of CESJ, I propose that we structure a special reduced fee arrangement for your international clients. We would also provide you the first liquidity run for up to 100 actual participants or an unlimited number of projected participants, at no charge. (Our program has the ability to create a census of projected future employees using assumptions given to us by the company.)

Jefferson National Bank Building • Post Office Box 400 • Scottsville, Virginia 24590
Greensboro • London • Los Angeles • New York
Richmond • Roanoke • San Francisco • Syracuse • Washington, D.C.
804-286-3130 FAX 804-286-3815

Mr. Norman G. Kurland
July 6, 1988
Page Two

Not only does our program have the capability of incorporating all of the 1986 Tax Act changes, but additional changes or modifications that may well be required by the differences you will probably be encountering in different international ESOPs can readily be made. I am certain that we would want to redesign our questionnaire for the same reasons, and this also can readily be accomplished.

Please don't hesitate to call or FAX us if you need to discuss this matter in more detail while you are in Egypt. (FAX number 804-286-3815)

Upon your return, please let me know when it would be convenient for us to schedule a time to meet in Arlington to discuss this, and the broader range of your international work, in more detail.

Sincerely,

Ronald J. Gilbert (be)

Ronald J. Gilbert ChFC
President

RJG:be
Enclosure
cc: Geoffrey Wall
Michael Coffey
Richard Rubenoff

259

INTERNATIONAL

Sample

LIQUIDITY STUDY

260

SUMMARY

RETIREMENTS

The first step in measuring repurchase liabilities is to determine which participant will be eligible for retirement during the next ten years. Based on plan provisions that provide for normal retirement at age 65 and no provision for early retirement, we have determined that six (6) participants will retire during the ten-year study. (We have excluded those participants who had a zero salary and ESOP account balance at December 31, 1987.)

The total value of stock that is projected to be purchased from retirees, based upon one run, is $398,080, or a total of 275,975.78 shares. (See Schedule 1)

TERMINATIONS AND DEATHS

Over the ten-year period of the study, the total number of shares repurchased for terminations and deaths are 1,641,807 and 132,886. In dollars, repurchase of stock for the reason of terminations is projected to be a total of $2,216,956. For deaths, the projected repurchase will cost $186,496.

DIVERSIFICATIONS*

The repurchase due to diversification is $54,644, or 33,631 shares.

TOTAL

The total annual cost of the repurchase of stock due to terminations, deaths, retirements and diversifications is shown in the last column of Schedule 2. The aggregate cost for the ten-year period of the study is projected at $2,799,004.

*Not applicable to the ATC ESOP at present

ASSUMPTIONS

year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Allocated contributions to the ESOP:										
Non-Div Shares[1]	422960	422960	422960	422960	422960	422960	422960	422960	422960	0
Div Shares *	424808	422902	401169	361750	307186	334354	358275	369936	325544	532189
Total Shares	847768	845862	824129	784710	730146	757314	781235	792896	748504	532189
Cash	250000	275000	302500	332750	366025	402628	442890	487179	535897	589487
2. F M Value[2]	0.75	0.82	0.91	1.00	1.10	1.21	1.33	1.46	1.61	1.77
3. Dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Payroll	6742442	7618959	8533235	9171890	10419079	11356797	12378908	13369221	14305066	15306421

5. Employees' salaries increase 4 % annually.
   Cash in the ESOP has a return of 8 % annually.

6. New employees: 56 % are between 18 and 21 years old and are paid between $ 10,500 and $ 19,500.
   40 % are between 22 and 29 years old and are paid between $ 20,000 and $ 30,000.
   4 % are between 30 and 40 years old and are paid between $ 30,000 and $ 45,000.

7. It takes 0.5 year and age 18 to be a participant.

8. Vesting plans are:

Year	1	2	3	4	5	6	7
1987:	0%	0%	20%	40%	60%	80%	100%

9. Payment schedules: Death payment is a lump-sum in the year of occurrence.
   Termination payment is a lump-sum in the year following occurrence.
   Retirement payment is a lump-sum in the year of occurrence.

10. Retirement is assumed to be at age 65.

11. Termination of participants were estimated in accordance with the Sarason T-4 tables.
    Deaths were estimated in accordance with the 1983 Individual Annuity Mortality Tables.
    A sample of these rates is listed below:

Age	20	25	30	35	40	45	50	55	60
Death	0.0622%	0.0759%	0.0917%	0.1341%	0.2399%	0.4057%	0.5994%	0.8338%	2.1317%
Termination	5.4384%	5.2917%	5.0672%	4.6984%	4.1878%	3.5372%	2.4773%	0.9394%	0.0901%

12. Diversification profiles are: 20 % of employees at age 55 diversify 25 % of vested account.
    20 % of employees at age 60 diversify 50 % of vested account.

13. There are initially 258 employees and 312 participants in the plan at 12/31/87.

[[1] Leverage shares from suspense account.]

[[2] FM Value = Fair Market Value.]
* Shares subject to diversification requirements (not applicable to ATC ESOP)

SCHEDULE 1

PROJECTED REPURCHASE LIABILITY
FOR RETIREES
1988-1996
[BASED UPON ONE RUN*]

XXXXXXXXXXXXXXXXX

				Assets in Account			
				Shares			Total
Year	Employee	Birth Date	FMV Per Share	Number	Value	Cash	Account Value
1988	XXXXXXXXXXX	01/20	$0.75	46,506.56	$34,879.92	7,464.08	$42,344.00
1989	——		$0.82				
1990	——		$0.91				
1991	——		$1.00				
1992	XXXXXXXXXXX	01/27	$1.10	12,087.67	13,296.44	3,001.60	$16,298.04
1993	——		$1.21				
1994	——		$1.33				
1995	XXXXXXXXXXX	03/30	$1.46	19,105.99	27,894.75	4,184.97	$32,079.72
	XXXXXXXXXXX	02/30		17,288.48	25,241.18	3,806.77	$29,047.95
1996	XXXXXXXXXXX	10/31	$1.61	147,368.37	237,259.86	30,585.83	$267,845.69
1997	XXXXXXXXXX	10/32	$1.77	33,620.71	59,508.66	6,938.24	$66,446.90

[Results assume the employees work until retirement age and are not subject to termination or death. In addition, the above persons are assumed not to elect to diversify their accounts.

FMV = Fair Market Value

DESCRIPTION OF SCHEDULE 2

I. NUMBER OF EMPLOYEES	This section shows the average number of plan participants who: - Leave the plan due to retirement, termination or death; - New participants in the plan; and the - Total ending participants at the year end.
II. NUMBER OF PEOPLE DIVERSIFYING*	This section shows the average number of plan participants who decide to diversify their accounts at age 55 and 60.
III. ASSETS IN PLAN	This section illustrates the number of assets in the plan at year end. - "Non-div shares" are those shares that were purchased prior to January 1, 1987 and are not subject to diversification. - "Div shares" are those shares purchased after December 31, 1986 and are subject to diversification. [Note: The assets shown in the section only include those assets allocated to participants and excludes forfeitures; distributed shares and cash needed to repurchase distributed shares]
IV. FORFEITURES	This section shows the number of assets in the ESOP forfeited due to retirements, terminations, and deaths.
V. SHARES REPURCHASED	This section illustrates the number of shares that need to be redeemed by the ESOP and/or Company as a result of a participant's departure from the Plan or as a result from diversification requests.
VI. COST OF SHARES REPURCHASED	This section shows the cost of redeeming the Company stock due to retirement, termination, death, or diversification.
[AVERAGE COST TO THE ESOP AND TO THE COMPANY]	This section illustrates the funds needed by the ESOP and/or the Company to repurchase shares. - If distributed shares are to be purchased by the Company, the ESOP cost will always be zero. [It is assumed that the Company has sufficient funds to purchase the shares.] - If distributed shares are to be purchased by the ESOP, · The Company cost will always be zero if the ESOP has sufficient funds to purchase the shares. · Otherwise, if the ESOP does not have sufficient funds to purchase the funds, the Company must assist in purchasing shares and therefore will have a cost greater than zero.
VII. % OF RUNS THE COMPANY NEEDED TO ASSIST IN THE REPURCHASE	This section shows the percent of runs the Company used its funds to repurchase distributed shares.

The Company's census data has been processed over a ten-year period utilizing the actuarial tables and assumptions described in the Assumptions Page. Since these tables are based upon large populations, the information has been processed over a multiple of times. The top of Schedule 2 notes the number of ten-year "runs" with the results on the page being an <u>average</u> of these runs and fractions may therefore be shown.

* Not applicable to ATC ESOP at present

SCHEDULE 2

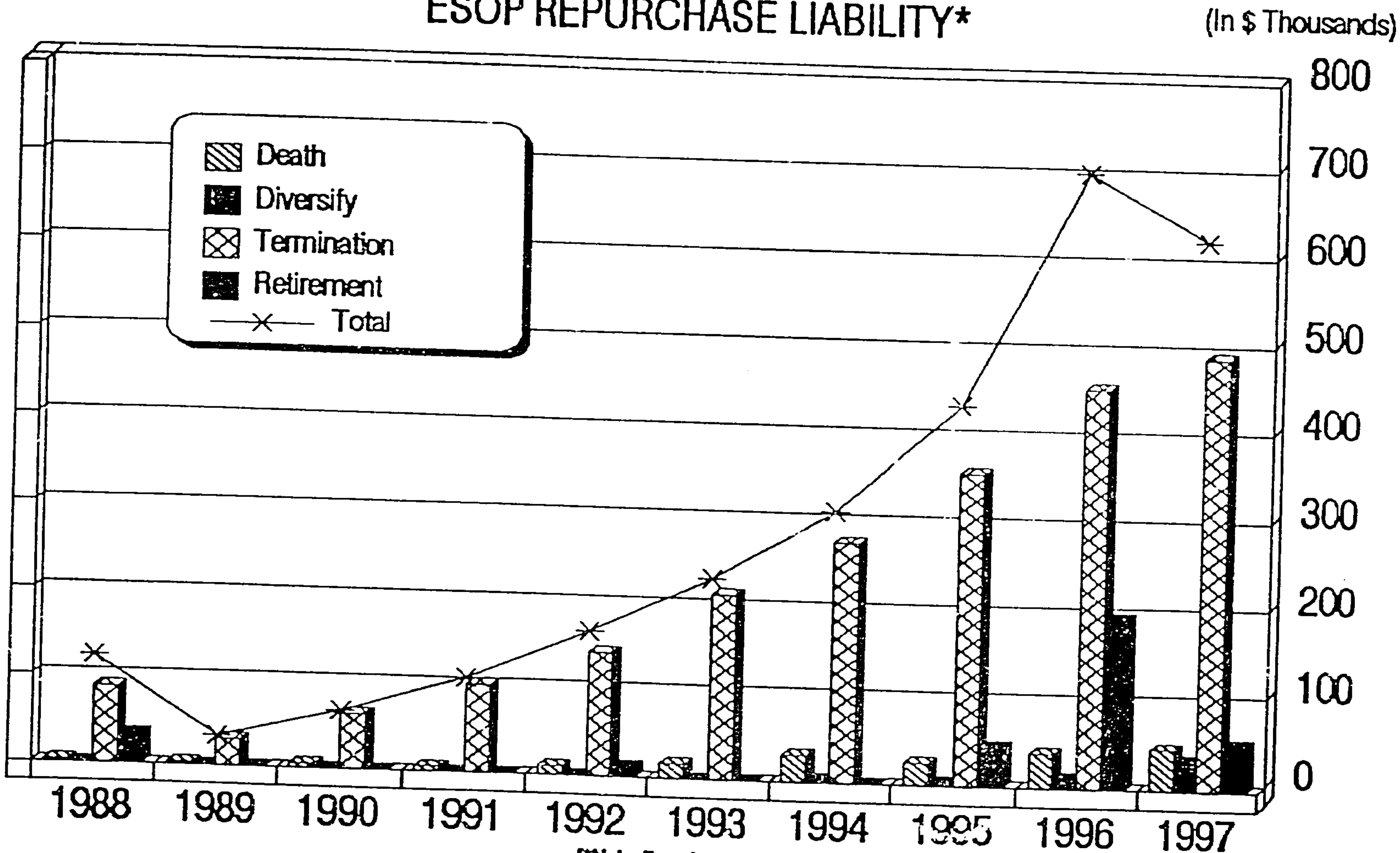
REPURCHASE LIABILITY
BASED UPON 75 RUNS

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
I. Number of employees										
Retirements	1.9	0.0	0.9	0.0	0.9	0.9	0.0	1.8	0.8	0.9
Terminations	13.9	15.8	17.3	18.3	21.0	21.7	22.8	24.9	25.8	26.8
Deaths	0.4	0.5	0.5	0.7	0.7	0.7	0.9	0.7	0.8	0.9
New	38.3	51.8	49.9	51.5	51.2	53.6	56.0	54.9	54.5	61.4
Total	280.0	315.5	346.6	379.1	407.8	438.1	470.5	498.0	525.1	557.9
II. Number of people diversifying*	0.0	0.0	0.0	0.2	0.7	1.1	0.6	1.7	3.3	4.5
III. Assets in plan										
Non-Div Shares	1393175	1776254	2142590	2494837	2815829	3126122	3416276	3677494	3896604	3732934
Div Shares*	1183114	1614145	2040219	2443231	2806014	3221905	3675212	4168012	4702173	5353717
Tot Shares	2576289	3390400	4182809	4938068	5621843	6348028	7091489	7845506	8598777	9086651
Cash	305605	557402	812498	1073012	1308757	1528858	1713245	1815130	1689746	1730247
IV. Forfeitures										
Non-Div Shares	41593	44906	43993	38943	35782	27883	24591	20621	19916	11600
Div Shares	33092	43781	44360	39834	35096	26870	23589	19982	19398	20735
Tot Shares	74685	88687	88354	78777	70879	54753	48181	40603	39315	32335
Cash	14534	17512	22128	23272	24605	21742	20619	19160	19595	17496
V. Shares repurchased										
Retirement	45852	0	0	0	11460	0	0	31834	121182	29713
Termination	116735	36626	68377	100097	129548	175919	207048	244822	283701	278934
Death	2588	3308	4962	5397	9336	14639	23800	17787	24564	26505
Diversify	0	0	0	2389	0	0	2678	2292	6898	19374
Total	165176	39934	73339	107883	150345	190559	233528	296737	436346	354527
VI. Cost of shares repurchased										
Retirement	34390	0	0	0	12584	0	0	46542	194861	52533
Termination	87552	30217	62087	99897	142244	212511	275168	357931	456192	493157
Death	1941	2729	4506	5387	10252	17684	31631	26008	39499	46861
Diversify	0	0	0	2385	0	0	3560	3352	11093	34254
Total	123883	32946	66592	107668	165080	230198	310359	433830	701645	626805
[Average Cost to the ESOP and to the Company]										
ESOP Cost	123883	32946	66592	107668	165080	230196	310359	433830	701645	626805
Co. Cost	0	0	0	0	0	0	0	0	0	0
VII. % of runs the Company needed to assist in the repurchase	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

*Shares subject to diversification (not applicable to ATC ESOP)

XXXXXXXXXXXXXXX, INC.

ESOP REPURCHASE LIABILITY*



[*Note: Based on Schedule 2]

266

Explanatory Notes

This client had stock purchased prior to 12-31-86 not subject to the diversification test, and stock purchased after 1-1-87 and subject to the diversification test. Thus the "non-div" and "div" categories, i.e. nondiversible shares and diversible. The client made cash contributions to the ESOP plan at the initiation of this study and anticipated making future cash contributions to the ESOP. ESOP cash is used to redeem shares, and the remaining cash balances in the ESOP are after all of these redemptions have been made.

This particular client had more than ample cash reserves in the ESOP to address all projected repurchase liabilities.

This example better illustrates the diversity of the program than earlier studies we have done for clients with approximately 600 participants.

ESOP SERVICES INCORPORATED

REPURCHASE LIABILITY

QUESTIONNAIRE

FOR

ESTABLISHED ESOPs

Company Name:	______________________________
Date:	______________________________

SECTION I: EMPLOYEE INFORMATION

1. Projected Covered Payroll:

Year Ending	Covered Payroll
	$
	$
	$
	$
	$
	$
	$
	$
	$
	$

2. What average annual increase in salary is expected for employees presently employed? ____________ %

3. List the demographics of new employees according to age and salary ranges; and percent of each group. [Note: Choose the most characteristic groupings, i.e. omit employees whose salary would fall outside the typical salary group range.]

Age Range		Salary Range			Percent
From	To	Salary		Salary	Occurrence
		$	to	$	%
		$	to	$	%
		$	to	$	%
		$	to	$	%
		$	to	$	%
Total Percent...............................					100.0%

4. On a scale of 1 (eg. very low rate of turnover, 0-2%) to 11 (eg. very high rate of turnover, 20-25%), what is the estimated annual rate of voluntary terminations for employees covered under the Plan (excluding part-time employees and those with less than one year of service)?
Scale: ____________________

5. At age 55 and 60, employees have the option to diversify their vested ESOP accounts by 25% and 50%, respectively. What percent of employees at these ages are estimated to elect the diversification option?

Age	Account Diversified	Percent
55	25%	______%
60	50%	______%

269

SECTION II: PLAN DESCRIPTION

1. What was the effective date of the ESOP Plan: ____/____/____

2. Complete the following eligibility rules:
   a) Years of Service: __________ years
   b) Age: __________ years
   c) Entry Dates: ____/____/____ ; ____/____/____.

3. What is the normal retirement age? __________ years

4. Vesting Schedules:
   a) What is the vesting schedule presently used?

Year											
1	2	3	4	5	6	7	8	9	10	11	12
%	%	%	%	%	%	%	%	%	%	%	%

   b) Effective Plan year beginning 1989, the vesting schedule will have to be either (please check schedule that will likely be adopted):
      ____ 100% after year 5; or
      ____ 20% after year 3, increasing 20% per year thereafter.
      ____ Other, please describe: ______________________________
      ____

5. Payout information. Please check lump-sum or state the number of installments.

Purpose of Leave	Form of Payout	
Retirement	____ Lump;	____ Number of Installments
Termination	____ Lump;	____ Number of Installments
Death	____ Lump;	____ Number of Installments

6. The payout of a terminated employee is to commence after the:

1st	2nd	3rd	4th	5th

year.

[Please check payout period desired.]

270

III. STOCK INFORMATION

1. What was the latest appraised total fair market value for the Company? $________________ Date ___/___/___
   -Per share value: $________________
   -Shares Outstanding: ________________.
   -Name of Appraiser: ________________________________

2. What is the projected fair market value of the Company stock?

Year Ending	
________	$________
________	$________
________	$________
________	$________
________	$________
________	$________
________	$________
________	$________
________	$________
________	$________

Or, Annual percent increase ________%.

[Note: The per share fair market value should be fully-diluted, unless otherwise stated.]

271

IV. ESOP CONTRIBUTION AND ASSETS

1. If your Company has an ESOP, please supply the following information:
   a) Schedule of principal and interest for duration of loan;
   b) Interest rate used for loan: ________%;
   c) Number of shares purchased by loan: ______________;
   d) Date of loan: __________;
   e) Allocation of shares is based on the: ___ General Rule; ___ Special Rule.

2. Please project the Company's contribution to the ESOP, including the number of Company shares and/or cash.

Year Ending	Contribution: Total Contribution	Contribution: Shares	Contribution: Cash	Dividend Per Share
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______
______	$______ :	______	$______	______

3. Please project the dividends paid per share, if any, above in Question 2.
   a) If dividends are to be paid, will cash dividends be "passed-through" to employees? __________ (Yes/No)
   b) Will cash dividends be used to repay ESOP debt, if any? __________ (Yes/No)

4. What is the expected return on cash in the ESOP? ________%

5. Will distributed shares be purchased by the Company ____; or by the ESOP ____.

If there are any questions, who may we contact?
Name: ______________________
Title: ______________________
Telephone: ______________________

272

ANNEX M

STRATEGY FOR ANNUAL ESOP AUDITS AND EVALUATIONS

ANNEX N

APPROVALS AND ENDORSEMENTS

ANNEX O

EGYPTIAN MEDIA COVERAGE OF ESOPS

ANNEX A

TASK ASSIGNMENT

276