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Privatization Case Study

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ATTRIBUTION

This report supersedes earlier draft versions of the report for the same period Earlier report versions were distributed for review and comment only and were not for attribution

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The views and interpretations expressed in this report are those of the authors and should not be attributed to or considered the opinions of either the U S Agency for International Development, the Government of Egypt, or other parties, organizations, or institutions referenced herein

DATA USE CONVENTIONS

The data used in this report come from a variety of public sources When data presented are derived from multiple reports from the same organization, the unit definition and data structure correspond to the specific data convention of the organization This report merely arrays the data and presents standard comparative measures, both ordinal (ranking) and cardinal (percentages) When more than one source is used to present data, the most dominant organizational unit definition issued, and data are disaggregated to correspond to this unit level The combined source data are compiled and arrayed to meet the specific needs of the report Again standard measures and statistical conventions are used in presenting comparative measures Aggregation of composite data may not be totally reconcilable due to rounding, proportionality, or other statistical methods used, however, the data are complete and fairly and accurately presented within the boundaries of the information available

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LIST OF ACRONYMS

Acronym	Description
AAW	Al Ahram Weekly
ABC	Al Ahram Beverages Company
AC	Affiliated Company
ADALA	Association for Employee Participation in Ownership & Management
B&W	Babcock & Wilcox
BOA	Bank of Alexandria
BOD	Board of Directors.
BOT	Build Operate Transfer
BOOT	Build Own Operate Transfer
CAA	Central Audit Authority
CBE	Central Bank of Egypt
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIB	Commercial International Bank
CIIC	Commercial International Investment Company
CMA	Capital Market Authority
Co.	Company
COP	Chief of Party
COS	Cost of Sales
EBT	Earnings Before Tax
EBU	Egyptian Banking Union
ECMA	Egyptian Capital Market Authority
EEA	Egyptian Electricity Authority
EFG	Egyptian Financial Group
EGPC	Egyptian General Petroleum Corporation
EPS	Earning Per Share
ESA	Employee Shareholder's Association
ESOP	Employees Stock Ownership Program
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
G&A	General & Administrative
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GOE	Government of Egypt
HC	Holding Company
HFI	Hermes Financial Index
HL	Hectoliters
HSBC	Hongkong & Shanghai Banking Corporation
HTC	Housing, Tourism & Cinema
IAS	International Accounting Standards
IBTCI	International Business & Technical Consultants, Inc
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
JVC	Japan Victor Company
KM	Kilometer
LE	Egyptian Pound
LLC	Limited Liability Company
LTL	Long Term Loans
MALR	Ministry of Agriculture & Land Reclamation

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Acronym	Description
MDOP	Managing Director Option Plan
MPC	Ministerial Privatization Committee
MPE	Ministry of Public Enterprise
MW	Megawatt
NEC	Nippon Electric Company
P&L	Profit & Loss
PCG	Private Controlling Group
P/E	Price/Earnings
PEO	Public Enterprise Office
PP	Privatization Project
PM	Profit Margin
REGWA	General Company for Research & Ground Water
RKI	Regwa Khoriaf Investments
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SOEs	State Owned Enterprises
SPR	Sectoral Policy Reform
TBD	To Be Determined
Telemisr	The Arab Company for Radio Transistors and Electronics
UED	Upper Egypt Dredging Company
USAID	U S Agency for International Development

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EXECUTIVE SUMMARY

This report summarizes the case studies carried out on seven newly-privatized Egyptian firms by IBTCI at USAID/Egypt's request The seven former Law 203 state companies were privatized using three different methods two were sales to anchor investors, two were partially sold through stock share flotation (IPOs), and three were worker-leveraged buyouts using employee shareholder associations (ESAs) One anchor sale and the two IPOs involved 10% share sales to ESAs The principal purpose of this report is to assess the effect of the differing methods of privatization both on the efficiency and productivity of the firms privatized and on the economy in order to help determine the nature of and direction for future approaches The study team examined post-privatization changes in the companies and their markets using company interviews, examinations of financial reports, and other documentation We were able to analyze how the firms operated before privatization, how they have changed, and what prospects and challenges they now face Problem areas in privatization, policy and institutional issues, and needs for further study also surfaced

1 Principal Cross-Cutting Findings

- USAID/Egypt, through its Bechtel contract, played a critical role in the privatizations that were studied Bechtel had prepared information memorandums and other documentation for six of the seven firms that were examined [1] The conclusion that must be drawn is that the information provided by that contract was critical in helping the GOE privatize these firms and that the continued supply of such information is important

- There is evidence that the anchor route has labor/peace trade-offs It could not be otherwise given state enterprise surplus labor and work ethic However, this study's mode-specific findings indicate that the ***perception*** of those risks is greater than the actual risks of such turmoil The early retirement scheme and properly structured minority ESAs can greatly reduce the risk of real turmoil

- Most of the firms studied (five of the seven) were profitable prior to privatization, and the other two had a good chance at profitability This degree of success in privatization may well elude firms whose organizational and financial structures are in jeopardy

- All of the firms examined whether anchor, IPO, or ESA, were genuine privatizations They involved, at minimum, a change to private legal status, increased procurement and marketing flexibility, and higher quality Board of Director composition For all the firms market signals became more important What does differ among the firms privatized by the same method is the ***degree*** of private ownership and control

- Regarding the degree of change and improvement by method of privatization in the firms studied, ***it is clear that the anchors exhibited the most and the quickest changes, the IPOs less, and the ESAs varied from substantial change in one to little change in two*** Time as a factor in change appears to be less important than the method of privatization used The above findings put a premium on using the anchor route and on having a ***private controlling group*** (PCG) emerge as rapidly as possible in the case of IPOs The case studies found that for two of three majority ESAs there was little change, both suffer substantial organizational and management problems and all operate in an environment of continuing legal and policy issues

- ***Anchor sales may be more difficult than IPOs, but this study indicates that their superior results warrant the extra effort involved*** Further, the Al Ahram Beverages case shows the value of having investment bankers involved in such sales

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[1] This detail was not known to the study team prior to firm selection for the case studies

- Given the importance of investment banks for anchor sales, present GOE interest in the anchor route, and the need for investment bank engagement fees should be activated as quickly as possible

- While firm-level improvements because of privatization are economically important, a more important economic aspect of privatization may well be increased competition

- The recent GOE policy decision not to permit ESAs, including minority ESAs, to sell their shares to the public, while no doubt well intentioned, could prove extremely harmful to labor/management relations or to firm-level savings It introduces firm dividend payment and retained earnings policy as an additional possible point of labor/management conflict One approach to this problem might be to reverse the prohibition on unless sufficient cash can be set aside to be used for cashing out employees on their stack accounts This would require the approval of new tax measures, for example, the use of pre-tax corporate income for contributions to the ESA (see Policy Issue #7)

- The issue of liquidations does not fall under our Scope of Work, but there is no doubt that the GOE should pursue such asset sales more vigorously than they have in the past A study should be undertaken on how to structure liquidations so that current employees do not bear a disproportionate burden from such socially desirable firm closures and recycling of its assets at lower cost levels

2 Method-specific Findings

2 1 Anchor Sales

The anchor investment sales that we examined exhibited the most and quickest changes and delivered everything that is generally promised for them—both involved new technologies, investment, new products, and new market access Despite the obvious advantages of anchor sales there remain substantial obstacles to carrying them out These are in addition to valuation problems and the perceived political risk of selling the "crown jewels "

The rapid change that is related to anchor sales *can* lead to substantial labor force turmoil We found substantial turmoil in the case of the former Nasr Boiler (B&W Egypt), yet almost none in Al Ahram Beverages (ABC) We believe that the method of privatization is only one factor in this equation Further, the perceived risks of labor turmoil probably exceed the real ones Also, at the time of the 1994 anchor sales, mechanisms like state-assisted early retirement or the minority ESA had not been established ***Still, a systematic study of the means by which to lower labor turmoil or the perception thereof is merited.*** Such a study would build on present cases, examine in greater detail the actual labor conflicts that have occurred, study the usefulness of "cookie cutter" minority ESAs, and determine approaches (and, if merited, action programs) for preparing the labor force in firms about to be privatized

The case of Nasr Boilers pointed out the problem of firm de-capitalization in the case of anchor sales over the course of a lengthy privatization process Better due diligence and mechanisms such as escrow accounts (already used) might be helpful in this regard ***However, attention needs to be paid to protecting a firm's assets and cash flow during an anchor sale process.*** A study is recommended to look at such issues as how to shorten the transition period and what incentives might prompt better cooperation from existing management and labor during the transition

We believe that there are still systematic preferences for state-owned firms ***in public procurement***, and if not preferences, at least practices If there are such preferences or the perception thereof, anchor sales of many public firms will fetch lower bid prices (and overall economic efficiency is inhibited) We recommend further study in this area

The cost and difficulty of ***investor market exit*** came up in one of our case studies Again, this is an area where problems, or at least the perception thereof, exist In either case, further study on how to lower these possible costs (or to document their insignificance) would be useful The existence (or the perception) of costly market exit problems tends to both inhibit entry and increase the risk premiums demanded by investors who do so

The ABC case study illustrates the key, advantageous role that ***investment banks*** can play in the buying and selling of firms Now that GOE officials seem to be re-examining their position on the use of investment banks, it would seem opportune to conduct a study to determine which types of transactions lend themselves most to investment banking services and how to best use them

2 2 Initial Public Offerings

Contrary to belief in some quarters, our two IPO case studies show that this method results in "real" privatizations In spite of substantial remaining government ownership shares, the privatization of one of the firms studied led to a flurry of market entry, the other is acting like a fully private firm

Still, in the absence of a PCG (as in the case of Nasr City Housing and Development), the government in fact remains the "anchor investor " The problem of fostering the quicker emergence of PCGs in IPOs does seem to merit further study Such a study should cover the following

- The sale of remaining Holding Company shares,
- The problems involved in the conversion of remaining government shares to preferred stock, providing Holding Companies with continuing income but lessening government control,
- How to keep public institutions as merely "portfolio" investors,
- The usefulness of "worker" (management, non-ESA) shares in helping to forge PCGs, and
- The usefulness of developing a pre-IPO business plan and, if useful, who should prepare it (existing management?)

The Nasr City case shows that land assets can be greatly undervalued and inaccurately reflected in the IPO offering price, resulting in large "windfalls " Perhaps the "land under valuation" problem results from the Central Audit Authority (CAA) methods of assessing land value, in this case, the question should be taken up with the CAA Alternatively, land assets could be stripped from land development companies prior to their privatization and auctioned separately

2 3 Employee Shareholder Associations

In Egypt, ESAs are permitted to own shares of a company on behalf of its employees The ESA administers a legal and organizational framework called an Employee Stock Ownership Plan [2] An ESOP is a special type of employee benefit plan that permits its members to pay for company shares from the dividends distributed on the shares owned by the ESA In the privatization of Egyptian state-owned enterprises, ESA members acquire certain share-equivalent or 'stack' rights as Holding Company loans are repaid for the sale of a minority or majority ownership interest in the company ESA members receive an annual profit proportional to their "stacks" and a cash value for their "stack" accounts upon retiring or withdrawing from the ESA ESA members vote their stack accounts on a one-person, one-vote basis to instruct the ESA on how to vote its company-owned shares

[2] An ESOP in Egypt is significantly different from an ESOP as defined under laws in the United States where it was first introduced in 1965

2 3 1 Characteristics of ESA Owned Firms

- Government is still the major client
- Limited market planning
- Limited efficiency in managing working capital
- Limited financial and administrative information systems
- No retained earnings policy
- Company performance is not close to Bechtel's original projections (much lower)
- Majority ESA CEOs have not changed
- Limited organizational development

2 3 2 ESA Governance

- "Stacks" voted on a one-person, one-vote basis
- Confusion of share and stack rights and obligations
- ESA members' voting rights are generally respected
- Increasing transparency and access to financial information

2 3 3 ESA Technical Issues

- Problems of repurchase liability
- ESA contracts prohibit paying stack accounts in shares
- The firms are becoming closed companies with two classes of workers Limited hiring of new full-time employees, with most new workers hired on contract (contract workers are not eligible to become ESA members)

3 Recommendations and Suggestions for Further Study

It is recommended that a further study be undertaken to answer the questions outlined under "Policy Issues" in order to address remaining technical issues before new majority ESA sales are initiated.

3 1 Other Immediate Problems and Recommendations

(1) Companies need to press forward with organization changes

(2) Financial information systems are needed costing systems, new accounting systems, a budgeting procedures manuals, and cash flow forecasts should be developed and computerized to enable management to plan, control, and evaluate performance

(3) Corporate management's lines of authority and accountability should be reviewed Who is ultimately responsible for management decisions? For example, in marketing, retention of earnings, and upgrading financial information systems during the time the ESA Association occupies (a) a minority position on the company Board of Directors or (b) a majority position on the company Board of Directors but without the power to confirm or remove the Chairman of the Board, are management decisions made by the ESA Association as the majority shareholder at the company General Assembly, or the Holding Company through its appointed directors to the company Board of Directors?

3 2 Possible Areas for Further Study[3]

3 2 1 Financial

(1) Determine alternative methods to fund repurchase liability to insure there is enough cash in the ESA Association to pay out stack accounts at market value under existing tax laws that use after-tax company dividends to fund the ESA Association

(2) Determine if a certain percentage of ESA-owned shares should be given out to ESA members who are cashed out from their stack accounts (with a right of first refusal for the ESA Association clause in the ESA bylaws) rather than paying a retiring member only in cash Should this option be considered or not, and for what reasons?

(3) Clarify the law permitting the ESA Association to pay out up to 10% of a long-term service retiring employees' stack account in ESA owned stock

(4) Determine if the ESA should be allowed to sell ESA company shares to third parties (not former employees) on the stock exchange to increase ESA cash reserves against the possibly that the ESA Association will lower its ownership percentage of ESA company shares

(5) Clarify the law regarding the right of an ESA Association to sell ESA company shares after all loans to the Holding Company have been paid

(6) Analyze and recommend what additional equitable tax advantages can be introduced to improve the financial status of ESAs For example

> (a) The use of pre-tax corporate contributions to the ESA Association to fund and pay ESA loans acquired to purchase ESA company shares Analyze the possibility of taxing ESA members at the individual income tax rate on their stack accounts when paid out in either cash or stock to prevent this tax deferral from becoming an open tax subsidy
>
> (b) Give a tax deduction on the interest charged by banks for loans to ESA Associations if they use these loans to purchase ESA company existing or newly issued shares
>
> (c) Provide entrepreneurial and investment information and guidance to employees who receive cash for their stack accounts on how they may wish to invest their funds
>
> (d) Strengthen Association for Employee Participation in Ownership & Management (ADALA) as the ESA representative organization in Egypt to provide training and advice to ESA Associations on corporate management, financial, and governance issues

3 2 2 Governance

(1) Analyze and suggest recommendations on the value of one-share, one-vote vs one-person, one-vote of share-equivalent stacks in ESA members accounts

(2) Analyze and make recommendations on different allocation formulas for ESA member stock or stack allocations Review how new full-time employees can participate Review the problem of part-time employees not participating in the ESA and its effect on the majority ESA company What is the

[3] Given the relative insignificance of ESAs in the overall privatization program (2 2% of privatization proceeds) only limited resources should be spent on the study of these issues unless the GOE proceeds with further important ESA privatizations

effect of Egyptian labor laws that severely limit a company's ability to freely contract and dismiss full-time employees?

1 INTRODUCTION

1 1 The Primary Purpose of this Study

The Scope of Work for this study (see Appendix A) makes two important points related to the impact of privatization on the overall economy (1) "If the privatization program has privatized only a distinct minority of the economy no overall impact of privatization would be observed," and (2) "there are a variety of issues and procedures, which are currently built into the privatization program which, could or may impact the overall economy "

With regard to the first point, it is true that to date the Egyptian privatization program has divested only a small proportion of public sector assets (even of Law 203 Company assets) In fact, however, the impact of the program on the overall economy is far out of proportion to the assets divested Recent IBTCI presentations to USAID and its partners and customers in the privatization effort have indicated, and the current debate in the Egyptian press underscores, that the overall positive impact of even a small amount of privatization has been significant The following are the major reasons

- The privatization program has imposed stricter financial discipline on all Law 203 firms and has inhibited them from undertaking new ventures which could crowd out new private sector investment, it has removed firms from sectoral ministry control and lessened political influence on decision-making in privatized firms

- There have been a myriad of "windfalls," the most important of which has been the revitalization of the Egyptian capital market and the creation of its handmaiden, a new financial services industry

- The threat (or promise) of privatization may be an important factor in the improved performance of the remaining state-owned companies

- The success of most early privatizations has created a positive "policy feedback" loop among Egyptian decision-makers—their approach to future privatization is no longer tentative They have taken ownership and pride in what has been accomplished, and will in future require less donor "nudging" in the privatization area (although perhaps different types of support)

The second point in the Scope of Work, the possible effects of privatization on future economic growth and structure depending on how privatization is implemented, may prove critical to the program's long-term success The privatization methods employed may have important consequences in this regard These methods have the potential, for example, to lead to greater or less competition in the future depending on such factors as new market structures created and the possible formation of new political interest groups As the Scope of Work points out, privatization *per se* is not good unless its improves the efficiency and productivity of the firms privatized (and, we hasten to add here, of other firms in the economy) The economic argument for privatization rests on the premise that 'ownership matters, that individual firms owned by few (and accountable to the owners) will perform better than firm owned by all i e , the state (and accountable to political actors) However, what if the privatization methods employed lead to ownership without management control, i e , without greater accountability to the owners? In that case, benefits derived from privatization might be lessened, in that firm-level efficiencies and increased productivity expected from privatization might not be forthcoming

USAID has long recognized the possibility of divergence of ownership and control, as indicated in the USAID Sectoral Policy Reform (SPR) policy matrices (see prior IBTCI Semi-Annual Evaluation Reports) The SPR matrices have defined privatization as "transfer of majority ownership and control " In practice, meeting the SPR conditionally has meant the transfer of the companies from operation under Law 203 to their operation under Law 159 Still, given the methods of privatization that have been used in Egypt, it is quite possible that a company could have been reorganized under Law 159 with effective management control still remaining with the Government

This study will describe and explain the methods that have been used by the Egyptian government to privatize state-owned enterprises (1) anchor investor sales, (2) the sale of at least 51% of a company's equity on the stock exchange via Initial Public Offerings (IPOs), and (3) the majority sale of equity to company employees by means of sale to Employee Shareholder Associations (ESAs) Each method can affect the ability of the new private sector owners to influence and control management Egyptian laws relating to corporate governance may also affect the capabilities of the new owners to influence management decisions and the production process Finally, Egyptian labor laws and other norms may limit the ability of the new owners to make needed changes to increase productivity Such laws or norms may affect all private sector firms, but will be dealt with here only as they affect newly privatized firms

The primary purpose of this study is thus to examine the facts underlying Egypt's current methods of privatization in order to better direct future privatization efforts It examines the effect of new private sector ownership on management and assesses the impact of the privatization method employed on efficiency and productivity It does so principally by means of examining changes in the operations and governance of seven newly private firms, at least two of which fall into each category of privatization method studied This report describes what the firms were like before privatization, what they are like now, and the prospects and challenges that they face During the course of the study, we found that what happens to the competitive environment outside of a newly privatized firm maybe as important to the economy as what happens within the firm

1 2 Principal Issues

1 2 1 The Sources of Economic Benefit from Privatization

Economically, the benefits of privatization accrue both inside and outside a particular firm At the firm level, economies are achieved by better use of factors of production Benefits can result from the more effective utilization of specific factors of production, the better combination of these factors in a given production process, or the application of these factors of production to a higher (more valuable) use Also important at the firm level is its ability to incorporate knowledge and technological innovation, which may be generated externally, into its productive processes Finally, some firms are technological innovators, these firms make it possible to employ accessible factors of production on a higher frontier In privatization, it is especially important to look at the under-utilized assets that a state firm may have under its control For example, the liquidation of an unprofitable state firm could be of great economic benefit by freeing assets and labor under its control for employment in other areas [4]

Especially important in the case of privatization are the markets in which the state firm is operating Generally, these markets tend to be characterized by monopolistic elements They tend to be protected by import restrictions or high tariffs, and there are usually restrictions to the entry of private

[4] For example a capital good sold by a liquidated firm say a tractor will be quickly put into use It will still require drivers, mechanics etc Thus such issues as employment gained or lost to the economy are often moot They are really not social issues as often characterized but rather political economy issues Usually employment is not lost in such instances but is shifted from the liquidated state firm to the private sector firm buying the capital equipment. Questions such as if and how the former employees of the liquidated firm should be compensated for job loss are then essentially political in nature There may necessarily be cases in which entire plants need to be scrapped or closed in which case employment might not merely shift but may be extinguished In these cases, however the previously underutilized labor would be freed to seek employment elsewhere

competitors Indeed, the very presence of a state firm in a given market can serve to restrict entry, as potential competitors fear that the state may exercise its regulatory powers to favor its firms In these instances, the privatization of a state firm can send important signals to possible market entrants Entry may actually result in greater competition and resulting increases in output from a given set of factors or more efficient factor deployment Even where there is not actual market entry, market "contestability" (or the threat of possible entry) may alter a privatized firm's behavior in a monopoly-type setting, causing it to increase output or lower costs in order to maintain market share

1 2 2 Ownership and Control

Even if a firm is "privatized," defined here as majority private ownership and legal reorganization as a private sector entity, it is still possible for government to maintain effective control of the firm This can result from a number of factors, including public dispersion of privately owned shares with concurrent government control of a majority of those shares In these circumstances, it is possible for management to act in ways that does not maximize shareholder value In a competitive market, profit maximization occurs at the lowest point in a firm's average cost curve, which is also the point of most efficient factor utilization

Owner-management accountability problems may exist These problems are by no means exclusive to newly privatized firms in which the government maintains substantial ownership and control However, in such firms flexibility, and hence efficiency, may be more limited than in other firms with accountability problems In such instances, the newly privatized firm may reap only partial benefits from privatization For example, the firm may gain freedom from government procurement regulations that formerly inhibited its flexibility in sourcing and marketing, however, changes that are more fundamental may be more difficult to achieve Corporate governance and accountability differences among firms privatized under the different methods may prove very significant and influence the degree of private ownership and control which, in turn, may have significant efficiency implications Our case studies probe for these differences

1 2 3 Privatization at the Crossroads

The pace of the GOE's privatization slowed during the course of 1997 Through the end of September, Law 203 Companies were being sold at the rate of 1 2 per month, slightly below the average 1 3 companies per month sold over the 1994-1996 period At this rate, the sale of the remaining 260 Law 203 Companies will require 18 years This is at a time when the pace of privatization should be accelerating given the basic experience that has been gained One reason for the slowdown is well documented in IBTCI's Quarterly Review for third quarter 1997 It is due partially to the fact that the remaining companies to be sold have both more debt and greater amounts of excess labor than those previously privatized The GOE emphasis has therefore shifted towards early retirement programs and debt restructuring The IPO route is currently less attractive because Egypt's newly revitalized capital market has turned bearish this year In a bear market, the public no longer has the same appetite for initial equity flotation Many people have experienced first-hand the difficulty of selling equities when the price is down in a thinly traded market Indeed, several privatization IPOs have not been fully subscribed

The partial exhaustion of the IPO route affects the pace of the privatization program because it has been the principal privatization method employed by the GOE since 1996 After an initial flurry of 10 ESA privatizations in 1994, there have been none since, and only five anchor sales over the same period One of these was a sale to an IPO in which the government maintains a stake, another a hotel, and a third started out as a minority IPO The reasons for the policy-maker's preference for the IPO route is clearly spelled out in IBTCI's Quarterly Review for third quarter 1997, which states "Anchor sales are more difficult, more time consuming, and less likely to cause serious public criticism than floating IPOs on the stock market" (p 46) The reason that no more ESAs have been pursued is also straightforward ESAs were the preferred privatization vehicle early in the program because anchor sales of those companies were not seen as feasible for any number of reasons, asset sale (liquidation) was not viewed as politically desirable, and the IPO mechanism had not yet been tried

Now that the IPO mechanism looks less feasible, the GOE is again looking at anchors and ESAs as options Published press reports indicate that new anchor sales are now very much a part of the Government's agenda Public criticism of IPOs centers on their lack of development impacts relative to anchor sales in terms of attracting new investment, technology, and domestic/international market access International donors have been approached about financing investment bank engagement fees [5] Also, some firms probably would not make good candidates for anchor sales, liquidation is still politically undesirable, and new ESAs are again very much on the agenda as a possible privatization method

Now that the privatization program is at a crossroads, this a good time to initiate a review of Egypt's experience to date with the three privatization methods it has used We hope that this initial review will help sharpen subsequent, broader inquiries and direct future GOE privatization approaches The assessment of the differing impacts of privatization methods on the efficiency and productivity of the firms privatized and on the economy is important to the program's future growth The foregoing are key objectives of Egypt's privatization program Widespread ownership and participation in the fruits of privatization are also objectives of Egypt's privatization program and will be examined to the degree feasible

1 3 Methodological Considerations and Procedures

1 3 1 Selection of Companies

The initial Scope of Work for this study calls for the employment of a modified case study approach While certain changes were made with regard to team composition, especially in dealing with the complexity of ESA issues, the basic approach was maintained While the modified case study approach can encounter general constraints facing the companies being examined, significant issues also can be systematically overlooked if companies are chosen for the wrong reasons In these cases, general inferences cannot be drawn on certain issues

Key to drawing inferences from the case study approach is the selection of the companies to be examined Many factors entered into the company selection, but a "judgment" or "chunk" sample was inevitable Knowledgeable people both inside and outside the government were asked for suggestions An examination of the statistical information contained in previous IBTCI reports (for example, on the percentage of continuing government ownership) also was considered, as was share price behavior in the case of publicly traded companies Lessons can be learned from these companies On the other hand, systemic problems might be more easily identified with "problem" companies Finally, some very practical considerations of data availability played a decisive role in some selections

Other methodological problems with the case study approach concern small sample size[6] and "overdrawn" conclusions based on specific cases Nevertheless, there is richness in the case study

[5] USAID s present privatization project has a component (the beta component) that would permit the payment of such fees Earlier the GOE was not interested in activating that component of the approved and active USAID project Given the GOE s present interest in pursuing the investment bank route, it is not clear to the authors why this potentially very important component has not been activated

[6] These types of problems are very similar to those encountered in **Welfare Consequences of Selling Public Enterprises,** ***An Empirical Analysis*** Galal, Ahmed, et al , A World Bank Book, Oxford University Press, 1994 The foregoing work must be considered the methodological standard for empirical research in the divestiture area While much more elaborate than the present study, it faced a similar ' counterfactual" problem, i e what would have happened had privatization not taken place? And, of similar importance, what other

approach that cannot be matched by other, more distant methodologies We were able to obtain the opinions of top firm decision-makers, cross check them with the views of others inside (and outside) the companies, and compare the information gathered against financial statements

1 3 1 1 Anchor Investor Sales

The universe of anchor investor sales is a small one As of September 30, 1997, only eight companies had been privatized in this manner three each in 1994 and 1996, and two in 1997 To get a better picture of changes in performance due to privatization, earlier sales were considered preferable for inclusion Another important factor in the case selection of the anchor sale companies is that the companies chosen are now fully private Company desire to be included in the study was therefore an important key to the value of the information likely to be available Coca-Cola, an early sale, was excluded early on in the selection process because of the likelihood that a high profile labor dispute would impede data availability The team in consultation with USAID decided to interview three companies in order to select two for more in-depth work Because one of the initially selected companies did not return the team's frequent telephone calls, two companies were finally selected Al Ahram Beverages (ABC) and Babcock & Wilcox Egypt (B&W Egypt, formerly Nasr Boilers) B&W Egypt was considered desirable because the anchor investor in the 1994 sale was a foreign multinational ABC, a 1996 privatization, is controlled by a U S corporation owned principally by Egyptian Americans

1 3 1 2 Share Flotations (Initial Public Offerings)

This universe of IPO privatizations is considerably larger, as of September 30, 1997, 27 privatized companies fell into that category Selecting only two and drawing conclusive inferences, especially on questions related to control and corporate governance, was more difficult[7] Again consulting with USAID, three companies were chosen for initial interviews from which we intended to choose two for more in-depth study, as in the case of anchor sales, the third company "self-selected" out of the study by a lack of responsiveness

According to law, the Central Audit Authority must audit the financial statements of companies in which more than 25% government ownership is retained In order not to overlook that particular governance issue, it was decided to "force" into the interviews an IPO where the GOE ownership was less than 25% (the Arab Company for Radio Transistors and Electronics, Telemisr) Telemisr was also a somewhat smaller company and not one on everyone's "success" list The other firm in this category, Nasr City Housing and Development (Madinet Nasr), was chosen because of its reputation as a very successful IPO and its highly appreciated share price since privatization

1 3 1 3 Employee Shareholder Associations (ESAs)

Ten ESA privatizations were undertaken in 1994, before the IPO privatization mechanism had been tested, those companies were not thought to represent value for anchor investors All were subsidiaries of the Holding Company for Public Works and Land Reclamation, and most were engaged in land reclamation (desert land development) activities ESAs continue to owe the GOE for the 95% of equity they hold in the companies (individual employees own the remaining 5%) While the HC for Public Works and Land Reclamation was merged, the GOE's HC for Agricultural

factors affecting the performance of an enterprise e g market, competition, and other exogenous factors might have even more importance to the welfare of an enterprise than ownership and control alone Galal et al focused heavily on utilities and other natural monopolies Thus, initially we viewed the methodologies of those studies which focused heavily on the measurement of consumer surplus as not being that relevant to the Law 203 Companies However the case studies revealed that the markets in which the newly privatized companies were operating proved to have more monopolistic elements than we first had assumed

[7] In fact, we recommend ***this area*** for further study See Section 5 of this report

Development continues to collect the ESA debt payments The Chairman of that Holding Company suggested two companies for inclusion in the study, with USAID official concurrence Wadi Kom Ombo Land Reclamation and REGWA The first is a large company that, prior to privatization during the 1992-1994 period, had growing profits and decreasing revenues, the second showed high profit growth during the same period Upper Egypt Dredging Company, a small and more marginal firm, was also suggested for inclusion as time permitted

1 3 2 Interview Content and Extent

Principal concerns arising from the scope of work were (1) changes in enterprise productivity as a result of privatization, and (2) issues of corporate governance and control, especially inordinate government influence which might adversely affect the economic benefits of privatization To try to cover these points in the case studies and interviews, a questionnaire was developed for joint use in anchor sales and IPOs This questionnaire was amplified to cover the more complicated governance issues presented by ESA organizations Both questionnaires are contained in Appendix C They generally served as more of a guide for the interviewers than a questionnaire *per se* Especially when given limited time with busy CEOs, it is more important to listen for their views than to cover all the points listed Still, the questionnaires proved valuable to highlight points of possible omission, also, when important questions were not addressed in the interviews with company principals, they helped to focus interviews with lower-level company officials

1 3 3 Analysis of Financial Statements

There was substantial variation among newly privatized companies' financial statements The quality and availability of financial statements varied from excellent for the ESAs to spotty for the recent IPOs

For all the ESA firms, a substantial amount of "before" and "after" financial information was available due to several factors (1) the ESA transactions were all carried out in 1994, (2) the Holding Company as principal creditor had substantially complete financial records on the companies, and (3) substantial pre-privatization financial work had been done on these firms by the USAID Bechtel effort Because of the ample information available, a substantial financial analysis was possible, most of this work is included in Appendix D

For the anchor sales, excellent, detailed financial statements were available for ABC, because of both the Bechtel work done on the firm and particularly the quality and detail of the financial statements required for the London GDR offering Unfortunately, ABC did not have audited and approved detailed accounts available for 1997 because of the postponement of the General Assembly meeting Consequently, the 1997 analysis was based on preliminary financial statements For B&W Egypt, confidential financial statements dating back to 1994 and furnished by the management were extremely useful in analyzing its situation The team was not able to locate the financial statements for its predecessor firm's last year of public ownership, however, they were available for prior years

For the IPO firms, the team benefited greatly from the financial work done by the Hermes Company (a brokerage firm) on Nasr City Housing and Development's recent financial statements No Bechtel pre-privatization work was done for this firm, also, no detailed audited final 1997 financial statements were available, only newspaper published summaries For Telemisr, the team had substantial Bechtel early work, but only "off the cuff' informal aggregate results (from pencil records) were available for 1997

Given the variation in amount and quality of data available, no inferences beyond those presented should be drawn from financial information presented in the case studies An exception could be the ESA financial information presented in Appendix D

2 PRIVATIZATION METHODS USED IN EGYPT

Although many privatization methods have been tried over the course of the Egyptian privatization program, this report addresses only the three major methods used For example, the term IPO refers only to majority IPOs, sale of at least 51% percent of a firm's ownership to the public with a concurrent change in its legal basis of governance (e g , passage to Law 159 governance) However, minority IPOs (the sale of less than half of a state firm's shares to the public) also exist In addition, privatizations have not been limited to Law 203 Companies, as shown by sales of enterprises belonging to the Governorates, liquidations, asset sales, and the sale of joint venture company shares As the Egyptian privatization process deepens, it is to be expected that the sale of joint venture companies and the privatization of what are now called Economic Authorities will increase Some of the latter may indeed be passed to Law 203 governance at some point In this report, however, "privatization" refers to the passage of at least 51% ownership and a shift of legal control

IBTCI's Quarterly Review for the period July-September 1997 indicates that 25 majority IPOs, 10 ESAs, and 8 anchor sales have occurred since 1991 They constitute only a portion of the total privatizations The relative value of these sales is illustrated in the table below

GOE Asset Sales to the Private Sector (1992-Sept 30, 1997)

Table (1)

Method	Value (LE million)	Percent of Total
Majority IPOs	2,879	26 0
Anchor Investors	1,382	12 5
ESAs (majority)	245	2 2
Other	6,572	59 3
Total	**11,078**	**100 0**

2 1 Anchor Investor Sales

An anchor investor sale is defined as a privatization in which effective control passes to an individual or group of private investors Although the group may not own a majority of the shares, it must exercise effective control An anchor investor situation may be coupled with an IPO, as in the case of ABC where a minority IPO had taken place prior to the sale of a majority of the shares to an investor group ABC's anchor investor retains only 12 5% of the shares It is also possible for a majority IPO to pass under the effective control of a private investor group This may in fact be happening at Nasr City for Housing and Development, which was also investigated for this report For the moment, however, the anchor investor category is restricted to companies initially sold to a group of private investors The key element is the exercise of effective management control by a group or individual

To date only eight anchor sales have taken place three each in 1994 and 1996, and two in 1997 Of these, El Nasr for Utilities was bought in 1996 by a majority IPO, and the question of effective private management is still open

2 2 Share Flotations (Initial Public Offerings)

Fifteen majority IPOs were completed in 1996, the IPO thus became the method of choice for the GOE During 1997, this method should have picked up steam However, the lack of an Egyptian "bull" equity market has hampered this approach in the latter part of 1997 The IPO category includes no 100% privatizations as the GOE normally retains at least 25% company ownership and is usually the largest single investor In addition, public institutions such as banks and insurance companies often own additional portions It is generally believed that this indirect public sector investment is of a "portfolio' nature and that the GOE does not attempt to exercise control through these minority stakes Generallv, these IPOs have included the sale of shares (usually 10%) at a 20% discount, and on credit, to a minority ESA Early on, in addition to the ESA shares (or in place thereof) a restricted allocation to "workers" was allowed, however, as these shares were paid at the full IPO value but their purchase restricted to employees, they were usually bought by management

2 3 Employee Shareholders' Associations

Fifteen ESA privatizations have been completed to date, 10 in 1994 in the same HC for Engineering Industries and 5 more in 1997 All of these sales follow the same formula Five percent of the shares were sold to the workers (generally management,[8] but in some cases rank and file employees did purchase some of these shares) The remaining 95% were sold to ESAs The ESA sales were financed by long-term (usually 10-year), below-market interest rate loans These loans from the GOE Holding Company were to be serviced and retired by the company's profits Most of these firms were stripped of major, nonessential assets prior to sale in order to make the ESA purchase transaction financially feasible That is, the employer would be able to pay for the reduced-valued companies using only dividend payments Land was usually sold or retained by the holding company, other assets were leased back at a 5% per annum lease fee if the ESA company wished to purchase them (e g , office buildings)

The critical documents governing ESA operations are the sales agreements While these firms are worker owned, during the time of the debt amortization (and perhaps thereafter) restrictions are placed on that ownership The principal restriction is that Holding Company officials control management until the debt is paid

While there has been considerable controversy about ESAs, their total sales value was only LE245 million, a mere 2 2% of the total value of GOE assets sold The principal concern is that as IPO privatizations become less attractive, the GOE may again turn to the ESA model The general economic efficiency of large-scale worker ownership is still called into question, even (and perhaps especiallv) if these firms were to become effectively worker-controlled

[8] In most successful ESOPs in the US management is allowed to purchase shares at a special discount Incentives for management to 'add more effort' are key to most successful ESOPs There is nothing wrong with providing management incentives if reasonable

3 THE RESULTS OF PRIVATIZATION IN THE ENTERPRISES EXAMINED

3 1 Anchor Investor Sales

3 1 1 Babcock & Wilcox Egypt, S A E

3 1 1 1 The Company and its Privatization

Babcock & Wilcox Egypt, S A E (B&W Egypt) is an Egyptian Joint Stock Company incorporated on January 12, 1995 under Law 230 of 1989 and Law 95 of 1992 It is a private company whose shares are not listed with the Egyptian Capital Markets Authority [9] On September 27, 1994, B&W Egypt bought assets, properties, rights, and claims from El Nasr Boilers and Pressure Vessels Manufacturing Company, an Egyptian state-owned company that had been operating under Law 203 of 1991

El Nasr Boilers is one of eight Law 203 Companies privatized to date using the anchor investor method It was one of first three GOE anchor investment privatizations, the others being local bottling companies for Coca-Cola and Pepsi Cola The transaction is one of only three in Egypt's privatization program in which a majority stake has been sold to a foreign investor, Babcock & Wilcox International Investments Co Inc (B&W) of Barberton, Ohio B&W is owned by McDermott International, Inc At present, B&W owns 61% of B&W Egypt shares [10]

Essentially, B&W Egypt bought El Nasr Boilers as a going concern, stripped only of its debt obligations, for LE55 4 million (US$16,339,172) Unlike the two other early anchor sales mentioned above, El Nasr Boilers was not a profitable company in the years immediately prior to privatization

3 1 1 2 Markets and Revenues

El Kureimat

Kev in B&W's decision to acquire El Nasr Boilers was that its purchase was in essence a condition for the award of the US$160 million contract for the construction and manufacture of the large El Kureimat electricity generation facility for the state-owned Egyptian Electricity Authority (EEA) The acquisition of El Nasr Boilers was a "package deal" because the company was the only Egyptian firm that could meet the potential local manufacturing requirements of the El Kureimat project B&W Egypt subcontracted with B&W International to fabricate needed components, including pressure parts Delivering on a contract entered into by Nasr Boilers for the same project, B&W Egypt also made condensers, storage tanks, and feedwater heaters for Hanjung Heavy Industries

Since privatization, major EEA powerplants have been B&W Egypt's principal sources of revenue Work on the Kureimat facility was completed in fiscal year (FY) 1997 and was followed by the 2 x 320 megawatt (MW) Sidi Krir project (to be completed in FY 1998) and the Ayoun Moussa project (also 2 x 320 MW and expected to be completed during FY 1999) All of these contracts contained local sourcing requirements and B&W Egypt was the only local company with the required manufacturing capability Other, lesser sources of B&W Egypt revenue include firetube industrial

[9] The sources of this company profile are interviews with its management and a review of its reports Because B&W Egypt is a privately held company its audited financial statements are not public information IBTCI Egypt is grateful for the collaboration given our team by Mr Peyton S Baker B&W Egypt s Managing Director

[10] Initially the Commercial International Bank (CIB) Egypt S A E owned 10% of the company s shares on which B&W International had a "put/call option B&W exercised that option during its Fiscal Year 1997 The authors have been not been able to determine where CIB s share originated, whether the option had an expiration date or how it was priced However B&W International s exercise of the option must nonetheless be viewed as a vote of confidence in the future of B&W Egypt

boilers and service business, including maintenance for firetube boilers B&W Egypt also made a significant sale of boiler-related services to Saudi Arabia

3 1 1 3 The Changed Incentive Framework

Three major changes since B& W Egypt's establishment have fundamentally altered the prospects for the company

The Tariff Structure

An annual demand for some 80 smaller industrial boilers exists in addition to the demand for major utility boilers Prior to 1995, the company had about 75% of this small boiler market, exports had approximately 20%, and small "mom and pop" enterprises covered the remaining 5% As part of the GOE's ongoing economic reform program, the tariff structure was changed in 1995 Previously, the external tariff on capital goods (boilers) was 50% and the tariff on raw materials (principally certified steel) was 35% Under the current reform, the external tariff on capital goods was reduced to 5% while the tariff on raw materials remained unchanged [11] As a result of this change in tariffs, in 1995 B&W Egypt's market share fell by almost half to only 40%, while the share of imports increased to 55%, and small companies retained their 5% market share

Change in Egyptian External Tariffs on Capital Goods and Raw Materials (in %)

Table (2)

Class of Imports	Pre-reform	Post-reform
Capital Goods	55	5
Raw Materials	35	35

B&W Egypt Estimates of Market Share for Industrial Boilers (in %)

Table (3)

Source	Pre-1995	1995
B&W Egypt	75	40
Small Enterprises	5	5
Imports	20	55

To deal with the tariff issue, the company has taken a preliminary look at using Egyptian manufactured steel, which is quite price competitive However, for safety reasons the type of steel used in boilers must meet very high strength and consistency standards B&W Egypt managers do not believe that Egyptian steel can meet these exacting standards

Utility Boiler Procurement

[11] It is beyond the scope of this report to make judgments on the efficacy of the specific tariff measure reform that was undertaken or whether or not the effective rate of protection within the Egyptian economy increased or decreased with that measure Still that issue merits further examination, if not within the context of the privatization program then within the context of evaluation of the whole economic reform process

Recently, the EEA shifted its acquisition of new generation capacity to the build, own, operate, and transfer (BOOT) system Under BOOT there are no local content requirements Thus, finished (or nearly finished) boilers can be manufactured abroad from world-priced raw materials, imported into Egypt as capital goods, and eventually added to the EEA grid Because international donors have in part financed EEA's major utility boiler contracts, raw materials for their manufacture came in duty free It is not clear whether non-donor-financed EEA projects will enjoy the same duty-free privileges or if duty-free status will apply to future EEA BOOT capacity acquisitions

Other

B&W Egypt claims that it has lost the preferential treatment Nasr Boilers used to receive from EEA regarding spare part procurement contracts It also alleges that EEA prefers to source from European manufacturers, at least in part because EEA officials benefit from the European observation trips that accompany these purchases [12] This speculation aside, and in spite of the fact that Law 9 (the Public Procurement Law) grants a 15% price advantage in public tenders to Egyptian firms (like B&W Egypt), the fact remains that no such contracts have been forthcoming since privatization

3 1 1 4 Changes Within the Firm

Investment, Technology, Financing, and Market Access

The B&W Egypt privatization has most of the advantages (see Section 1 2 1, Sources of Economic Benefit from Privatization) usually claimed for the foreign anchor investor First, the company made some US$5 0 million of new capital investment in machinery and US$2 0 million in new inventory Second, it has brought in expatriate management and technical expertise (five permanent employees and three professionals who make regular visits) Third, its parent companies have made available US$11 8 million of external financing [13] The beneficial aspects of market access (for exports) are less clear, however, B&W International has a network of representatives, agents, and licensees as well as joint venture companies in China, Indonesia, India, Mexico, and Turkey in addition to Egypt This network has no doubt benefited the company in terms of efficiency and cost in the sourcing of inputs and is a potential asset for export activities Like most other anchor and IPO companies involved in this study, B&W Egypt has computerized many information functions, including its accounting

Labor

Like most other Egyptian public sector companies and government entities, El Nasr Boilers had excess labor When El Nasr Boilers was sold it employed 1,156 people, B&W Egypt now has 960 employees Some 300 workers were displaced, most through the company's early retirement scheme However, the company has also hired some 100 new employees, including engineers, welders, and purchasing and sales support personnel At privatization, there were 95 employees in accounting, many of these personnel have been made redundant with the installation of the automated accounting system Management believes there is room for further reduction For example, the company employs some 90 people engaged in the transportation of employees, supplies, and products The company would prefer to pay employees to defray commuting costs and contract out, or otherwise provide for

[12] The authors have unsuccessfully attempted to follow up on this issue which is outside of the scope of this study

[13] The company received a loan from the Bank of Nova Scotia of US$11,830 000 Of that, it paid US$1 0 million during the fiscal year ending on March 31, 1997 Up to April 1997, this loan was secured by a bank guarantee provided by Babcock & Wilcox International Investment Co It was subsequently secured by cash deposits provided by the B&W parent company, McDermott International Inc

needed transportation services (The Managing Director of the company said that he was in the business of making boilers, not running a transportation company)

Since the company's privatization, labor relations have been a problem despite an average salary increase of 65% The company has experienced vandalism and six strikes The issues in these labor disputes have been related primarily to (1) employee work assignments and discipline, (2) employee early retirement schemes, and (3) attempts by the company to tie compensation to performance rather than to seniority

The company has no minority Employee Stockholder Association Egyptian law mandates that profitable companies pay their employees a 10% per annum profit share, as neither El Nasr Boilers nor B&W Egypt posted profits until this last fiscal year, the company has not had to defray this expense

Other

The company's plant runs two-and-one-half shifts and is stated to operate at 75% of installed capacity There is ample room in its principal manufacturing structure for the installation of new machinery to increase capacity Further, there is room at the plant site for limited new construction [14] Output is thus demand-constrained

Photographs taken at the time of B&W's takeover of the facilities indicate that substantial cleanup of the plant's grounds has taken place However, the property and buildings, including the main administrative building, can best be described as spartan Aside from the installation of new manufacturing equipment, little appears to have changed since the takeover

By early 1994, El Nasr Boilers' impending sale was an open secret to company management Marketing activities ceased early in the year and most production in July 1994 The sale took place in late September 1994, and the new owners took possession on January 30, 1995 This long interlude permitted significant deterioration of the firm as a going concern The new owners did not find a single piece of usable inventory, which reportedly had been liquidated at significant discounts to actual value—they did, however, find a significant amount of unusable inventory, which they are still seeking to utilize or otherwise dispose of The authors have heard (but can not substantiate) that this type of transition problem is common in anchor privatizations Further study seems merited on what measures might be taken to minimize the problems and losses of the transition period for both buyer and seller in the anchor sale

Our analysis of the company's financial statements, discussed below, indicates that substantial increases in efficiency have been achieved

3 1 1 5 Corporate Governance

B&W Egypt is a private, joint venture company organized under Law 230 of 1989, neither listed on the stock exchange nor publicly traded The company s subscribed and paid-up capital is US$10 million divided into 32,000 shares with a par value of US$250 00 B&W International owns 61% of the shares and individual Egyptian owners, the remaining 39% The current capital structure of the company is therefore not conducive to its being easily publicly traded in the future Two of the largest minority shareholders each own 5%, another 3 75%, and two others 2 5% each, individual

[14] Recently the new ownership was able to definitively register the plant site property deed after three years of sustained effort It found that the property it owns was larger than previously anticipated but that a considerable piece of its land is occupied by a technical vocational school operated by the Ministry of Education Nasr Boilers had leased the land on which the school stands to the Ministry in perpetuity at a nominal, now symbolic, rent

investors own the remaining 20 25% Many of the Egyptian shareholders have family ties and are closely linked to the company, which has been B&W International's representative and distributor in Egypt for many years

The corporate charter mandates that the company's Board of Directors consist of eight members the Egyptian stockholders elect four (including the Chairman of the Board) and B&W International elects the other four (including the Managing Director) The Egyptian Directors do not have active management roles Board resolutions must be passed by a majority vote, including at least one member representing either B&W International or the Egyptian stockholders, for a resolution to be binding This provision of the charter provides a degree of protection to minority stockholder interests According to the Management, this arrangement has not hindered company operations Generally, only two Board meetings are held per year

3 1 1 6 The Financial Picture

Summary financial statements for B&W Egypt, based on audited financial statements issued by the company, are presented on the following pages A comparison of the results immediately following privatization with those of the subsequent period offers interesting contrasts There are two accounting periods the 19 months from September 27, 1994 until March 31,1997, and the 12 months from April 1, 1996 to March 31, 1997 (now the company's Fiscal Year 1997) During the first period, the company lost LE4 0 million, during the second, it showed a profit of LE1 7 million Revenue increased from a monthly average of LE1 86 million to LE2 07 million However General & Administrative (G&A) expenses stayed about the same (despite a 65% increase in the average wage), this resulted in a decrease in G&A expenses from 16 7% of revenues to 12 5%, and a concurrent increase in gross margin from 16 4% to 33 3% The rate of return on equity went from -14 9% to +7 4% While the latter is an important turnaround, the rate of return was still considerably less than the return that could have been earned from GOE short-term treasury bills in the period - hardly a satisfactory result While there may still exist some margin for cutting costs, the key to continued growth and increased profitability for B&W Egypt is larger sales and a higher plant capacity utilization

3 1 1 7 Prospects and Challenges

A company like B&W can "hit home runs" on major projects like El Kureimat and other similar large utility boiler sales During 1996 and 1997, these large utility boiler sales accounted for some 63% of the company's overall revenues However, revenues from smaller efforts, such as those coming from industrial boiler sales, spare parts, and maintenance services, are important, they totaled LE129 million during the first 19 months of operation (approximately LE8 2 million on an annualized basis) and LE9 2 million during FY 1996/97 These smaller revenues help the company defray fixed costs (including labor) that currently averages between LE6-7 million per year, and are thus essential for the company's long-term stability Problems such as the changed tariff structure and perceived inequities in EEA spare parts purchases strike at this smaller-effort revenue area and could pose a serious long-term threat to company stability If the "lack of level playing field" problems cannot be resolved, then the company has several other options for survival

Financial Data for Nasr Boilers, 1987-1993

Table (4)

Income Statement

(LE million)	1987	1988	1989	1990	1991	1992	1993
Sales	9 5	11 6	14 7	19 9	25 9	22 2	28 8
Gross Profit	2 3	3 3	4 3	6 1	7 5	6 7	
Operating Profit	1 2	1 8	2 2	3 1	3 4	0 2	
Net Profit	0 8	0 6	0 6	0 7	0 2	(7 1)	0 4

Balance Sheet

(LE million)	1987	1988	1989	1990	1991	1992	1993
Paid-in Capital	5 3	5 3	5 3	5 3	5 9	6 0	6 0
Total Assets	17 6	25 0	33 2	44 1	50 0	49 5	50 9
Total Debt	12 0	18 8	26 5	37 2	42 5	48 2	41 5
Net Worth	4 4	5 0	5 6	5 7	6 3	0 1	(4 5)
Reserves	0 3	0 3	0 3	0 3	0 3	0 3	1 8
Fixed Assets	5 4	9 0	11 8	12 8	15 0	14 7	15 1
Current Assets	11 4	14 9	19 1	26 9	28 7	29 7	22 9
Long Term Loans	1 9	4 5	8 0	10 2	13 4	14 1	13 1
Current Liabilities	10 1	14 4	18 5	27 0	29 1	34 1	28 4
Working Capital	1 32	0 51	0 56	(0 01)	(0 34)	(4 34)	(5 46)

Ratio Analysis

	1987	1988	1989	1990	1991	1992	1993
Return on Sales	8 34%	4 87%	4 07%	3 66%	0 77%	-31 83%	1 34%
Return on Net Worth	17 78%	11 30%	10 67%	12 81%	3 18%	-6 99%	-8 48%
Return on Total Assets	4 49%	2 26%	1 80%	1 66%	0 40%	-14 25%	0 76%

Financial Data for Babcock & Wilcox Egypt S A E , 1994-1997

Table (5)

Income Statement

(LE million)	from 27/9/96 to 31/3/96 P1	from 1/4/96 to 31/3/97 P2
Sales	35 4	24 8
Gross Profit	5 8	8 3
Operating Profit		
Net Profit	(4 0)	1 7

Balance Sheet

(LE million)	P1	P2
Paid-in Capital	27 0	27 0
Total Assets	23 0	23 0
Total Debt	-	-
Net Worth	23 0	24 7
Reserves	-	-
Fixed Assets	39 9	46 2
Current Assets	43 4	22 9
Long Term Loans	-	-
Current Liabilities	61 8	44 5
Working Capital	(18 40)	(21 60)

Ratio Analysis

	P1	P2
Return on Sales	-11 30%	6 85%
Return on Net Worth	-17 39%	6 88%
Return on Total Assets	-17 39%	7 39%

Boot Activities At present, EEA is looking to increase generation capacity through a BOOT similar in scale to the Sidi Krir Project Even given the lack of a local content requirement, B&W's parent company may be able to source elsewhere and subcontract elements to B&W Egypt In this case, the B&W advantage of 15% in public procurement (from which it has never benefited) would not come into play, but the parent company's ability to source both inside and outside of Egypt might come into play favorably Duty-free treatment of raw materials for these efforts will be an important consideration

Exports The company with its new, lower cost structure may be able to compete in the export market It is actively pursuing this avenue, but the outcome of its search for markets is not clear Further, given the new tariff regime, the success of export efforts will depend on the company's ability to acquire its raw materials and other imported inputs at world market prices–the company is not in a free zone Sourcing at world market prices will depend on whether or not (1) Egypt s duty drawback and (2) temporary entry regimes can be made to work for the firm The application of these systems has proven difficult enough for pure export companies in Egypt For a company that will depend on similar raw materials for both its domestic and export sales, the application of these regimes will present special problems for both the company and the authorities

In spite of the efficiencies achieved by privatization, B&W Egypt will fail after 1999 if the company does not succeed in one or more of the following

- "Leveling the playing field" in terms of tariffs and/or EEA procurement,
- Securing duty-free treatment in EEA BOOT capacity acquisitions and
- Making the temporary admissions or duty drawback regimes work for possible exports

A possible alternative to the third point could be the granting of free zone status to the B&W Egypt plant

If neither B&W Egypt nor the GOE cannot find a solution to one or more of the above, then the firm will face a new challenge that of market exit and company liquidation Reportedly, market exit in Egypt can be a long, complicated, and costly process B&W Egypt management believes that its investment has a liquidation value in the range of LE50-60 million, an amount similar to its investment The company's land is worth approximately LE40 million, while the equipment and factory are worth an additional LE20 million B&W Egypt's obligations to its current employees and the cost and time of the management effort required to exit are not clear Company management expressed concern about its apparent obligations in perpetuity to its employees The authors of this study consulted a knowledgeable public sector lawyer who stated that the legal impediments to firms wishing to exit the Egyptian marketplace are minimal, however, private sector executives indicated that non-bankruptcy market exit is a long, drawn-out, and costly proposition

The questions of the cost and effort of market exit are important for two reasons (1) generally, as regards Egypt's ability attract increased foreign direct investment, and (2) more specifically, regarding the feasibility of future anchor investor privatizations involving both foreign and domestic investors

To the degree that the perceived risk of market exit is higher than it actually is, investors will require a higher risk premium to enter the market, and less foreign investment will take place If the actual costs of market exit are high, that is also a cause for concern and could lead to the same result In our view, the issue of market exit deserves further study, either to dispel unwarranted concerns or to find ways in which to lower the actual exit costs

3 1 2 Al Ahram Beverages, S A E

3 1 2 1 The Company and Its Privatization

Al Ahram Beverage Company, S A E , (ABC) is an Egyptian joint stock company operating under Law 159 of 1981 and Law 95 of 1992 A public company founded in 1922, its shares are listed with the Egyptian Capital Markets Authority and traded on the Cairo Stock Exchange ABC is the sole Egyptian producer of both alcoholic and non-alcoholic beer (under the Stella label) with a market share of 90% and 95%, respectively The company also bottles and sells soft drinks The company's sales break down as follows alcoholic beer, 75%, soft drinks, 16%, and non-alcoholic beer, 9% ABC has production facilities in Giza, Alexandria, and Sharkia The Giza plant has an annual production capacity of 225,000 hectoliters (hl) of alcoholic beer, the Alexandria facility's capacity is 150,000 hl per annum, and the Sharkia plant has an annual capacity of 300,000 hl of alcoholic beer, or 600,000 of non-alcoholic beer, and18 million cases of soft drinks

On June 23, 1996, the Holding Company for Housing, Tourism and Cinema (HTC) announced its intention to divest all of its shares in ABC On July 1, 1996, ABC transferred title to its lands and buildings in Giza and Alexandria to the Holding Company, on July 2, HTC sold 15% of the company's 4 5 million issued shares in an IPO at LE67 per share HTC simultaneously allocated 450 000 shares (10%) to its ESA Misr Insurance Company and the Bank of Alexandria, both state entities, were each allocated 5% of the shares, and 5% was sold to other investors After the announcement, a number of consortia submitted bids for rest of HTC's stake at prices up to LE75 per share On November 13, 1996, HTC and the Luxor Group (a New York partnership headed by Mr Ahmed Zayat, an Egyptian-American) entered into a sales agreement for 3,373,520 (74 97%) of ABC's shares at an offering price of LE68 50 per share, or LE 231,086,120 (US$68,000,000) Luxor paid a US$750,000 deposit on the shares There is a Usufruct Agreement under which the company has a right to occupy the Giza and Alexandria sites, in return for a nominal annual fee, until February 2002 The Luxor Group also has a contingent liability of LE20 million to the Holding Company, which can be called if Luxor does not carry out its planned investment program

With the underwriting assistance of HSBC Investment Banking, the equivalent of 70% of ABC's shares were successfully offered as General Depository Receipts (GDRs) on the London Stock Exchange on February 24, 1997 The Luxor Group retained the equivalent of 325,020 shares (7 22%) in GDRs (in addition to the 5% of the shares that it owned which were not offered) The GDR equivalent of 2,823,500 of ABC shares (62 74%) was sold for approximately LE297,173,375 (about US$87 5 million), or LE105 25 per share This amount was enough to pay the balance owed to HTC as well as the fees and commissions for the GDR

Table 6 breaks down the rather complex ABC stock and GDR offerings since July 2, 1996, and lists a schedule of GDR commissions and fees and the distribution of the market capitalization of ABC at LE100 per share (the lowest share price at which ABC has traded since the execution of the GDR) A graphic representation of changes in company's share price follows As of November 24, 1997, ABC's share price stood at LE208

The GDR transaction also provides for an ESOP and a Managing Director Option Plan (MDOP) The ESOP (not to be confused with the company's ESA) provides for employee stock options of 260,000 additional shares that can exercised over the next six years according to a complex formula based upon company's earnings increases

The MDOP allows for the exercise of options on additional 360,000 shares for the Managing Directors (Messrs Ahmed and Sheriff Zayat) if performance targets are met in a similar fashion to the ESOP

ABC Share Offerings/Holdings

Table (6)

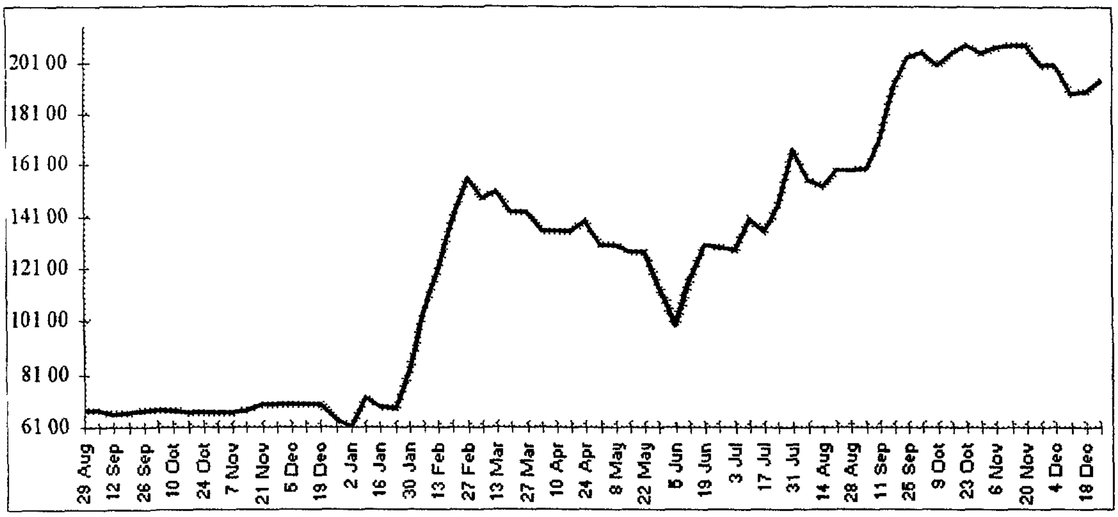
		% of Total	Price (LE)	Value (LE)
Total, issued of 75,000	**4,500,000**			
First offering, July 2, 1996				
To Misr Insurance Co	225,000	5 00	67 00	15,075,000
To Bank of Alexandria	225,000	5 00	67 00	15,075,000
To ESA	450,000	10 00	53 60	24,120,000
To others	226,480	5 03	67 00	15,174,160
(reduced to 225,780 by Feb 2 sale				
Subtotal				**69,444,160**
Anchor sale to Luxor Group LLC				
Nov 13, 1996	3,373,520	74 97	68 50	231,086,120
Feb 2, 1997	700	0 02	86 10	60,270
Subtotal	**3,374,220**	**75 00**		**231,146,390**
Total paid for shares to GOE			**66 8**	**300,590,550**
GDR offering, Feb 24, 1997 (1 GDR = 2 shares)				
Total shares in transaction	3,148,520	70 00		
Sold to others	2,823,500	62 74	105 25	297,173,375
Retained by Luxor LLC (GDR)	325,020	7 22		
Fees & sales commission for GDR, excluding certain expenses				
Mgmt commission (US$0 205)	3,148,520		1 39	4,382,582
Underwriting commission (US$0 205)	3,148,520		1 39	4,382,582
Selling commission (US$0 613)	3,148,520		4 16	13,104,990
Total			**6 95**	**21,870,155**
Value of new market capitalization @ LE100/share				
Others in GDR	2,823,500	62 7	100 0	283,350,000
Misr Insurance Co	225,000	5 0	100 0	22,500,000
Bank of Alexandria	225,000	5 0	100 0	22,500,000
ESA	450,000	10 0	100 0	45,000,000
Others in IPO	226,480	5 0	100 0	22,648,000
Luxor LLC (GDR)	325 020	7 2	100 0	32,502,000
Luxor LLC (IPO)	225,700	5 0	100 0	22,750,000
Total	**4,500,000**	**100 0**	**100 0**	**450,000,000**

Neither of these incentive schemes are "cream puffs", they will not be met easily and will require consecutive 12% annual increases over the pre-tax earnings per share of June 30, 1995

It is interesting to note that even at the low share price of LE100 all parties (with the exception of the non-Luxor Group GDR owners) are better off as a result of the GDR transaction they experienced a temporary lowering of the share price Especially notable is the increase in the value of the ESA's shares at LE100 per share, ABC's 3,100 workers saw their average ESA stake increase from LE7,781 to LE14,516 At LE208 per share (the November 24, 1997 closing price), the average ESA stake was valued at LE30,194 Figure 1 shows the share price trend of ABC since August 1996

Al Ahram Beverages' Share Price, August 1996-December 1997 (in LE)

Figure (1)



3 1 2 2 Markets and Revenues

ABC has a domestic monopoly in Egypt's production of alcoholic beer, the source of 75% of its sales Egypt currently imposes very high tariffs on alcoholic beer 300% for beer sold in tourist outlets and 1,200% for beer sold elsewhere It should also be noted that a 100% excise tax collected on domestically-produced beer narrows the price difference to the consumer Tariffs on beer substitutes (other alcoholic beverages) are also very high Domestically produced spirits and wines are of very poor quality

ABC faces stiff competition for its non-alcoholic beverages (except for non-alcoholic beer), not only from the recently privatized Pepsi and Coca-Cola bottlers, but also from both smaller firms which package and sell juices and the numerous fresh juice outlets

While an examination of the company's sales over the past several years shows a consistent increase in sales (see following condensed financial statements), these sales increases have resulted mainly from higher prices rather than higher volume sales The company's spokesperson characterizes the firm s overall operations as being "supply constrained "

While ABC currently has a monopoly in beer production in Egypt, there is no legal provision limiting entry by other enterprises into this field The company's privatization has, in fact, been accompanied by a foreshadowing of competition into the Egyptian beer market, as of this writing, two new firms have been granted licenses to open and operate breweries in Egypt, although only one is moving ahead with construction That new company, with technical assistance from Lowenbrau, is constructing a brewery in Hurgada, a resort city on the Red Sea where the company hopes to make inroads on Stella's current monopoly of the lucrative tourist market Although Stella will not face competition until next year at the earliest, ABC's management fears that daily rumors about new market entries is adversely affecting the company s actions and behavior The new ABC is a company in a hurry to achieve one of its primary business plan objectives maintain domination of the domestic beer market

3 1 2 3 Changes Within the Firm

Although the firm has been privatized for only one year, it has undergone substantial changes during that time The new ownership and management completed a fact-finding initiative into the areas of organization, sales, and production and found many problems that have been solved or are well on the way to being remedied These changes are discussed below

Investment, Technology, Financing, and Market Access

The two principal long-term problems facing ABC are (1) the construction of new breweries to replace the antiquated Giza and Alexandria facilities (which the company must turn over to the government by February 2002), and (2) the need to quickly increase capacity to meet a rapidly growing demand

The company's business plan calls for the investment of LE239 million over the next four years in a "greenfield" brewery This new plant is expected to have an initial capacity of 500,000 hl per annum with scope for a seamless expansion to 1 0 million hl This plant would replace the 375,000 hl capacity of the Giza and Alexandria plants as well as provide room for expansion The initial capacity of the new plant added to the 300,000 hl of the Sharkia plant (which doubles as non-alcoholic capacity) would give the company an annual capacity of 800,000 hl, which compares to reported sales of 360,000 hl in the year ending June 30, 1996

The company plans to finance the LE239 million investment with internally-generated funds together with short-term loans if required As of June 30, 1997, the company had LE92 8 million in cash, LE37 2 million in reserves, and no long-term debt The plan therefore appears feasible

The Luxor Group brought in Danbrew technical expertise to (1) improve the quality and production efficiency of the existing facilities with a three-person Production Management Support Team (whose accomplishments are discussed below) and (2) carry out the "turnkey" construction of the new plant in El Obour City (just east of Cairo) for the amount of DM36 million Danbrew is also assisting with the marketing of Carlsberg beer, a brand which will be produced in the new greenfield plant and for which ABC is presently the Egyptian distributor

Labor

ABC, like most GOE enterprises, had excess labor and labor incentive/performance problems To address these issues, ABC's new management undertook the following initiatives during the 100 days following privatization

- created a restructured, incentive-based compensation plan with which the union agreed,
- obtained total union support for the elimination of corruption (especially black market sales, discussed below),
- provided a new cafeteria for employees,
- revamped the health care system (in terms of both quality and affordability), and
- provided new uniforms

The question of excess labor is being met through better-defined responsibilities, the setting of objectives and performance measures, retraining, voluntary employee buyouts, and attrition, the business plan calls for the reduction of up to 100 employees annually over the next five years at an annual cost of about LE2 million (i e , LE20,000 per employee) It is not clear what will happen to the employees in Alexandria when that plant shuts, most of the employees working in the Giza facility should be able to continue working in the new El Obour City plant

However, the basic fact remains the same ABC employs over 3,000 people but could operate efficiently with only 1,000 While employee cost represented only 33% of total costs as of June 30, 1997, new competitors will face neither the same degree of burden in this area that the current Labor Law imposes on ABC nor the "we pretend to work, you pretend to pay us" ethic that has, to a greater or lesser degree, affected all nationalized Egyptian companies

There have been no reported labor problems at ABC since privatization, on the contrary, management reports excellent labor union cooperation in trying to deal with the company's problems This author concludes that the average employee stake of approximately LE30,000 in the minority ESA goes a long way to explain this cooperation and the lack of labor troubles encountered by ABC's new management

Other Changes

The Luxor Group has brought in a new management team in a reorganized structure Within the first 100 days of takeover, five new executives (including three non-Egyptians) were brought in, during the subsequent 100 days, an additional seven senior executives were hired Some of the new positions and investments in human resources were in the areas of investor relations and media, human resources, and plant, marketing, export, and sales management Additionally, new management information systems were initiated and 45 people have been added to the sales force Thus, a major emphasis has been placed on sales and marketing as well as on the development of new systems
A major surprise encountered by the new owners at change of control was that significant amount of Stella beer was being black-marketed with the help of some ABC employees (This practice was apparently of quite long standing and was not unknown to some highly placed former ABC officials) Deliveries of product were being made from the company's loading docks to distributors or retail establishments without the proceeds entering company's coffers or being recorded as sales, also, the 100% excise tax was not collected on these illegal sales This practice deprived both the company of sales and also the government of significant revenues This practice had been possible because of lax inventory controls and poor control of plant access

The new owners also found other instances of substantial company property "trickling" out of places like storerooms and warehouses At higher levels in the company, questionable stewardship of ABC's resources was also discovered The new ownership responded by (1) notifying the authorities (who filed criminal charges against some employees), (2) enlisting the support of the union in an anti-corruption campaign, (3) improving physical security at the facility by retraining 40 employees and making changes in the security force, and (4) redesigning and implementing new systems controlling inventory The cleaning up of corruption has had a quick and significant positive effect on the company's financial situation (see below)

A major innovation since the takeover was the introduction in September 1997 of a new brand, "Stella Premium " The new beer is a fuller, darker beer (unlike Stella Local and Stella Export, which are lagers) with a higher alcohol content Stella Premium is intended to compete directly with imported beer for the higher end of the market, it comes in the standard 330 ml bottle, rather than the 500 ml bottles of Stella Local and Stella Export, and is priced lower than imports It is expected to be the company's highest profit margin line, targeting an estimated 5-6 million potential customers

According to an article in *Business Monthly* (September, 1997, p 16), it was said "you could find 24 different flavors in a case of Stella " A major effort was undertaken with Danberg technical support to improve the beer s quality, even within the constraints of producing in the antiquated plants A comprehensive survey of the Giza and Sharkia facilities found many flaws inconsistency of brews, oxidation that resulted in flat beer, and unwanted microbiological activity that resulted in a yeasty flavor To remedy these problems, a 50-point action plan was developed which highlighted adhering to the Stella recipe and brewing procedures manual, repairing exposed pipes, performing bottle line maintenance, introducing new hygienic standards, and purchasing selected new tanks

While these measures have no doubt had a salutatory effect, production problems continue that will be solved only by a new brewing facility During our team's site visit to the Giza bottling line, which lasted perhaps thirty minutes, the line had to be stopped repeatedly due to uneven bottle fills Several bottles even exploded

On the sales, marketing and demand side, ABC has moved aggressively It has added new personnel to its sales force and is using its legal teams to secure alcohol distribution permits (to attempt to end police and governorate-level hindrance of sales and distribution) Additionally, the company is reviewing its distribution and distributor systems, promoting brand awareness and loyalty through promotion activities not involving public media advertising (prohibited by law) Finally, the company has increased its fleet of trucks, permitting a larger flow of supply to the market

Substantial efforts have also been undertaken in the non-alcoholic beverage activities the re-launching of the Royal Crown Cola (RC Cola) brand in Egypt and strenuous new efforts to increase demand for and exports of the company's non-alcoholic beer, which show promising results in the regional market Further, the company reports a marked increase in sales of non-alcoholic beer in the Egyptian market This product is not in head-to-head competition with other soft drinks

Conclusion

The Luxor Group's privatization of ABC has most of the advantages usually claimed for the foreign anchor investor substantial new investment has taken place, partly financed through the creative use of foreign portfolio investment (the GDR offering), new technical knowledge was brought to bear, the firm's management and organization have undergone a complete overhaul, and marketing has dramatically improved These changes were accomplished in the very short time frame of a year

3 1 2 4 Corporate Governance

The company's new nine-person Board of Directors includes three executive directors who have major roles in the company's management One director represents the ESA, one represents Misr Insurance Company and the Bank of Alexandria, and one, acting in his individual capacity, represents HTC, which still has an interested in the not fully paid ESA shares The other Board members represent independent stockholders The Luxor Group LLC clearly controls the ABC Board by controlling the GDR Depository and thus 75% of the shares

According to Egyptian law, the GDR Depository, which controls 70% of ABC's shares, must vote those shares in a block A possible future governance issue is whether the interests of non-Luxor Group GDR holders are properly represented on the Board While a case could be made that they are not, there is, in fact, a substantial community of interests between the Luxor Group and the GDR holders While the team could not and did not attempt to identify any ABC GDR holder, it is fair to assume that any dissatisfaction with regard to representation is well compensated by the 98% initial year return on investment (at the present ABC share price of LE208) and by a liquid market for those shares

3 1 2 5 The Financial Picture

The summary financial statements presented on the following page cover the fiscal year ending June 30 1997 The new owners did not assume control of the company until February 18, 1997[15] Thus it is too early to expect significant changes in the company to be reflected in the financial statements

[15] Although the total privatization of ABC was announced during June of 1996 and the management changeover did not occur until February 18, 1997, there were no reports of company neglect or decapitalization during the interim This may be explained in part by the ESA allocation

For example, Stella Premium, a high margin item, had not even been introduced by the end of June 1997 Still, sales increased by 6 1% (although the company was 45,000 hl behind target at takeover and is supply constrained) and after-tax profit and earnings per share by 30 3% Another key ratio not shown in the summary financials is that the sales-to-inventory ratio increased from 2 89 in FY 96 to 3 45 in FY 97 This shift is substantial and reflects at least improved inventory management by year-end, if not also the crackdown on black market beer Not shown by the summary financials is the fact that pre-tax profits increased by only 20 9%, which may be indicative of some one-time-only gains A comparison of the 1996 and 1997 full financials shows that the expected dividend pay-out ratio decreased from 81 7% in 1996 to 50 1% in 1997 This is to be expected from a company internally financing a major new investment

Financial Data for Al Ahram Beverages, 1994-1997

Table (7)

Income Statement (LE million)

	1994	1995	1996	1997
Sales	115	132	140	149
Gross Profit				
Operating Profit				
Net Profit	32	43	45	54

Balance Sheet (LE million)

	1994	1995	1996	1997
Paid-in Capital	50	90	90	90
Total Assets	239	267	275	283
Total Debt	88	98	103	92
Net Worth	98	65	108	135
Reserves	48	15	18	37
Fixed Assets	70	88	90	76
Current Assets	162	161	168	144
Long Term Loans	0	0	0	0
Current Liabilities	88	98	103	92
Working Capital	74	63	65	52

Ratio Analysis

	1994	1995	1996	1997
Return on Sales	27 83%	32 58%	32 14%	36 24%
Return on Net Worth	0 33%	0 66%	0 42%	0 40%
Return on Total Assets	0 13%	0 16%	0 16%	0 19%

3 1 2 6 Prospects and Challenges

The greatest challenge ABC faces is the market entry of at least two new competitors They will have a lower cost structure than ABC, using less labor and newer technologies (at least until ABC gets its new plant on line) ABC's major advantage will be its established distribution system ABC will also benefit from the ban on beer advertising, which will make it more difficult for new entrants to establish themselves with the consumer Another ABC advantage is its established channels for acquiring barley a main ingredient in beer Not being able to compete in public media advertising may lead to price competition, lowering margins for all competitors

At the time of writing, the equity market was betting heavily on ABC, the share price of LE208 was pricing ABC at 17 4 times trailing earnings Whatever the outcome of the battle, it was made possible by ABC's privatization Clear winners are consumers, who already have better products available and will soon have an even greater variety of choices Additionally, consumers may benefit from lower prices Other winners are Egypt's workers ABC will most probably be reducing direct employment over the next few years, to date this has not been so, with the company adding sales force and activating distribution outlets However, ABC's permanent employees, stakeholders in the minority ESA, stand to benefit greatly from its increased value, and the new Employee Stock Options Program also has promise More importantly, the number of jobs to be added by ABC's new competitors will no doubt be greater than the number retired by the company

3 2 Share Flotations (Initial Public Offerings)

3 2 1 Nasr City Housing & Development

3 2 1 1 The Company and Its Privatization

Nasr City Housing and Development Company (Madinet Nasr or Nasr City) is an Egyptian joint stock company that was last reorganized as a Law 159 company in 1996 Nasr City, founded in 1959 as public sector company, is a land development company based on the model of earlier private companies that developed neighboring Maadi and modern Heliopolis, founded in 1906 The company was established to execute the Nasr City District Development Plan that extended the Cairo metropolitan area eastward into the desert Its principal business is to convert desert land into urban properties Easily urbanized land adjacent to Cairo has historically been very scarce, and the conversion of land from agricultural to urban uses is tightly restricted

The total area of the Nasr City district is 4,500 hectares The district is five kilometers from downtown Cairo and straddles the corridor between downtown Cairo and the Cairo airport, a valuable location The company has constructed some 14,000 housing units and developed numerous fully-serviced (sewage, water, electricity and roads) plots for both the public and private sectors For the public sector it has developed sites such as the Cairo Sports Stadium, the International Fair, the International Conference Center, the 6th of October War Museum, and various ministries and public entities (e g , the Ministries of Planning, Finance, and Manpower and the Central Authorities for Accounting and for Mobilization and Statistics) It has constructed branch markets and shops, provided land for hospitals and health units, police and fire stations, gasoline stations, and post offices, in short, the whole gamut of urban land uses At present, Nasr City property is almost fully developed The company's urbanization efforts are still principally centered on the Nasr City district with future development extending eastwards into the desert

The company was made a Law 203 Company in 1993, it shares transferred to the GOE Holding Company for Building and Construction In May 1996, the HC sold 74 8% its shares through one of Egypt's first IPOs of state-owned company shares through the stock exchange In the IPO, 2,997,530 of the company's 4 million issued and paid-in shares were sold The shares were allocated as follows investment funds, 14 6%, "workers," 10 5%, ESA, 10 0%, and the public, 39 7% The IPO price was LE65 per share with the ESA allocated shares valued at LE52 (at the usual 20% discount) In 1997, the company's General Assembly approved a 1 1 stock dividend, increasing the number of outstanding shares to 8 million

At the end of 1996, shortly after its privatization, the company acquired 90% of the shares of El Nasr Utilities and Erection Co (El Nasr Utilities) for LE36 million The balance of Nasr Utility shares were sold to Nasr Utility's ESA El Nasr Utilities specializes in the construction and installation of public water and sewerage works constructed the greater Cairo and Alexandria sewage systems as well as the greater Cairo waterworks

3 2 1 2 Markets and Revenues

According to the September 1997 financial analysis conducted by Hermes Financial, Nasr City owns 1 7 million sq m of land (excluding 3,351,600 sq m) in its strategic reserve in New Nasr City (an area 35 km away from downtown Cairo which is expected to be developed over the next 25 years The company currently sells developed land and apartments (except upper income housing which is sold on a cash basis) on the basis of a 60% advance cash payment, with the balance paid in installments over a period which varies from five to ten years, the New Nasr City land and its 1,719 housing and commercial units are currently available for sale or on the way to being so The company also recently acquired 200 feddans (around 76,000 sq m) of land in the New Cairo area close to the ring road and adjacent to the new American University campus, this land should appreciate rapidly

While the company's primary interest is land development, it also has certain characteristics of a financial institution Approximately 15% of its "sales" consist of the collection of installment payments, related to accounts receivable, in excess of LE400 million Further, some 16% Nasr City's income is from time deposits, which in 1997 exceeded LE200 million Not only does the company have attributes of a financial institution, it also has characteristics of a holding company Not only does it own most of Nasr Utilities, but a review of its 1997 income statements indicates that substantial revenues were derived from its sale of LE70 million in shares in its former sister company, Heliopolis Housing

3 2 1 3 Changes Within the Firm

Investment, Technology, Financing, and Market Access

Members of the company's management told us in separate conversations that the greatest benefit of privatization was the ability to freely chose, according to market signals, the uses to which land under development would be put This freedom to chose comes from being free of the political or public policy dictates that used to influence the company's business decisions The company can now develop a given piece of property for commercial purposes, for example, rather than low-income housing Prior to privatization, company performance was judged by its fulfillment of National Plan objectives and profitability Now, expected profitability drives decision-making On further probing, it became clear to the team that the profit making orientation had already come into being prior to privatization El Nasr's reorganization under Law 203 had already freed the company from the guidelines of the Plan and Ministerial dictates However, as discussed below, the circumstances related to its privatization has tied management incentives much more closely to the company's profitability

The company has only been private for a short time The only significant change in technology, processes, etc reported was in the automation of its accounting and information systems

Labor

Nasr City estimates that at least 20% of its approximately 650 employees before privatization were redundant Even within its first year of privatization, some 10% of Nasr City's employees have taken advantage of its early retirement program, with the costs to the company per employee varying between LE15,000 and 20,000 Management said that it expected another 10% of its employees to avail themselves of the early retirement option next year The company has budgeted LE2 5 million for the early retirement program, which management characterized as a good investment Excess employees were found mainly in the administrative areas The automation of the company s accounting, for example, led to some 20 employees being redundant The redundant employees are not necessarily the same as those retiring The company has attacked this problem partially through the reassignment of duties On the other hand, the company has had to fill key positions in the computer and public relations fields and has also required more translators than previously employed

Redundant employees were, in the main, not considered "retrainable" for those new functions The company has not reported any labor problems

Other Changes

The major other changes that the company reported also had to do with company decision making For example, the decision to acquire Nasr Utilities was made solely by the company's Board of Directors as a business decision, GOE approval was neither sought nor received

Perhaps the most important change that we noted had to do with the attitude and approach of management, an almost entirely subjective observation on our part Management was acting and talking like private sector management about the company's problems and prospects At one point in our team's interview, the company's Chairman (who was not replaced during privatization) responded to one of our probes in relation to labor force issues with the retort "What do you think we are, a public sector company?"

3 2 1 4 Corporate Governance

A principal improvement reported by the company Chairman was that prior to becoming a Law 159 company, the workers were represented on the company Board, now, they are not The Chairman stated that when the company was operating under Law 203, the company board had nine members, of whom four were elected by the workers He, the Chairman, and four other directors were appointed by the government The Chairman stated that in many instances the worker representatives were more united than were those of the government, and they were generally able to form coalitions with one or more of the government's representatives to form Board majorities These majorities (in the Chairman's view) often favored the company's workers as opposed to its owners (the citizens of Egypt), especially in terms of the company's profitability

At present, Nasr City's Board of Directors is composed of 11 members Three represent the government, which retains 25% of the company's shares a member of the Faculty of Commerce of Cairo University, a former Minister of Housing, and the Chairman The remaining eight members represent the following percentage of ownership

Foreign banks	11%
Mutual funds	10%
ESA	10%
Moroccan individual	11%
Saudi individual	5%
Egyptian individual	5%
Egyptian bank	11%
Egyptian insurance company	11%

Because of this effective Board representation of non-governmentally-controlled entities, the team believes Nasr City is the exception among newly privatized IPO firms (rather than the rule), however, this belief cannot be substantially documented although it appears that Nasr City has a greater proportion of diverse blocks of totally private shareholders represented on its Board than is usually the case among new IPOs The company's Board meets monthly, which is frequent for a private company

The Chairman states that he was elected by a majority of the stockholders at the company's General Assembly because he was viewed as the best person for the job, not merely because he was a government director [16] In addition, it is worth noting that the ESA is represented by Nasr City's Chief Financial Officer (CFO), an employee who has been with the company for 31 years

In our interview with the CFO, he noted that the ESA had a novel mechanism to accelerate the payment of its debt to the government holding company The ESA borrows money on a short-term basis just prior to the shares going ex-dividend It uses the loan proceeds to prepay its debt payment and thus receives the dividend, once the dividend is received, the loan is retired

The CCA continues to audit Nasr City, as does its new post-privatization auditor, KPMG The Chairman stated that neither the CAA audits nor CAA's role as the government's audit agency hinders the company's operations

3 2 1 5 The Financial Picture

It is not easy to understand Nasr City's performance from its financial statements,[17] due to a variety of factors in addition to those usually involved in analyzing a real estate development company The company has on its balance sheet an item called Other Payables, which for 1995-1996 totaled LE443 million, and for 1996-1997 LE476 million This balance sheet item includes a "Liabilities to Customers Account" which represents completed projects, the costs of which have already been accounted for in the P&L statement (they are, in effect, retained earnings) Moreover, as the Hermes analysis of the company's financial statements indicates, the company's costs prior to privatization were estimated as a percentage of sales (65% of sales, later reduced to 35% of sales) rather than accounting for actual costs incurred In this instance, the difference between actual costs and estimated costs is also recorded on the balance sheet as part of Other Payables and is also in effect retained earnings KPMG suggested showing these items as a one-time profit, but Hermes notes that this might not be in the company's interests due to tax implications These items are in large part responsible for the company's build-up of its cash reserves

Another factor which makes it difficult to assess the company's actual economic efficiency from its financial statements is that land is carried at its acquisition value The total value of land on Nasr City's 1996/97 balance sheet is slightly over LE2 million Yet, for example, the company's Al Waha project alone (140,000 sq m with LE50 million of investment) is expected to yield LE350 million over the next four years at current market prices, or about LE2,500 per sq m for urbanized land This implies a "locked in" value of over LE 2,100 per sq m , or some LE300 million for this piece of land alone Al Waha represents less than 10% of the company's total land (excluding New Nasr City) Thus, a substantial portion of the company's present and immediate future revenue stream reflects past land appreciation rather than profits from current operations Moreover, the high values per square meter reflect the extreme distortions that exist in the Egyptian land market due to rent control[18] and the tight restrictions on converting agricultural lands to other uses Table 7 presents Madinet Nasr's financial data from 1994-1997

[16] While this statement is certainly true leaving it at that could lead to a mis-perception of the role of Taher El Maghraby Nasr City s Chairman of the Board and Managing Director The fact of the matter is that Mr El Maghraby owns significant shares in the company was a dynamic leader of the company before its privatization, and is in fact the architect of its privatization The slate for the Board of Directors was his slate Nasr City s CFO reported to us that when it was clear that Nasr City was to be privatized, the company s management aggressively pursued that privatization through the IPO route, preparing itself, taking the lead on the needed paperwork, etc The privatization of this company recalls Egypt s first privatization, that of the Commercial International Bank, CIB In another environment, this privatization would best be characterized as a leveraged management buy-out

[17] While the team had access to the summary 1997 financial statements, as of November 24 1997 they had not yet received the approval of the Nasr City General Assembly

[18] Recently one of the team was offered a building in Zamalek right on the Nile in Cairo s most valuable area, for LE3 0 million The price had recently increased by LE500,000 because one of the tenants had died, leaving

As of September 1, 1997, Nasr City shares were trading at LE236 58/share, equivalent to LE473 16 per share at privatization prior to the 1 1 stock dividend Thus, from May 1996 to September 1, 1997, non-ESA shares gained 728% in value and ESA shares 910% The average ESA "stakeholder" (assuming 650 employees and no debt repayment) owns shares now valued at LE291,175 less an initial debt of LE32,000, or a gain of LE259,175 Figure 2 on the following page presents Madinet Nasr's share price historv from August 1996 until 1997

Further, it will be remembered that "workers" were allocated 10 5% of the IPO It is probable that most of these shares were bought by higher income workers (or management) It is little wonder, then, that there is a high degree of management concern about shareholder value

The above gains call into question both the initial company valuations as well as the IPO allocation formula It should be noted that Nasr City was the only privatized company that the team examined for which no Bechtel (USAID) Information Memorandum was on file

Financial Data for Madinet Nasr Housing, 1994-1997

Table (7)

Income Statement	(LE million)			
	1994	1995	1996	1997
Sales	22 5	94 9	151 4	160 8
Gross Profit				
Operating Profit				
Net Profit	18 1	36 5	52 2	115 0*

Balance Sheet	(LE million)			
	1994	1995	1996	1997
Total Assets	407 7	604 0	572 9	808 9
Total Debt	331 4	536 4	601 7	717 5
Net Worth	51 4	51 3	61 2	91 4
Reserves	31 4	31 2	37 6	40 6
Fixed Assets	40 7	3 9	5 4	5 7
Current Assets	286 4	594 8	650 8	760 2
Long Term Loans	8 3	8 1	7 8	7 5
Current Liabilities	323 1	528 3	593 9	710 0
Working Capital	36 7	66 5	56 9	50 2

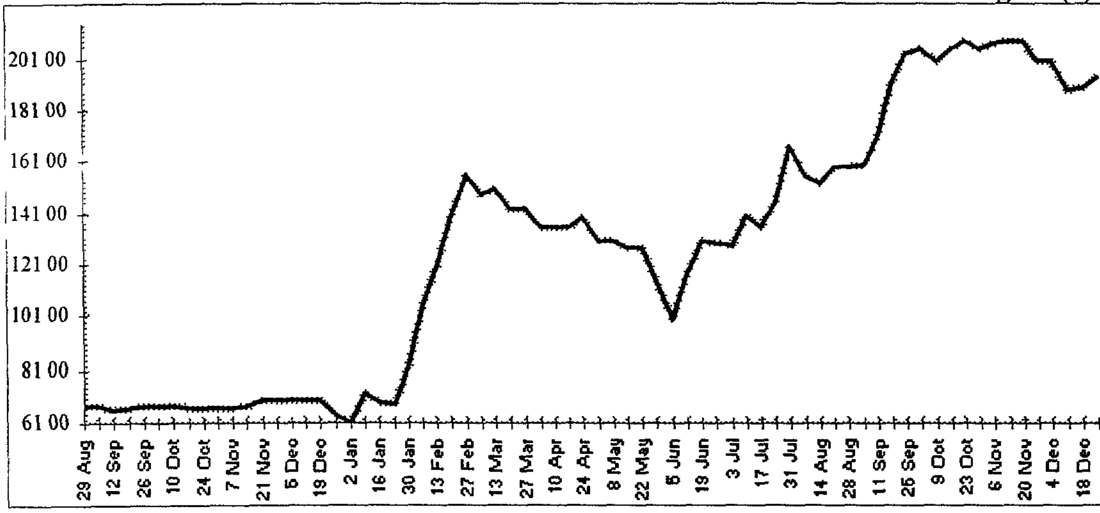
Ratio Analysis				
	1994	1995	1996	1997
Return on Sales	80 44%	38 46%	34 48%	71 52%
Return on Net Worth	35 21%	71 15%	85 29%	125 82%
Return on Total Assets	4 44%	6 04%	9 11%	14 22%

* This item includes unusual items LE70 million Prior year's comparable profit was LE 45 million Please see text

no immediate family member living in one of the building s flats The salesperson's calculation of the building s value was a function of the age of the inhabitants of the flats as in ' two flats have tenants over age 80 with no children "

Madinet Nasr Housing's Share Price, August 1996-1997 (in LE)

Figure (2)



In analyzing the LE115 million 1997 profit shown by the company, it should be noted that the figure includes LE70 million of one-time investment income from the sale of Heliopolis Housing shares and approximately LE19 8 million in interest income (a large increase over the prior year) Moreover, the proposed 1997 dividend payments of LE81 4 million constitute a payout ratio of 70 9% of net profit (180% of net profit if unusual items are excluded) These high dividend payout ratios help the company's ESA to retire its debt to the holding company rapidly

Indeed, the company s net profits of LE115 million in 1997 are reduced to LE45 million if unusual items are excluded Comparing 1996 with 1997

Nasr City Housing Profits (in LE million)

Table (8)

	1996	1997
Net Profit	52 2	115 0
Less Unusual Items	-	70 0
Less Interest Income	14 6	19 8
Results	**37 6**	**25 2**

Looked at in this manner, the company's results are less favorable than at first glance Furthermore, from an economic point of view, even these lower results in large part reflect 'unlocked" land appreciation, in the main their origin is not in present company operations

3 2 1 6 Prospects and Challenges

It is clear that Nasr City's earnings will continue to increase substantially over the next five years as it sells off newly urbanized land with greater flexibility in its development decisions than when it was a public sector company It is less clear what the future will bring The company will have to compete with other private land developers However, the company's large cash reserves and its almost debt-free status clearly give it enormous advantages Furthermore, its present leadership has shown remarkable financial astuteness The company's leadership is actively exploring the acquisition of other GOE housing and land development companies slated for privatization Its stated aspirations are to add other firms to its Nasr Utilities acquisition and perhaps become a land development and housing holding company

The company's activities give even small investors a chance to share in the profits to be made from the tremendous appreciation in Cairo's land values and do so with greater liquidity and smaller amounts of money than in real estate transactions The foregoing no doubt has led to the stellar performance of the company's share price

3 2 2 The Arab Company for Radio Transistors and Electronics

3 2 2 1 The Company and Its Privatization

The Arab Company for Radio Transistors and Electronics (Telemisr) was privatized by means of an IPO in September 1996 The Holding Company for Engineering Industries sold 76 4% of its 2 million shares as follows ESA, 200,000 shares, or 10%, investment funds, 24,000 shares, or 1 2%, the public, 1,776,000 shores, or 65% The IPO allowed the company to reorganize under Law 159 of 1981 The shares to the public were sold in two tranches, both at an offering price of LE30 As of November 27, 1997, the company's shares had a market price of LE37 80 (down from its 1997 high of LE58 40), resulting in a market capitalization of LE75 6 million Telemisr is one of the smaller former public sector companies trading on the Cairo Stock Exchange and does not have an active following among security industry analysts

The company was established in Ismailia in 1962 and acquired the Meeco factory from Phillips in 1966 Also in 1966, the Misr Transistor and Electrical Co , a separate company founded in 1958, became part of Telemisr by government decree A lamp factory in Ismailia previously owned by Phillips became part of the company in January 1988 These formerly separate entities can still be seen in the present day company, which now consists of the Ismailia TV complex, the Giza TV complex and administrative offices, and the Ismailia lamp factory The company also has sales and service centers in Alexandria, Giza, Ismailia, and Tanta

While the company has the capacity to produce incandescent lamps, ballasts for fluorescent lights, TV antennas, and minor electric appliances, its principal business is the assembly, marketing, and sale of color TV sets It was one of the first Egyptian companies to assemble TV sets

Bechtel prepared an Information Memorandum on Telemisr for the GOE on October 25, 1994 Based on the team's site visits to Telemisr's Giza facilities, not much has changed physically in the company since that time The Bechtel document was very valuable to the team's understanding of the companv, as were interviews with high-level company officials and an examination of recent financial data

3 2 2 2 Markets and Revenues

Telemisr's primary product is color TV sets, which constituted 94% of its 1994 revenues In 1994, the company discontinued assembling black and white TV sets and videos

The company produces TV sets primarily for the domestic market In 1990, 21% of the 105,597 TV sets it sold were exported, the primary market being the former Soviet Union and other Eastern block countries After 1990, such exports dwindled As late as 1995, exports still accounted for 2 6% of sales The company's officials talked of these sales as being incidental, citing lack of price competitiveness as the major reason for not exporting more

The company assembles TVs under both the NEC (Nippon Electric Company) and Gold Star (Korea) brands It makes 14-, 16- 18-, 20-, 21-, 26-, and 29-inch models under the NEC brand, accounting for about 75% of its sales, and makes three Gold Star models, which account for the balance Current production is 180,000 units per year

The Egyptian TV market is highly protected, tariffs on final products are 55% while tariffs on components are only 20%, consequently, 90% of Egyptian TV sales are of domestically produced sets

In 1994 the company had about 30% market share in color TVs, making it the leading producer in that year's market of approximately 500,000 units Telemisr's principal competitors (according to Bechtel) were

- Nasr Television and Electronics, a state-owned company (also owned by the Holding Company for Engineering Industries) now slated for privatization, producing 14-, 16-, 20-, and 21-inch televisions, 25% market share
- Phillips (Nasr Electronics and Engineering), until this month a joint venture company,[19] producing 18-, 20-, 26-, and 28-inch TVs, about 6%
- Benha, a public sector company affiliated with the Ministry of Defense, 4%
- The International Electronics Company (Dr Ahmed Bahgat group), the agent for Goldstar (Korea) in Egypt since 1989 and Grundig since 1997, 14-, 20-, 21-, and 25-inch color TVs, 6% market share in 1993
- The Arab Industrialization Authority, a public sector economic authority, 14-, 16-, and 20-inch Samsung TVs, an estimated 4% of the market
- Arabi Company (Toshiba) and Baghdad (National), imported TVs, together accounted for some 10% of total market sales

There is also a company called Gold Star Egypt Electronics, a Law 230 joint stock company owned by Goldstar Korea, Egyptian Expatriates, Nasr Television, and Telemisr Time did not permit us to explore the operations of this company

In 1993, the Goldstar TV sets produced by Telemisr, Nasr, and the International Electronics Company constituted 75% of the televisions sold in the market according to Bechtel According to Telemisr management, retail prices of its principal product line (NEC) are higher than those of competitors because of the premium the public puts on its brand and its after-sales services According to Bechtel, "Retail prices on Telemisr television sets have remained rather stable over the last four years [1990-1994] because the imported raw material components have decreased in price" Our analysis indicates that the average Telemisr TV cost LE1,262 in 1994 and LE1,194 in 1997, a decrease of only 5 7%

Given the number of producers and the structure of producer ownership in the TV market as well as the apparent lack of price competition, it would be fair to characterize the Egyptian TV market prior to Telemisr's privatization as an oligopoly According to our interviews with Telemisr executives, this situation is changing rapidly, at least four new firms assembling JVC, Sharp, Akai, Toshiba, and Hyundai have entered or are about to enter the TV assembly market in Egypt The company's executive pointed out with pride that many of Telemisr's best employees have left the company to work for its new competitors

3 2 2 3 Changes Within the Firm

Investment, Technology, Financing, and Market Access

The company's Managing Director indicated that being a private company had given Telemisr more flexibility For example, the company is now able to offer credit to its distributors and dealers and thus reduce inventories The company s two main plants have a combined annual production capacity

[19] The GOE stake in the company is owned by the Holding Company for Engineering Industries Recently the GOE tried to sell its 50 percent stake in this company to Phillips, which is also the country s principal incandescent lamp producer After lengthy negotiations and arbitration as to the value of the company, the government accepted Phillips' evaluation of the company s worth and **bought out** Phillips The government has stated its intention to sell the entire company

of 192,000 TV sets Sales in the last year totaled 180,000 units, indicating that it is operating close to its installed capacity

Conversations with the production manager indicated that the company has on order two new, computerized, automatic Universal insertion machines These would make possible a 50% increase in its Giza installed TV assembly capacity, presently 96,000 units per year (unchanged sine 1994) With the introduction of these machines (and related operations), the company's installed capacity would increase to 240,000 units a year This new capacity will permit the company to meet the recent (1994-1997) annual growth rate in unit sales of about 6 8% It does not involve a change in technology The company has adequate physical plant space at its Giza site to accommodate future growth

Since its privatization a year ago, there has been little noticeable change in Telemisr We asked the Managing Director if there were plans for changes of product lines and/or new activities He stated that the company was involved in a strategic planning exercise and was considering some new lines When we asked if he could be more specific, he said that they were considering products for the household We conclude that the company has no established business plan

The company has made significant progress in automating its accounting and information functions, mostly since privatization The Managing Director estimated that 70% of the company's information functions are now automated However, the company's Financial Director reported 1997 preliminary results to us from handwritten statements, he did not have a computer terminal in his office, nor were any computer printouts observed in his working files

Labor

Telemisr has some 3,000 employees according to its Managing Director, who also voiced his opinion that current production could be met by half the staff The 3,000 employee figure is almost the same as reported by Bechtel in 1994 (2,957) The company has instituted an early retirement program In 1994, the company had 1,660 employees over age 40, thus, an early retirement scheme should help it to reduce its work force However, 26% of Telemisr's employees were classified as Technical/Scientific and only 33 9% as Production Workers While this should facilitate the introduction of more capital-intensive production techniques in the future, the company does seem to have a large staff of technical and scientific personnel in a line of activity that is increasingly a "commodity" type operation The foregoing will limit the company's freedom to adjust its output with its present personnel Management did say that privatization had given it more flexibility with the setting of incentive and compensation systems

Telemisr inherited a serious problem when it was assigned the former Phillips lamp factory in Ismailia That factory, which has about 400 employees or about 13% of the company's workforce, is a seriously losing proposition (The plant should not be confused with the other Phillips factory that produces most of the lamps sold in the country) Simply put, the Ismailia lamp factory should be closed and its 14,548 sq m land area and employees put to a higher use

The company has a 10% ESA The stakeholders in the ESA have seen their average per worker stake increase in value from LE1,600 to LE2,520 (at a stock price of LE37 80) While this is a 57 5% increase in one vear, the amounts involved are far less than in many other companies The company did not report any labor problems

Other

The company uses a more labor-intensive assembly process than do other NEC factories in the world The Managing Director stated that in the TV plants about 80% of the work is manual labor, compared to 50% in a country such as Thailand Also, NEC's Thai facility produces about 50% for the Thai market and the other 50% for export to either Japan or other markets, whereas exports from the Egyptian facilities are almost nonexistent The result is that Telemisr is a relatively high cost NEC producer

The company, like many other state-owned enterprises in the "engineering" sector, is over dimensioned physically In Giza, the company owns some 62,900 sq m of buildings Of this constructed area, about 8,300 sq m is used for manufacturing and shops and 5,300 sq m for the administration building Some 6,600 sq m are used as finished goods storage, and 11,800 sq m are used for stores and service centers (increasingly unneeded given TV reliability) An eight-story building, dating from 1986 and measuring some 30,600 sq m , is mostly unused, it was apparently the source of dispute with the state enterprise that built it Bechtel called the building "under construction" in 1994 Such under-utilization of physical plant is expensive to the economy Perhaps the excess buildings in Giza give the company space for future expansion, however, as the space falls within the company's physical perimeter, the excess capacity cannot easily be sold off should the need arise

3 2 2 4 Corporate Governance

Telemisr's Board of Directors has undergone dramatic change in that the company is now a Law 159 Company and the workers (except for the ESA representative) are no longer on the Board Prior to privatization the nine-member Board included a technician, a lathe operator, a paint operator, and a building supervisor, all elected by the workers The gulf between the workers and the highly educated, prominent government representatives was no doubt large

The new Board has three government appointees, including a part-time Chairman who was formerly the company's Managing Director Four shareholders were elected to the Board, three of whom own 6-7% each of the company's shares One director represents a financial institution with a minor stake, and one the ESA that owns 10%

The company has a new Managing Director, not formerly associated with the company There been no other change among top management, nor in the firm's organization

One of the reasons for selecting Telemisr was that the company is an IPO more than 75% privately owned, therefore, according to law, the CAA is not required to audit the company When we asked the Managing Director about this the reply was "Well, we asked them to stay anyway—they are not a bother, and in fact are often helpful " The legal distinction of less than 25% government ownership and therefore not subject to CAA audit was not an issue as far as Telemisr was concerned It is hard to imagine a private company asking for the services of the government auditor

3 2 2 5 The Financial Picture

The company's financial summaries, presented on the following page, exhibit a pattern of steady, if unspectacular, growth The 1997 figures are preliminary because the full company report for that year is not yet available, also, a less thorough financial analysis was carried out on Telemisr than on the other companies studied The preliminary figures do not yet exhibit any effects of privatization, nor were we able to analyze the reported improvement in inventory utilization The company's sales slowed somewhat during the 1994-97 period growing at an annual rate of only 4 9% compared to the 7 1% per annum sales growth that occurred in the 1991-1993 period Still, net worth appears to be increasing A note of caution here without a detailed analysis, it is difficult to understand debt composition as well as other item details Suffice it to say that on the surface the company looks to be growing moderately, even without any major innovations in a considerable period

Telemisr Financial Data, 1991-1997

Table (9)

Income Statement

(LE million)	1991	1992	1993	1994	1995	1996	1997
Sales	122 5	148 2	140 4	186 2	171 1	197 1	215 0
Gross Profit	28 0	26 6	30 5				
Operating Profit	18 6	18 1	21 3				
Net Profit	0 2	1 8	1 0	7 4	10 9	11 9	13 2

Balance Sheet

(LE million)	1991	1992	1993	1994	1995	1996	1997
Total Assets	134 5	158 1	170 3	208 9	196 5	261 7	275 7
Total Debt	79 7	65 1	52 5	157 8	145 2	204 6	206 6
Net Worth	16 8	19 2	20 7	23 8	28 1	32 2	36 6
Reserves	0 3	0 2	1 0	18 3	17 8	22 2	26 6
Fixed Assets	22 6	22 4	22 8	22 3	23 4	25 6	14 7
Current Assets	111 9	135 7	147 5	186 5	173 1	236 1	218 0
Long Term Loans	6 6	7 3	8 1	6 1	4 7	4 2	3 8
Current Liabilities	103 9	124 3	132 0	151 7	140 5	200 4	202 8
Working Capital	N/A	N/A	N/A	34 8	32 6	35 6	15 2

Ratio Analysis

	1991	1992	1993	1994	1995	1996	1997
Return on Sales	0 15%	1 21%	0 68%	3 98%	6 37%	6 09%	6 14%
Return on Net Worth	1 09%	9 32%	4 63%	31 08%	38 92%	37 25%	36 07%
Return on Total Assets	0 14%	1 13%	0 56%	3 55%	5 55%	4 59%	4 79%

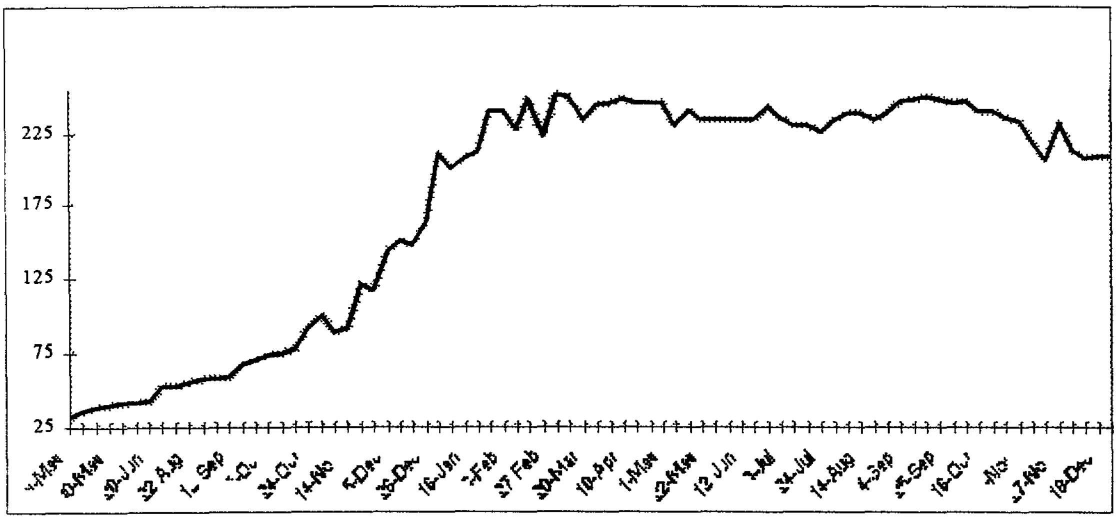
Note 1991-1993 figures are from the Bechtel Info Mem 1994-1996 are from the PEO and 1997 are preliminary unofficial figures from the company Given the discontinuity between 1991-1993 figures and subsequent ones inter-period comparisons should not be made

3 2 2 6 Prospects and Challenges

The major challenge for Telemisr will come soon as four or five companies are entering the TV assembly market They will be able to produce products very similar to the NEC brand with much less capital investment (although their processes will probably be less labor-intensive) They will have smaller work forces than Telemisr and not be saddled with the Ismailia lamps albatross On the other hand, Telemisr might be able to use its constructed physical plant for entry into markets other than TV assembly In the TV assembly market, it will face more competition, and the heritage of its past as a state-owned firm will probably inhibit its flexibility to reduce costs Telemisr will not only have to confront its cost structure, but also will need to change its "corporate culture " For example, on our visit to its headquarters, we saw no printed materials on the company (i e , brochures, etc) There was not yet a stockholder relations or public affairs function that we could identify When we asked the Managing Director how the company was doing, especially since privatization, he replied "It has been very favorable, this year we fulfilled our plan at 104% as opposed to only 90% last year " He was referring to the Law 203 incentive criteria, which has profit as only one of its elements From a CEO of a private firm, with a private sector corporate culture, one would have expected a reply in terms of increased earnings per share, increased sales, or perhaps a reference to progress in achieving

Telemisr's Share Price Since Privatization (in LE)

Figure (3)



business plan benchmarks Telemisr's corporate culture will not change easily Having the government, in effect, being the "anchor investor" with 24% of the shares will make the transition more difficult

The likely result of having four or five new, lower cost TV assembly plants will be to increase installed capacity and overall employment in the market (though not probably in Telemisr TV) Increased capacity in the market with a greater number of firms will most likely lead *ceterus paribus* to greater price competition, a much-needed break for the Egyptian consumer It will be harder for firms in the market to follow each other's pricing if there are, say, eight firms as opposed to four

Thus, perhaps the most important thing about Telemisr's privatization may not be what happens in the company itself, but rather the signal that the privatization of the firm with the largest market share sent to potential market entrants The overall result will be greater consumer choice in terms of TV brands, anticipated price competition, and increased overall labor demand in the TV assembly market An interesting sidelight is the effect that increased competition will have on Nasr Television, Telemisr's former sister state firm which is slated for privatization at an unscheduled date Nasr Television is reportedly less efficient than Telemisr Will the prospect of greater competition in the market make Nasr TV less desirable to a potential anchor investor or IPO? The answer to both is probably "yes "

3 3 Employee Shareholders' Associations

3 3 1 Wadi Kom Ombo for Land Reclamation[20]

3 3 1 1 The Company and its Privatization

Wadi Kom Ombo was established in 1904 as a land reclamation company and nationalized in 1961 Among its principal activities are land reclamation and construction of canals roads, pump stations, irrigation, and drainage systems

[20] The following data were obtained through extensive interviews with corporate officers ESA board of directors and 'focal group" employee interviews See the attached interview guideline questionnaires and financial statements reflecting before- and after-privatization efficiency performance levels and governance issues

In 1994, the firm was converted into a private company An ESA purchased 95% of its shares for LE50 9 million with LE43 million of nonessential assets (land and buildings) removed to lower the selling price of the company The ESA made a down payment of LE2 2 million (from the employee social development fund) with the balance to be paid through a purchase agreement with the Holding Company payable over 10 equal annual installments of LE7 2 million at an annual interest of 8% The remaining 5% of the company's shares were sold directly to individual employees to be paid over five years at 8% interest per annum

The firm's current major projects include infrastructure construction for 41,300 feddans, land reclamation of 34,000 feddans, 4 pumping and 4 irrigation stations in Upper Egypt (Wadi El-Saaida, Sohag, Edfu, Marashdasch, West Assuit, Awlad Tok Sch), 24,850 feddans in the Western Delta (Bustan Sch , W Nasr Canal), and 21,500 feddans in the Western Desert (Wadi Al Guidad Sch)

3 3 1 2 Markets, Revenues, and Market Access

Earnings per share in 1995 were calculated at LE21 1, in 1996 LE21 6, and in 1997 LE21 78 Privatization has neither increased nor decreased the firm's profitability Management believes privatization increased the firm's ability to seek and respond quickly, both to new markets in the private sector and existing government open-bidded contracts in its traditional product line of irrigation, drainage, land reclamation, and large pumping station construction and maintenance The firm has not diversified into new product lines or services

Only five recently privatized Egyptian companies compete with Kom Ombo for the same contracts While all of these firms have access to the same cost data and know-how, Kom Ombo has been able to capture a greater percentage of government contracts in open bidding since the firm was privatized Thus, government contracts for the foreseeable future will continue to be a relatively secure and constant source of revenue for Kom Ombo New competitors are unlikely to enter the market since this particular industry requires a high initial capital investment (company officers estimate LE400 million)

The IBTCI/ESOP team made one site visit to Banger El Sokar in Lower Egypt (80 km from Alexandria) to review the quality of the work performed by Kom Ombo

Banger El Sokar is a 21,600 feddan, LE80 million government contract land reclamation site begun two years ago One-third of the reclaimed land will be turned over to the government and two-thirds will be sold by Kom Ombo to private investors in lots of 20 feddans each for cash or financed over 3 years

Phase I (3,600 feddans) has been completed Phase II (7,000 feddans) and Phase III (10,000) are under construction The one-third land area developed for the government will be subdivided into 5-feddan lots for university graduates Within this 10,000-feddan area, two multiple housing communities have been built Each community has 650 three-room homes with individual gardens, areas in planned town sites with hospitals, schools, and urban infrastructure (sewage, potable water, streets, and electricity) The reclaimed land is irrigated from a river source through large canals fitted with large pumping stations, networks of smaller canals, and drip water pipe systems

The irrigation canals drainage ditches, pumping station, and government-purchased housing village appeared to be well constructed Reclaimed land, ready for cultivation, was in marked contrast to the surrounding desert Work crews were observed busily building a new irrigation canal with new bulldozers and excavators

3 3 1 3 Investment, Technology, and Financing

Capital equipment includes 3 concrete mixing plants, 2 asphalt mixing plants, carpentry and iron and steel shops, 198 trucks (platform, tank, service, etc) and 292 heavy earth-moving vehicles This includes several new large earth-moving vehicles obtained with a LE45 2 million USAID long-term loan (available to Egyptian private firms) Equipment has been upgraded, but technology is basically the same as when state-owned and appears to be adequate

Operations

Management believes the firm can make decisions more rapidly compared to when the company was state owned Employee ownership has increased the efficiency of lines of communication among management, supervisors, and blue collar workers while effective day-to-day management control is maintained (Currently the ESA has two members on the company's Board Next year the ESA will have a majority on the five-member Board of Directors) Workers interviewed at the site visit were motivated, well trained, and enthusiastic about "their" company Based on the IBTCI/ESOP team's experience in other countries, interviews with employees do indicate genuine interest in making the company more productive

In spite of management's optimism, the IBTCI team nevertheless feels that the firm's financial operations and, as a result, management decisions, could be far more efficient if the firm's accounting and financial department were computerized All the financial information requested (three years after privatization), while detailed, was handwritten In comparison the anchor sales and IPOs reviewed in this study computerized their financial departments one year after privatization

Changes in Billing Policies

Billing the government for completed work continues to be a cash flow problem To offset the added financial costs, Kom Ombo adjusts its bids for government contracts All of the firm's competitors do the same to cover delayed payments The firm is still overly dependent on government contracts and needs to diversify its services to include private clients

Changes in Fixed Assets

The firm purchased its main offices in Cairo from the Government Under HC regulations, the HC still owned the building and land and leased them back to the firm According to the original agreement, 5% of the asset value of the building paid as an annual rental fee was applied to the purchase price

Labor

No statistics were available However, since 1994, 177 employees have retired from the company They have not been replaced Management indicated current production could be maintained with further reductions and the company will continue to apply early retirement programs when possible

3 3 1 4 Financial Indicators

The following financial data (see also Appendix D containing complete financial analysis) and interviews conducted with employees at the site visit give a reasonable indication of whether the ESA company has become more or less profitable since it was privatized

Business revenues Revenues decreased by an average of LE17 5 million per annum at a 16% rate after the ESA purchase compared to the three years prior to the ESA

Cost of sales (COS) COS ratios to sales increased by 4% annually after the ESA purchase Profit margins also decreased by an average of 32% COS decreased only 3% while revenues decreased 16% This data implies that the company has large fixed cost components in its cost of sales or inefficiencies managing labor and materials

Selling, G&A expenses Shows an average decrease of LE29 million per annum at a rate of 70% This is caused by reallocating a portion of the firm's part-time production staff to COS

Interest expenses Decreased due to full repayment of long-term loans prior to the ESA purchase in addition to having grace periods on new loans from USAID and the EEC In FY 1997, interest payments were LE3 8 million due to an overdraft of LE8 million

Depreciation expenses Decreased by an average of LE6 7 million per annum at a rate of 54% due to changes in depreciation rates and estimates despite the fact new expensive equipment replaced older equipment Thus, depreciation expenses indicate a decrease without adequate disclosure information

Net income Despite declining revenues declining, net income shows average increases of LE2 8 million per annum at a rate of 21% However, this is due to a reduction of depreciation expenses and other reserves

Current assets Total current assets decreased 1% due to more efficient receivable collections, but the company maintains higher cash balances compared to prior ESA fiscal periods, probably to meet dividend payments

Fixed assets The company is acquiring an average of LE24 million worth of equipment per annum, at a rate of 38% This indicates the company is building up its asset base and replacing older equipment with new equipment Other fixed assets also increased due to buying land and buildings from the HC

Long-term receivables More active corporate policies to collect installments due on company customers resulted in an average decrease of long-term receivables by 58% per annum

Financial ratios Total asset productivity and equipment (turnover) decreased due to a decline in revenues and an increase in purchased equipment The company shows more efficient practices in collection and inventory management after ESA than prior to ESA

Current liabilities Decreased in total by an average of 2% per annum due to increased credit facilities from suppliers to finance current assets and speed dividend payments to the ESA

Financial ratios Return on equity decreased by 76% due to declines in revenue Debt ratios show a decline due to repayment of part of its long-term loans prior to the ESA buyout Sales-to-working capital show a decline of 15% due to a decline in revenues

Balance Sheet for Wadi Kom Ombo

Table (10)

Financial Analysis Wadi Kom Ombo Condensed Balance Sheet in LE million	Before ESA Average p a 1992-1994	After ESA Average p a 1995 1997	Increases LE	Increases %
ASSETS				
Current Assets				
Cash	20 65	30 99	10 34	50%
Trade Receivable	139 84	123 33	16 51	-12%
Allowance of Doubtful Accounts	-7 87	-7 59	0 28	-4%
Inventory	25 64	26 19	0 55	2%
Other Current Assets	29 80	32 94	3 15	11%
Total Current Assets	208 05	205 86	-2 19	-1%
	82%	77%		
Non-Current Assets				
Fixed Assets				
Equipment	64 29	88 40	24 11	38%
Other Fixed Assets	16 00	37 49	21 49	134%
Leased Fixed Assets				
Less Accumulated Depreciation	-49 98	74 49	24 51	49%
Sub Total	30 31	51 40	21 10	70%
Fixed Assets Under Construction	5 01	5 60	0 59	12%
Total Fixed Assets	35 32	57 01	21 69	61%
Long Term Accounts Receivable	10 32	4 37	5 95	-58%
Total Assets	253 70	267 24	13 54	5%
Total Assets Turnover	0 45	0 35	-0 10	-22%
Equipment Turnover	1 79	1 06	-0 73	-41%
Fixed Assets Turnover	3 32	1 66	1 66	-50%
A/R Turnover	0 86	0 81	-0 04	-5%
Inventory Turnover	4 38	3 59	-0 79	18%
LIABILITIES				
Current Liabilities				
Overdraft	0 57	3 63	3 06	533%
Trade Payables	10 48	59 99	49 51	472%
Other Payables	75 66	21 59	-54 07	-71%
Total Current Liabilities	86 72	85 21	-1 51	-2%
NET WORKING CAPITAL	121 34	120 66	0 68	-1%
Non Current Liabilities				
Long Term Loans	56 63	50 05	6 57	-12%
Other Reserves	73 74	77 94	4 20	6%
Total Non-Current Liabilities	130 36	127 99	2 37	-2%
Total Liabilities	217 08	213 20	3 88	2%
Stockholders Equity				
Paid in Capital	5 60	5 60	0 00	0%
Reserves	31 02	32 59	1 57	5%
Retained Earnings	0 00	15 85	15 85	
Total Stockholders Equity	36 62	54 04	17 42	48%
Total Liab & Stockholders Equity	253 70	267 24	13 54	5%
Investment in 95% interest				
Return On Equity	0 86	0 21	-0 65	76%
Current Ratio	1 68	1 46	-0 22	-13%
Debt/Equity Ratio	5 91	3 95	1 96	33%
Debt Ratio	7 16	4 22	2 94	-41%
Sales to WC	0 93	0 79	-0 14	-15%

Income Statement, Workforce Statistics & Financial Ratios for Wadi Kom Ombo

Table (11)

Financial Analysis Wadi Kom Ombo Condensed Income Statement	Before ESA Average p a 1992-1994	After ESA Average p a 1995-1997	Increases LE	Increases %
in LE million				
Revenues	111 73	94 19	-17 54	-16%
Cost of Sales (COS)	63 84	61 71	2 13	-3%
Profit Margin (PM)	47 89	32 48	-15 41	-32%
Admin & Selling Expenses	41 72	12 70	-29 02	-70%
Interest Expense	4 74	2 89	-1 85	-39%
Depreciation Expenses	12 36	5 69	-6 67	-54%
Total Expenses	58 83	21 28	-37 54	-64%
Operating Income	-10 94	11 20	22 14	-202%
Other Revenues & Expenses	31 78	11 29	-20 49	-64%
Income Before Tax	20 84	22 48	1 65	8%
Income Tax	7 75	6 63	-1 12	-14%
Net Income After Tax	13 09	15 86	2 77	21%
Profit Distribution (in LE '000)				
Workers	887 97	456 33	-431 63	-49%
Board of Directors (Management)	277 77	97 13	-180 63	-65%
Mgmt Allowance & Profit Sharing	301 10	187 13	-113 97	-38%
COS/Revenue	0 57	0 65	0 08	14%
PM/Revenue	0 43	0 35	-0 08	-19%
Admin Exp /Revenue	0 38	0 13	-0 24	-64%
Interest Exp /Revenue	0 04	0 03	-0 01	-28%
Net Income/Revenue	0 12	0 17	0 05	44%
WORKFORCE STATISTICS	**Before ESA Average p a 1992-1994**	**After ESA Average p a 1995-1997**	**Increases LE**	**%**
Production Departments				
Permanent Staff	917	852	-65	-7%
Temporary Staff - Contracts	359	334	-25	-7%
Total Production Departments				
Administrative Staff				
Permanent Staff	200	186	-14	-7%
Temporary Staff - Contracts	15	14	-1	-7%
Total Administrative Departments	215	200	-15	-7%
Company-wide workforce				
Permanent Staff	1117	1038	-79	-7%
Temporary Staff - Contracts	374	348	-26	-7%
Total Number of Workers	1491	1385	-106	7%
Workers Compensation				
Average Worker/Wage p a	7594	7729	135	2%
Average Worker/Profit Share p a	602	967	364	61%
Average Worker/Pay p a	8196	8696	500	6%
FINANCIAL RATIOS				
Fixed Assets Turnover	4	2	2	-51%
COS/Revenue	1	1	0	14%
CM/Revenue	0	0	0	-19%
Revenue/Equity	3	2	-1	-44%
Net Income/Equity	0	0	0	-18%
Revenue/total workforce (in LE 000)	75	68	-7	9%

3 3 1 5 Overall Effect of ESA

Following are some of the comments noted during the interview process

- Equipment maintenance is better than when state owned
- New quality checks have been adopted at site projects
- Employee enthusiasm for their company is evident by comments such as several employees wishing to " thank President Mubarak for the opportunity to own their own company "
- One blue collar employee mentioned he will retire next year with LE40,000 The satisfaction of the other employees who overheard the remark was noticeable Receiving cash benefits for one's ownership interest is the best way to communicate to other employees that ownership rights are "real "
- In the sample survey of 16 employees at the project site, the employees indicated "strong agreement" with the following remarks
  - ➢ I prefer working for the company now rather than when it was owned by the government
  - ➢ I feel safer and more secure for my retirement years as an owner and ESA member
  - ➢ Because of employee ownership, people here try to cooperate more
  - ➢ Fellow workers are less absent from work because they own the company

Owning stock in the company is not, however, the only reason why employees feel committed to increasing corporate profits and efficiency Salaries have increased 10% since privatization and an incentive bonus plan was introduced by the company's management before privatization and remains in effect Five percent of a contract's fee after a job is completed is divided, with 30% given to administrative employees and the remaining 70% divided among employees who worked on a specific project

3 3 1 6 Corporate Governance

Regarding corporate governance, Kom Ombo's management believes that the ESA has opened new lines of communications with employees The ESA has also helped strengthen management/union relations (The labor union, according to management and a union leader, helped convince the employees of the ESA Plan's benefits)

Regarding governance of the ESA Association, three areas of concern are discussed below

The Control Issue

Secret ballot voting is used to elect the following officers and delegates (on all other issues discussed at the ESA association general assembly, voting is open)

(a) In electing the ESA Association Board, due to the number of employees and their wide dispersion at Kom Ombo work sites, a delegate for each group of 10 ESA members is chosen to attend the ESA Association's general assembly

(b) In the election of ESA Association delegates to the ESA company Board, two ESA representatives are chosen as company Board directors In Kom Ombo, these two individuals are ESA Board directors ESA Bylaws, however, do permit the election of ESA company Board directors who are not ESA Association Board directors,

(c) In the election of ESA Association delegates to the ESA company's general assembly, two delegates are chosen to represent the ESA Association's members and vote ESA Association-owned company shares Thev may or may not be the same as ESA Association Board members At Kom Ombo, they are different individuals

One of the problems the firm faces is that the organizational structure of the company has changed little compared to anchor or IPO privatizations Even if Kom Ombo's new shareholders (who have voting rights on unpaid as well as paid ESA owned shares) wished to replace the company's CEO (which they do not), they are prohibited from doing so until the entire stock purchase loan has been repaid to the Holding Company Should the employees have the right to change management? The point is debatable as the lender and seller are the same No other outside funds were available to permit the employees to purchase the firm Top management accountability to the new shareholders may be a disadvantage if compared to an anchor sale or IPO, however, the tradeoff is that employees acquire ownership of the entire company

Access to Financial Information

(a) A separate external auditor different from the company's auditor is chosen by the ESA Association to insure a conflict of interest does not occur,

(b) Details of each member's "stack" accounts are given to ESA members,

(c) A summary of the ESA company's financial statements is read at the ESA's general assembly,

(d) The Holding Company requires in all majority-owned ESAs that monthly financial overviews of the company be discussed and given to ESA company Board directors (which includes the two ESA Association directors) at their monthly meetings,

(e) The ESA Association delegates to the ESA company's general assembly also receive copies of the audited financial statements and all other financial information of the firm This information is readily available to all ESA members,

(f) Employees who have access to the writing, documentation, and printing of the financial statements also filter this information to other ESA members, and

(g) The ESA Board is attempting to educate ESA members to understand what financial statements are and how to interpret them

Voting Rights

ESA membership rights of ESA company shares are reflected through share-equivalents (stacks) in each employee's ESA company share account and include

- To have one or two ESA members elected for one-year terms by the ESA general assembly as delegates to the ESA company general assembly with proxy votes from the ESA Association (as the legal owner of the shares) Delegates can be Board members or other ESA members,
- There are currently two ESA association members on the ESA company's Board of Directors When the HC loan is 50% paid, the ESA can appoint 3 members to the company's Board, when 75% of the loan is repaid, 4 members can be appointed, and when 100% of the loan is

repaid, the ESA association elects all 5 directors

While it can be concluded that ESA company employee shareholders do have reasonably effective governance through control, access to financial information, and voting rights of company stock, there are still two major issues

(1) Do employees understand the difference between company shares of stock and share-equivalents, or "stacks"?

Several employees interviewed at the project site answered that company shares are on a one-share, one-vote basis, stacks are on a one-person, one-vote basis An employee does not have the right to take ESA shares with him, but is paid in cash when he or she leaves the company Employees' interest revolved principally around the future value of their stack accounts and the amounts of cash they will receive – not whether they could take their ESA shares with the On the question of voting rights, some felt voting on a one-share one-vote basis was more equitable

(2) Payment of Fair Market Value for Stack Share-Equivalents should "fair market value" rather than "book" value of ESA company shares be used to cash out an employee's share-equivalent vested accounts at retirement?

At Kom Ombo ESA share-equivalents currently are not paid out at "fair market value" The ESA board cites the following reasons why

(a) Book value should be used since the cost of doing an equivalent "fair market value" would be very expensive for the ESA to undertake each year

(b) An employee may decide to leave the company for a higher paying job and resign from the ESA If a "fair market value" for his or her share-equivalents is used, this could drastically depreciate the ESA's liquid reserves to meet its repurchase liability obligations

(c) ESA members will, however, be cashed out for their stack accounts at the market value of ESA company shares after 5 years when shares purchased by employees directly from the Holding Company are fully paid and become tradable

3 3 1 7 Prospects and Challenges

(1) No effective changes have taken place in the organizational structure of the firm since its privatization The company has not improved or computerized its accounting system A new costing system was developed, but it is still based on the Unified Accounting System, which the firm, under Law 159 should not use The company needs to take actions to correct these deficiencies

(2) The company should utilize its working capital and adopt cash flow forecast techniques to manage cash resources more efficiently

(3) The company adopted financial policies to show decreases in expenses and other reserves to increase profits This policy should not be continued

3 3 2 General Company for Research and Ground Water[21]

3 3 2 1 The Company and Its Privatization

The firm, known as REGWA, specializes in water well drilling and geological mapping In 1968, it branched out to the Sudan with government contracts to drill wells in small villages Current management has continued with diversifying the company's markets In 1970, REGWA began drilling operations in Libya In 1977, the company became the exclusive water pump representative for the U S firm Johnston, Inc REGWA was privatized in 1994 through an ESA buyout

3 3 2 2 Markets, Revenues, and Market Access

From 1982 to 1993, REGWA entered into new products and services areas in land reclamation (installing portable water and irrigation pumps, drip pipes and road construction), marketing the developed land to private investors, building and maintenance of large water pump stations for the government, sewage treatment (Baharia Oasis), and Egyptian government contracts to drill 100 potable water wells for the government of Kenya at village sites

Since the ESA privatization in 1994 the company has undertaken several projects

- Diversification bids submitted in October 1997 to the governments of Nigeria, Benin, Yemen, Ethiopia, and the Ivory Coast

- A joint venture company, Regwa Khoriaf Investments (RKI), was formed with Saudi Arabian and Canadian corporations investors, who together with 15 other outside investors, purchased 200,000 feddans in the Eastern Oynat area, East Onex of Upper Egypt RKI will alone invest LE13 million in the project The investors will develop the land with infrastructure and sell one half of the area in one feddan plot for LE10,000 The remaining half of the developed land will be kept as a joint RKI investment for the production and sale of agricultural oil products

- The manufacture of Egyptian submersible water pumps as an import substitution

- The survey and drilling of the largest fresh water well and pump located in the South Valley Canal Project, Khor Toshk The project was completed ahead of schedule and is producing 25 million cubic meters of water per day

- A franchise in Egypt for a second internationally known water pump and irrigation pipe manufacture

- The operation of 48 geological research and surveying sites from Aswan to the New Valley

Site Visit A Specific Example of How REGWA is Opening New Markets

The following site visit to Wadi El Farigh (Empty Valley) illustrates one of REGWA's current marketing ventures This is a land development project 60 km from Cairo toward Alexandria Of the total 60,000 feddans purchased, 20,000 feddans sitting atop an old tributary of the Nile have been developed The company bought the land at LE50 per feddan Currently, fully developed land, including deep water wells, is selling for LE6,000 per feddan Profits from this project were LE2 95 million in 1995, LE4 7

[21] The following data were obtained through extensive interviews with corporate officers ESA Board of Directors and focal group employees See the attached Interview Guideline Questionnaires and financial statements reflecting before- and after-privatization efficiency performance levels and governance issues

million in 1996 and LE1 53 (partial figure only) for 1997 From the site visit, the cultivated land resources appear to be excellent, well watered and maintained

The above marketing information shows REGWA upgrading its technical expertise in well drilling, holding on to existing and new government contracts, private joint ventures in Egypt and abroad, and a diversification into new products (REGWA manufactured water pumps)

3 3 2 3 Investment, Technology, and Financing

Some of the most important changes have come in the following areas

Operating as a Private Firm

Since it was privatized, REGWA has had a freer hand to form joint ventures and enter new markets The company's financial reporting and disclosure comply with international standards, but the accounting system is still not computerized and a costing system has not been developed As a result of not having these financial planning tools, the firm maintains a greater cash balance than necessary LE27 4 million in the checking account and an overdraft of LE34 4 million as of June 30, 1997, thus increasing costs of financing Instead, REGWA decided a first priority was to add state-of-the art, new deep well drilling and computerized surveying equipment The equipment is expensive, but as the CEO indicated, REGWA's reputation is important

Quality Control in Sales

In shallow well drilling (50-60 meters), REGWA has 30-40% of the market in Egypt Other companies have 60-70% of the market We are told, however, that a client takes a risk with other competitors who use inferior welds and thinner well casings In deep well drilling (below 60 meters), REGWA controls 80% of the Egyptian market As noted, technical experience and expensive state-of-the-art equipment are required to compete REGWA is the only water drilling company in Egypt that has both the equipment and the technology and expertise to use it

Changes in Billing Policies

The government still delays payments Private clients used to delay payments until the firm changed its billing policies requiring 100% advance payment (including a price discount)

3 3 2 4 Financial Indicators

The financial data on the following pages (see also Appendix D containing complete financial analysis) and interviews conducted with employees at the site visit give a reasonable indication of whether the ESA company has become more or less profitable since it was privatized

Business revenues Showed a steady increase, except for the first year of privatization The company's revenues increased by LE17 million, an average of 29%, in the 3 years after the sale of the company to the ESA when compared to the 3 years prior to privatization

Cost of sales Increased at 18%, which is a lower rate than the increase in sales This indicates efficiency in utilizing labor and materials

Profit margin As a result of increasing revenues and maximizing utilization of labor and materials, the profit margin increased by almost 60% compared to the to pre-privatization period

Selling, G&A expenses Shows an increase of 24% compared to the 3 years prior to privatization, but this represents normal growth The company has had very good control over its SGA expenses in a range of LE14 to LE15 million annually during the last 3 years

Interest expense Despite the fact interest expenses increased by 28% due to overdrafts to finance working capital and cash dividends to the ESA, the increase of LE0 72 million (which is 0 9% of revenues and 30% of net income) is within an acceptable range

Depreciation Depreciation expenses increased by 59% after ESA due to newly purchased expensive equipment and the selling of out-dated equipment This indicates company concerns to increase its productive capabilities

Total expenses Total overhead expenses increased after privatization due to increases in depreciation and interest expenses

Net income Increased an average 25% over the last two years due to newer and more productive equipment and lower cost of sales ratios

Assets Current assets increased by 37% due to maintaining cash balances higher than before Also, accounts receivable and inventory increased 60% and 46%, respectively, due to increased sales

Fixed assets The company is building up fixed assets at a steady rate to replace old equipment with new more efficient and more expensive equipment indicating interest in maintaining the productive capacity and well being of the company Asset turnover decreased despite the fact that revenues increased due to large investments in highly technological, expensive equipment

Liabilities Current liabilities increased sharply by more than LE97 4 million which represents a 104% increase over the 3 years prior to the ESA privatization The company has more credit facilities from suppliers with less down payments

Non-current liabilities Long-term loans increased to finance the purchase of new equipment Total reserves decreased to meet contingent liabilities

Stockholders' equity Increased by LE1 3 million in general and legal reserves No future retained earnings are held

Balance Sheet for REGWA

Table (12)

Financial Analysis REGWA Condensed Balance Sheet in LE million	Before ESA Average p a 1992-1994	After ESA Average p a 1995-1997	Increases LE	Increases %
ASSETS				
Current Assets				
Cash	5 98	16 66	10 68	179%
Trade Receivable	88 79	141 92	53 13	60%
Allowance of Doubtful Accounts	-0 58	-61 63	-61 05	10525%
Inventory	37 45	54 78	17 32	46%
Other Current Assets	19 16	55 48	36 32	190%
Total Current Assets	150 80	207 21	56 41	37%
	84%	83%	-0 01	-1%
Non-Current Assets				
Fixed Assets				
Equipment	21 42	40 92	19 50	91%
Other Fixed Assets	18 67	27 79	9 12	49%
Leased Fixed Assets	0 00	4 62	4 62	
Less Accumulated Depreciation	-19 34	-34 57	-15 23	79%
Sub-Total	20 75	38 76	18 01	87%
Fixed Assets Under Construction	8 04	3 74	-4 30	-53%
Total Fixed Assets	28 79	42 50	13 71	48%
Other Long Term Investments	0 53	0 10	-0 43	-81%
Total Assets	180 11	249 80	69 69	39%
Total Assets Turnover	0 36	0 30	-0 06	-17%
Equipment Turnover	2 75	1 86	-0 90	-33%
Fixed Assets Turnover	2 01	1 78	-0 22	11%
A/R Turnover	1 05	0 55	-0 51	-48%
Inventory Turnover	1 55	1 37	-0 19	-12%
LIABILITIES				
Current Liabilities				
Overdraft	11 63	32 91	21 28	183%
Trade Payables	3 63	10 64	7 01	193%
Other Payables	78 01	147 13	69 13	89%
Total Current Liabilities	93 27	190 69	97 41	104%
NET WORKING CAPITAL	57 53	16 52	-41 01	-71%
Non-Current Liabilities				
Long Term Loans	3 25	11 86	8 61	265%
Other Reserves	60 86	23 19	-37 67	-62%
Total Non-Current Liabilities	64 10	35 05	-29 05	-45%
Total Liabilities	157 38	225 74	68 36	43%
Stockholders Equity				
Paid in Capital				
Reserves	14 74	18 50	3 75	25%
Retained Earnings	2 42	0 00	-2 42	100%
Total Stockholders Equity	22 74	24 07	1 33	6%
Total Liab & Stockholders Equity	180 11	249 80	69 69	39%
Return On Equity	0 08	0 10	0 02	18%
Current Ratio	1 60	1 09	-0 51	-32%
Debt/Equity Ratio	6 59	9 38	2 80	42%
Debt Ratio	0 86	0 90	0 05	5%
Sales to WC	1 43	5 42	3 99	279%

Income Statement, Workforce Statistics & Financial Ratios for REGWA

Table (13)

Financial Analysis	Before ESA	After ESA		
REGWA	Average p a.	Average p a.	Increases	Increases
Condensed Income Statement	1992-1994	1995-1997	LE	%
in LE million				
Revenues	57 90	74 81	16 91	29%
Cost of Sales (COS)	42 13	49 51	7 38	18%
Profit Margin (PM)	15 77	25 30	9 52	60%
Admin & Selling Expenses	11 90	14 76	2 86	24%
Interest Expenses	2 58	3 29	0 72	28%
Depreciation Expenses	4 33	6 89	2 56	59%
Total Expenses	18 81	24 94	6 13	33%
Operating Income	-3 04	0 36	3 39	-112%
Other Revenues & Expenses	4 98	2 07	-2 91	-58%
Net Income After Tax	1 94	2 43	0 49	25%
Profits Distributed (in LE '000)				
Workers	314 40	1 307 33	992 93	316%
Board of Directors (Management)	33 07	214 70	181 63	549%
COS/Revenue	0 73	0 66	0 07	-9%
PM/Revenue	0 27	0 34	0 07	25%
Admin Exp /Revenue	0 22	0 20	-0 02	-10%
Interest Exp /Revenue	0 05	0 04	0 00	-2%
Net Income/Revenue	0 03	0 03	0 00	-2%
WORKFORCE STATISTICS	Before ESA	After ESA		
	Average p a.	Average p a	Increases	Increases
	1992-1994	1995-1997	LE	%
Production Departments				
Permanent Staff	1213	1110	-103	-8%
Temporary Staff	288	278	-10	-4%
Total Production Departments	1501	1388	-113	-8%
Administrative Staff				
Permanent Staff	270	246	24	-9%
Temporary Staff	42	22	-20	-48%
Total Administrative Departments	312	268	44	-14%
Company-wide Workforce				
Permanent Staff	1483	1356	-127	9%
Temporary Staff	330	300	-30	-9%
Total Number of Workforce	1813	1656	-157	-9%
Permanent Workers Compensation				
Average Worker/Wage p a	8 659 07	18 970 20	10 311 13	119%
Average Worker/Profit Share p a	102 35	152 87	50 52	49%
Average Worker/Pay p a	8 761 42	19 123 06	10 361 65	118%
Bonuses to Board of Directors				
FINANCIAL RATIOS				
Fixed Assets Turnover	2 01	1 78	-0 22	-11%
COS/Revenue	0 10	0 03	0 07	-72%
CM/Revenue	0 03	0 03	0 00	-2%
Revenue/Equity	36 29	68 51	32 22	89%
Net Income/Equity	-0 38	-56 43	-56 04	14620%
Revenue/total workforce (in LE 000)	1 43	1 99	0 56	39%

3 3 2 5 Overall Effects of ESA

Some particular indicators of the effect the ESA has had on employee productivity, efficiency, and "workplace culture" are shown by the following

- A reduction in employee absenteeism, tardiness and turnover since the firm was privatized Reasons cited by both management and employees were added incentive bonuses linked to increases in productivity, but, also to "protect their company " The ESA members want to pay off the Holding Company debt as quickly as possible Supervisors and employees interviewed in the field stated that they were proud to own stock in the firm, felt safer and more secure for their retirement years, and are more interested in the company's financial success

- Equipment Management An on-site inspection of one of the company's projects showed good equipment maintenance (See attached Questionnaire for a detailed review) For example, in referring to well bits which are expensive, one employee commented to another co-worker, "You own it, so don't break it "

- A reduction in excess labor costs The firm has reduced its payroll by 21 employees with early retirement plans Short-term contracts have increased for non-essential employees when added labor is required However, these employees do not participate in the ESA/ESOP Plan As a result of the difficult in laying off full-time employees in Egypt, hiring short-term employees is the only alternative However, key new employees, such as well drillers, are hired immediately and allowed to join the ESA (There is a demand abroad for well drillers in water drilling and the petroleum industries)

- Employee training The firm also pays for qualified employees to attend specialized well drilling schools abroad Retraining employees, wherever possible, is a partial solution to firing an employee Expanding markets to reallocate labor resources is another

- The use of bonuses linked to productivity A 10-12% salary increase was implemented when the company was sold to the ESA, an obligatory profit sharing to labor (which increased by LE992,330) and to management (LE181,630 increase) was also distributed In addition, a new incentive bonus scheme was developed by the ESA Board and presented to the CEO for discussion and final implementation to encourage more production The bonus scheme includes

  - The original bonus plan begun before privatization which gave a 0 6% bonus based on monthly sales and was distributed based on the salary of each employee This has been increased to 0 9%
  - A new special bonus to deep well water drillers (they are in demand in Egypt and abroad at highly competitive salaries)
  - A cost-of-living compensation bonus for employees living in Upper Egypt and in the Nile Delta region
  - Bonuses for finishing a project before scheduled delivery time This is divided among all REGWA production and administrative employees, regardless of who is working at any given project site

- The slowness in organizational changes The incentive bonus plan was restructured jointly with the CEO and ESA Board as one way to accomplish corporate change Another method cited was to change job titles Compared to an anchor sale, however, internal changes are notably slower but there is also a high degree of employee loyalty and commitment to the company and labor peace

- Decrease in cost of sales to revenue Since privatization, (1994 to 1997) the cost of sales to revenue have been in the range of 64-70% Prior to privatization (1991 to 1993), the range was 69-75% This decrease indicates that greater efficiency and reduction in direct costs have resulted from privatization and perhaps employee ownership as well

3 3 2 6 Corporate Governance

REGWA's management believes the ESA has provided them with a new information source The ESA Board and company executives also mentioned the following workplace core values as "the values we seek " an atmosphere of fairness and openness through two-way accountability between management and employees, a motivation to seek out opportunities in the market, establishment of incentives for employees, cultivation of commitment at all levels of the company, and employee participation in decisions affecting their workplace and access to corporate financial information

The REGWA ESA Board of Directors is introducing these values through direct explanation to ESA members of the most important elements of the financial statements ESA members are told they can see the annual audited financial statements of the company if they wish Most are not interested in reading the documents, but like the idea they are permitted to do so

Regarding governance of the ESA Association, three areas of concern are discussed below

The Control Issue

All Board members of the ESA are elected by a free, secret election of all members at the ESA General Assembly Each ESA member has one vote in the Association. REGWA delegates have proxy votes for each 10 employees since the company is dispersed geographically There are no restrictions or waiting periods at REGWA for full-time employees to join the ESA Association Contract or part-time employees, as mentioned earlier, are excluded from the ESA/ESOP Plan The other control checks and balances are essentially the same as in Wadi Kom Ombo

Access to Financial Information

Company participant accounts are updated each year and given in writing to each member Every delegate to the ESA General Assembly can ask the external auditor any question In some cases, ESA delegates refer back to the individual members on motions that are before the General Assembly

The company Board gives all of its directors, including the ESA delegates, the same information as given to the HC Board members including monthly interim financial reports which are requested as a matter of HC policy

Voting Rights Issue

One or two delegates are elected for one-year terms by the ESA General Assembly as delegates to the ESA Company General Assembly They can be ESA Association Board Directors or other ESA members The only stated restrictions of ESA/ESOPs to usual shareholder rights in Egypt are that the Chairman and CEO of the ESA company cannot be removed during the repayment period to the Holding Company The other control checks and balances are essentially the same as for Wadi Kom Ombo As in the first case study, it can be concluded that REGWA ESA employee shareholders do have reasonably effective governance through control, access to financial information, and voting rights of company stock There are two major governance issues to be resolved.

Payment of Fair Market Value for Stack Share-Equivalents

During the first 5-year period, stack rights are cashed out at the book value of the ESA Association owned shares After this period, when employee-owned shares outside of the ESA begin to trade, the then current market price will be used to value ESA shares After discussing the issue with the IBTCI team, the REGWA ESA Association adopted reforms to pay stack employee ESA accounts (share ownership equivalents) at the market value of those shares purchased outside of the ESA and publicly traded (since, of 200 employees who purchased outside shares from the HC, several paid cash for shares that are now "tradable") ESA Bylaws at REGWA also require an ESA member be paid within three months of resigning from the company and the ESA, interest is not paid for these three months

Employee beneficiaries and members of the ESA cannot be cashed out in company shares but are paid a cash equivalent (at current market rates) To fund this repurchase liability, 20% of the dividends received by the ESA Association are invested at 10% They calculate that the first major distributions will occur in 5-6 years The ESA Association has its own model to determine how much cash will be needed, it is based on retirement ages projected on a computer model and updated each year

Recently, however, the REGWA ESA Association and an employee reached an agreement to pay him his cash stack account without interest in 6 months So, in spite of the ESA's best intentions, repurchase obligations could become a problem The ESA Association said it welcomes suggestions on how to best honor its repurchase liability

Can Shares Be Distributed?

Another issue raised at REGWA was the ESA's belief that under certain circumstances shares could be distributed The sale contract between ESA and the HC stated that the ESA may give long service employees up to 10% of their stack value in ESA-owned company shares after the original loan from the HC was repaid, based on procedures agreed upon with the HC The ESA has a right-of-first-refusal to repurchase these shares This portion of the contract needs to be examined carefully as both the PEO and HC are opposed to any such idea because, over time, this could lessen the amount of company stock owned by the ESA

3 3 2 7 Prospects and Challenges

While the company's capabilities to generate revenues and maximize production and the use of raw material has increased, the following measures should be taken

(1) More balanced financing structure and dividend policies need to be developed to avoid draining the company of cash

(2) The company needs not only more effective costing systems to price its contracts, but also a new accounting system that provides financial information in a timely manner

(3) More effective cash management techniques need to be developed as the company maintains too much cash in its checking account financed by overdrafts

(4) The company has a problem managing its working capital New financial systems should be developed to monitor and evaluate financial information in a relatively short period of time Such systems should include costing systems, budget, cash flow forecasting systems, and new computerized accounting systems that provide information to management for planning and control

3 3 3 Upper Egypt Dredging Company[22]

3 3 3 1 The Company and its Privatization

Upper Egypt Dredging Company (UED) was established in 1978 to construct drainage systems for irrigated lands in Upper Egypt, principally in Assuit and Aswan Its activities included dredging, maintenance of water canals, and construction of irrigation systems

In 1992, UED was reorganized under Law 203, which required the firm to bid on public works projects In December 1994, the company's ESA, under Law 95, bought 95% of UED shares for LE5 2 million from the HC for Public Works and Land Reclamation The remaining 5% of the Holding Company's UED shares were sold to 100 individual employees (one employee bought 50 shares and the others purchased between 200 and 1,000 shares each) These shares are not concentrated in the hands of management, but owned by employees with different income levels Upper Egypt Dredging Co currently employs 917 workers of whom 650 are full-time employees

While operating as a state owned company under Law 203, UED diversified into product lines such as closed drainage systems with new technological innovations and the construction and sale of multi-family housing projects, schools, and bridge culverts Almost all the new product lines offered are in Upper Egypt Two attempts to compete in the Nile Delta are under way with culvert construction 100 km from Cairo and irrigation drainage in the New Valley 700 km from Cairo

3 3 3 2 Markets, Revenues, and Market Access

The entry into housing and culvert markets was a learning experience As the CEO expressed, "We entered the housing market and lost We learn from our mistakes We are not qualified to compete in the construction of multiple housing In the culvert business, we are profitable and can compete very successfully, especially in Upper Egypt Our traditional market with government contracts in drainage and irrigation is also a good market It isn't easy, but we are learning how to compete as a private company "

From an analysis of its financial statements, the ESA Company is withdrawing cash from the business in order to pay the original down payment and part of its overdue installments to the Holding Company This reduces working capital and increases financing costs, which might lead the company to insolvency

In 1977, UED reduced the construction of multiple housing because it could not compete successfully against other private firms This resulted in significant financial losses for the firm, UED will probably eliminate this sector of the company If and when this occurs, employees will be transferred to other UED projects if they cannot find employment in other housing construction companies Early retirement plans may be used The company did not develop a business plan to enter these two markets, nor (as of 1997) have they developed any alternative plans to utilize their current idle labor and equipment in the housing activity

In comparison, UED will try to expand culvert construction, which has proven to be profitable Demand for this product is good and supply is low in both Upper and Lower Egypt (Staffing projects in the Delta area may, however, pose some problems as UED employees prefer to stay in Upper Egypt)

The company is trying to conserve its traditional government contract market for irrigation and drainage projects Corporate officers argue that although the firm cannot totally depend on government contracts

[22] The following data were obtained through interviews with corporate officers and the ESA Board president (Due to the problems in Egypt at the time it was impossible for the IBTCI/ESOP team to make a site visit to Aswan to speak with employee focal groups)

for drainage and irrigation projects, land reclamation is a national priority and will continue to be so for many years

3 3 3 3 Investment, Technology, and Financing

Only payroll and inventory are computerized All financial information given to the IBTCI team was handwritten except the annual audited reports As a private company, UED has greater flexibility to choose raw materials such as steel, cement, stone, and spare parts It is much easier for the company to buy "We decide and buy at once Before, we had to choose three offers and a government committee decided for us " No procurement policies or procedures, however, were given to the IBTCI/ESOP team

UED was purchased for LE5 26 million The ESA gave an immediate down payment of LE1 million, transferring accumulated profits from previous years held by the company Before privatization, 75% of profits went to the government and 25% to the company Of this 25%, 10% was given to employees and 15% held as cash accumulations (which formed the LE1 million reserve used for the ESA Association down payment) The ESA then had an outstanding debt of LE4 million plus interest to pay over 10 years Including interest, UED's annual payments are LE659,000, a total of LE7 5 million The down payment was equated by the HC as equal to two annual payments, so UED's repayment schedule began in 1997 and not 1995 Even so, to amortize this year's payment the firm has only LE559,00 and will have to borrow or negotiate with the HC for the remaining LEl00,000 due UED management also believes the 8% interest charged on the HC loan is too high for the company to pay [23]

Corporate Organizational Changes

According to management, changes have taken place but they been neither extensive nor severe The firm has changed titles and the names of departments For example, the former "Project Department is now the "Marketing Department" with a sub-unit called "Research" which reviews the Marketing Department's bids for various contracts If UED wins a bid, the Research Department monitors the project to determine if it is on target within specified costs A Technical Department was also established to determine ways to maximize profits and lower costs

Changes in Billing Policies

Government postponement of payments is of vital concern to management "There is no way to force the government to pay Even if there is a written contract when government payments are due, there are no fines With a private buyer the contract forces the client to pay us penalties Private companies pay on time " The problem, however, is that UED's main customer is still the government

3 3 3 4 Financial Indicators

Audited financial statements for 1996/97 were not available, so a comparison was made between the three years prior to and two years after the ESA privatization (see also Appendix D containing complete financial analysis)

Revenues Decreased by 23% in the year of privatization and increased by 29% the year after at an amount higher than any other year during the period of study Volume of sales until 1995 was LE13 million This is a drop from previous years (1990-1994), when the firm was still government owned and

[23] According to Dr Mahmoud M Salem, Legal Advisor to the Public Enterprise Office (PEO), the interest rate will be lowered this year to 5% for all new ESA loans, majority or minority, and made retroactive on all previous loans The Holding Companies' Chairmen have been informed The reduction in interest, since contracts have already been signed, will more than likely be applied to reduce the last principal payments and thus not increase existing majority ESA companies immediate cash flow needs

averaged LE16 million per year Sales in 1997, despite market competition from both private and public companies working in the same field, increased to LE20 2 million

According to management the firm is still competitive in its traditional markets "Before privatization, we were given projects, afterward we had to go out to bid and diversify, reducing costs We must now compete to survive " The Chairman noted that UED still suffers from older projects dating back to when the firm was state owned "UED was paid low prices and is still suffering losses " The company has not developed a costing system to insure its cost efficiencies and achieve its financial objective

Cost of sales Increased by an average of 9% since the firm was privatized which is higher than increases of sales This is due to the fixed costs component in COS This might imply inefficiency in managing labor and materials Profit margins decreased by an average of 27% per annum due to the fact that COS increased at a higher rate than increases in sales

G&A and selling expenses Increased by LE1 9 million at a rate of 71% after privatization, especially in the year of privatization, and returned to its normal level in the following year

Interest expenses Decreased due to repayment of long-term loans prior to ESA privatization

Depreciation expense Decreased by LE0 64 million at an average rate of 41% per annum despite the fact that equipment increased by LE1 13 at an average rate of 9% per annum No adequate disclosure is given to explain the reasons

Net income Despite the company's writing back LE1 03 million from capital reserves to other income, losses of nearly LE4 9 million in the year of privatization were realized due to sharp decline in revenues and increase in expenses

Net assets The company has higher net assets compared to what it maintained prior to ESA, as cash balances increased from LE0 13 million to LE6 26 million Despite a 4% increase in accounts receivable, the allowance of doubtful accounts decreased by 9% Also, inventory decreased by 3% and other current assets decreased by 64% due to liquidity investments in government securities and other allowances

Fixed assets Shows a slight increase of LE1 1 million at a 9% rate (2 year average) The company does not replace and add equipment as much as the other two companies surveyed (REGWA and Wadi Kom Ombo) This could be due to a small business backlog or lack of outside financing

Current liabilities The company's overdraft increased by LE3 0 million at a rate of 479% and other payables increased by 15%, which implies that the company has problems paying current liabilities

Long-term liabilities Repayment of some of long-term loan installments is made

Financial ratios

- Return on equity decreased by 39% due to a decline in revenues and increasing COS and expenses
- Current ratio is unfavorable due to overdrafts and delay in payments
- Debt/equity ratio increased by 55% due to increases of overdraft and delaying accruals
- Debt ratio increased by 14%, also due to increases of overdraft and delaying accruals
- Sales to working capital increased, despite a decline in sales, due to a larger decline in working capital

Balance Sheet for Upper Egypt Dredging

Table (14)

Financial Analysis	Before ESA	After ESA		
Upper Egypt Dredging	Average p a.	Average p a.	Increases	Increases
Condensed Balance Sheet	1992-1994	1995-1997	LE	%
in LE million				
ASSETS				
Current Assets				
Cash	0 13	6 26	6 13	4842%
Trade Receivable	14 91	15 45	0 53	4%
Allowance of Doubtful Accounts	-1 81	-1 64	0 17	9%
Inventory	8 39	8 18	-0 21	-3%
Other Current Assets	14 18	5 09	9 09	-64%
Total Current Assets	35 80	33 33	2 47	-7%
	91%	86%		
Non-Current Assets				
Fixed Assets				
Equipment	13 24	14 37	1 13	9%
Other Fixed Assets	3 54	3 99	0 45	13%
Less Accumulated Depreciation	-13 42	13 64	-0 22	2%
Sub Total	3 36	4 72	1 36	41%
Fixed Assets Under Construction	0 29	0 12	-0 18	61%
Total Fixed Assets	3 65	4 84	1 19	32%
Other Long Term Assets	0 00	0 53	0 53	
Total Assets	39 45	38 69	-0 76	-2%
Total Assets Turnover	0 41	0 42	0 02	4%
Equipment Turnover	1 22	1 13	-0 08	-7%
Fixed Assets Turnover	4 55	3 38	1 17	-26%
A/R Turnover	1 09	1 07	-0 02	-2%
Inventory Turnover	1 91	2 01	0 10	5%
LIABILITIES				
Current Liabilities				
Overdraft	0 63	3 65	3 02	479%
Trade Payables	2 22	2 16	0 06	3%
Other Payables	9 82	11 31	1 49	15%
Total Current Liabilities	12 67	17 12	4 45	35%
NET WORKING CAPITAL	23 13	16 21	-6 92	-30%
Non-Current Liabilities				
Long Term Loans	8 27	6 49	1 78	-22%
Other Reserves	3 98	4 39	0 41	10%
Total Non-Current Liabilities	12 25	10 88	1 37	-11%
Total Liabilities	24 92	27 99	3 07	12%
Stockholders' Equity				
Paid in Capital	8 44	9 00	0 56	7%
Reserves	6 09	1 53	-4 56	75%
Retained Earnings				
Total Stockholders Equity	14 53	10 53	-4 00	28%
Total Liab & Stockholders Equity	39 45	38 52	-0 93	2%
Investment in 95% interest				
Return On Equity	0 07	-0 20	-0 27	391%
Current Ratio	2 85	1 95	-0 90	-32%
Debt/Equity Ratio	1 72	2 66	0 94	55%
Debt Ratio	0 63	0 72	0 09	14%
Sales to WC	0 69	1 02	0 32	47%
ESA Return On Investment	0 00	-0 38	-0 38	

Income Statement, Workforce Statistics & Financial Ratios for Upper Egypt Dredging

Table (15)

Financial Analysis	Before ESA	After ESA		
Upper Egypt Dredging	Average p a	Average p a	Increases	Increases
Condensed Income Statement	1992-1994	1995 1997	LE	%
in LE million				
Revenues	16 03	16 37	0 34	2%
Cost of Sales (COS)	12 86	14 07	1 21	9%
Profit Margin (PM)	3 17	2 30	-0 87	-27%
Administrative & Selling Expenses	2 68	4 58	1 90	71%
Interest Expenses	4 73	0 91	3 82	-81%
Depreciation Expenses	1 58	0 94	-0 64	-41%
Total Expenses	8 99	6 43	2 56	28%
Operating Income	5 82	-4 13	1 69	-29%
Other Revenues & Expenses	6 79	2 05	-4 74	-70%
Net Income After Tax	0 96	2 09	3 05	-316%
Profits Distributed (in LE '000)				
Workers		37 50		
Board of Directors (Management)	20 33	8 00	12 33	-61%
Allowances for Board of Directors	17 00	53 50	36 50	215%
		61 50		
COS/Revenue	0 80	0 86	0 06	8%
PM/Revenue	0 20	0 14	-0 06	32%
Admin Exp /Revenue	0 17	0 31	0 14	79%
Interest Exp /Revenue	0 31	0 06	-0 25	-81%
Net Income/Revenue	0 06	-0 16	-0 22	359%
WORKFORCE STATISTICS	Before ESA	After ESA		
	Average p a	Average p a	Increases	Increases
	1992 1994	1995 1997	LE	%
Production Departments				
Permanent Staff	668	609	59	9%
Temporary Staff Contracts	106	211	105	98%
Temporary Staff Daily Basis	208	78	-130	-63%
Total Production Departments	982	898	-85	9%
Administrative Staff				
Permanent Staff	72	76	4	5%
Temporary Staff Contracts	23	26	3	13%
Temporary Staff Daily basis	7	8	1	7%
Total Administrative Departments	102	109	7	7%
Company-wide Workforce				
Permanent Staff	739	684	55	7%
Temporary Staff Contracts	129	237	108	83%
Temporary Staff Daily Basis	215	86	130	-60%
Total Number of Workers	1084	1007	78	-7%
Workers Compensation				
Average Worker/Wage p a	5091	0	5091	100%
Average Worker/Profit Share p a	118	56	-61	52%
Average Worker/Pay p a	5209	56	5152	99%
FINANCIAL RATIOS				
Fixed Assets Turnover	5	3	-2	-32%
COS/Revenue	1	1	0	8%
CM/Revenue	0	0	0	-32%
Revenue/Equity	1	2	0	41%
Net Income/Equity	0	0	0	391%
Revenue/total workforce (in LE 000)	15	16	2	11%

3 3 3 5 Overall Effects of ESA

The effects that privatization and the ESA have had on employee productivity, efficiency, and "workplace culture" are evidenced by the following

Although privatization has made a difference, the CEO was guarded about the results " If the firm were not majority ESA owned but had an anchor investor as a shareholder, UED would probably be more competitive The firm would also have access to capital investments to acquire more equipment and be able to obtain loans quicker Decision making would be easier and salaries higher We would be more dynamic "

Since privatization, the number of full-time employees has decreased solely through use of early retirement plans, no employee has been fired Currently UED employs 262 part-time and 655 full-time employees Management still believes there is excess labor, and payroll could be reduced by another 250 employees, the company intends to reduce payroll by this amount.

According to management, employees do believe they own the firm, absenteeism has decreased, and punctuality has improved Employees also suggest ways to cut costs

As in other ESA majority owned firms, bonus plans have been jointly developed by management and the employees Truck drivers are awarded bonuses tied to a scaled measure of their productivity If a driver's productivity is between 0-100, he will not receive a bonus, if it is above 100 points, he will Bonuses for administrative employees, however, are not automatic The minimum for a bonus is 200-300 points, but a supervisor evaluates the work and determines the amount of the bonus This plan was developed *before* privatization All employees also receive a bonus based on finishing a project before schedule, but only if the project's costs are lower then estimated If they are higher, even if the job is completed ahead of schedule, no one receives a bonus This plan was developed *after* privatization

3 3 3 6 Governance

The ESA/ESOP has become a tool for management to communicate with employees Employees are more vocal, they criticize and ask questions "It shows they are beginning to understand what ownership is "

As in the first two case studies, three areas are of principal interest

The Control Issue

In secret elections the General Assembly of the ESA elects 3 (and up to 20) delegates to the company's General Assembly Total General Assembly membership is 650 UED delegates are not ESA Board members In a second election, the General Assembly elects 2 members to the Company Board (In this case they are also ESA Board members) Every employee is asked to attend the ESA Association's General Assembly

Access to Financial Information

The three ESA Association-elected delegates to the General Assembly have access to all the financial information given stockholders Their full reports are given to the General Assembly of the ESA Association The auditor's report on the ESA's financial statements is read at the ESA General Assembly and includes financial data and information on how the ESA/ESOP Plan is administered, with a yearly update on members' stack accounts

Voting Rights Issue

ESA members have one-person, one-vote on their stack accounts, and ESA delegates to the company General Assembly are instructed to vote as the members so direct There is still some confusion, however, about the differences between stock and stack voting rights The ESA President believes more thought should be given to the concept of one-share, one-vote, perhaps this would end some of the confusion

As in the first two case studies (although without any feedback from rank and file employees), it can be reasonably assumed that employee shareholders do have reasonable to effective control, access to financial information, and voting rights of company stock

Regarding the issue of the payment of fair market value for stack share-equivalents, at UED the ESA President noted that employees know that the market value is higher than book value The Association, however, will continue to use book value to pay out employees' stack accounts for the first five years of the Plan and thereafter at market value

As to whether an ESA company and Association will permit some of the ESA stacks to be cashed out to long-term retired employees in the form of ESA company stock, UED management and the ESA Board President said it cannot be done However, the REGWA ESA Board of Directors believes it can The IBTCI/ESOP team then compared the contracts of UED with those of REGWA, and Kom Ombo with the HC According to these documents, once the loan to the HC has been paid, long-term employees may be cashed out in ESA company stock at up to 10% of the value of their ESA account

3 3 3 7 Prospects and Challenges

(1) The company faces a marketing problem It needs to increase revenues and put more effort into promoting diversification

(2) The company has changed neither the current organizational structure nor the accounting system Updates in these areas could enable management to plan and control more effectively

(3) The company has not developed a costing system to enable management to evaluate performance and better price their contracts This should be implemented as soon as possible

(4) The company should improve management of working capital It is currently maintaining high cash balances in checking accounts and using overdrafts to pay for loans UED might find it very valuable to develop a cash flow forecasting system

4 CROSS-CUTTING FINDINGS

To assess the impact of the various privatization methods employed both on the efficiency and productivity of newly privatized firms and on the economy, the case studies examined the following areas organization, privatization, degree and areas of resultant change, and future prospects and challenges In assessing these cross-cutting findings a concerted effort was made to include the viewpoint of the GOE policy maker Mode-specific findings are discussed in Section 5

4 1 Pre-Privatization Characteristics

In order to determine what firms were like prior to privatization, we adopted the following working hypotheses (which were subsequently partially modified as a result of our inquiry) The firms studied and their environment were characterized by

- Lack of competition (tendency to monopoly, barriers to private entry),
- Import substitution (protected by quotas and tariffs),
- Excess labor and sub-optimal skill mix (resulting from past GOE employment policies),
- Excess capital stock (a result of exaggerated views of benefits of economies of scale, subsidized capital, and procurement as a source of illicit enrichment),
- Antiquated technologies and technology rigidity,
- No need to sell or market,
- Production bias incentive structures tied to plan production targets and social and political goals instead of profitability,
- Poor inventory controls on inputs and products,
- Procurement tied to public sector (legal restrictions and donor bias),
- Little accountability to "owners" (corruption), and
- Weak management systems and tools (especially accounting)

These characteristics resulted in tremendous inefficiencies in resource allocation and waste and left a legacy of "You pretend to work, we'll pretend to pay you " The solution of the reform-oriented public policy maker? ***Privatize*** In fact, the choice became increasingly clear Privatize or get yet poorer

4 2 Perception of Trade-off between Privatization and Labor Peace

Privatization was nonetheless not viewed as free The "Nasserist" command economy in Egypt had been in place since the 1960s In the late 1970s "the door was partially opened" but the state-controlled economy, an important element of both political control and social policy, remained enshrined in the Constitution and laws It was closely associated with nationalism, Pan-Arabism, independence, and anti-imperialism Even today, many important rent, power, and prestige streams are associated with the levers of power that steer the mechanisms of the state economic system

However, the worst fear of the Egyptian policy makers regarding privatization was breaking faith with the Nasserist promise to workers "Don't rock the boat politically, and the benevolent State will take care of your basic needs " Because of the lack of productivity in the system, the state has been increasingly unable to keep its part of the bargain Still, change (and privatization) in Egypt has been consistently viewed by policy makers as a possible instigator of political instability stemming from worker unrest

Ahmed Taha (characterized by Al Ahram as a "leftist" Member of Parliament) made the following statement about GOE's new early retirement program for privatized industries It amply illustrates this fear of worker unrest in the context of privatization

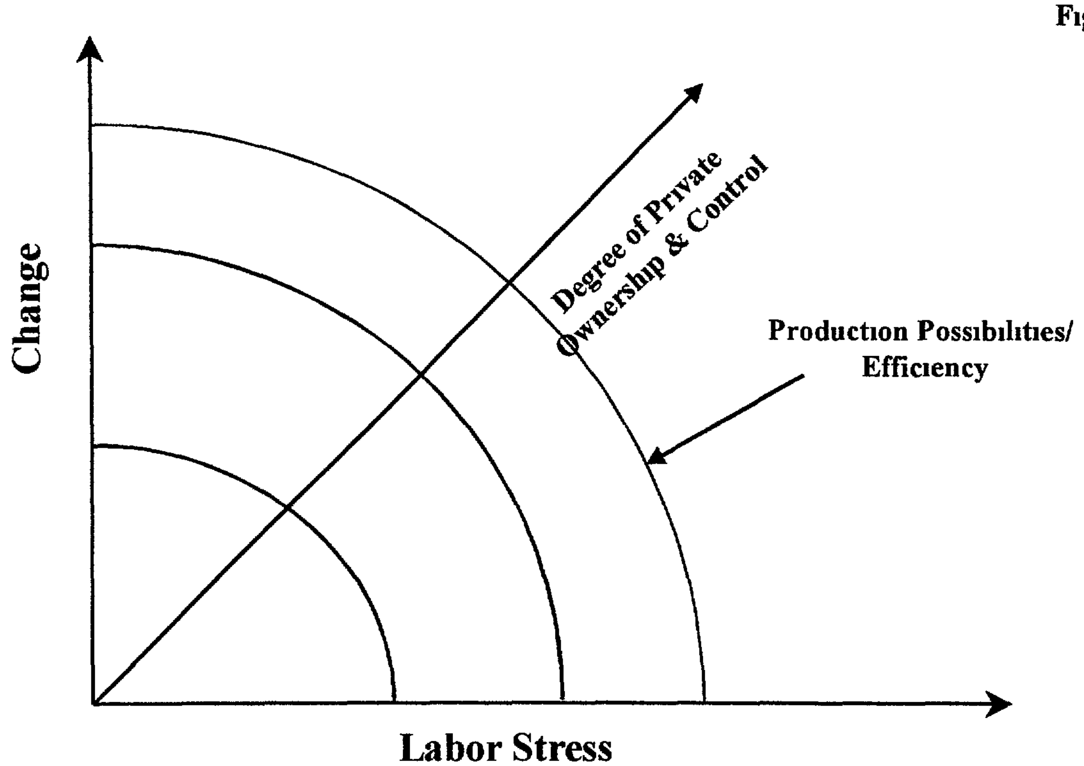
> "It is not just a matter of costs It is [about] fears of the impact of this move will have on labor and the social unrest it may trigger "[24]

This perception of the privatization and "labor/social unrest" trade/off appears to be typical of GOE decision-makers Furthermore, this concern relates not only to the general public welfare but also to identifiable groups of workers in state firms (or other public employees) The fact that eliminating specific public-sector jobs might result in equal or more employment in the economy has little bearing on the perceived trade off[25] In fact, there are cases in Egypt where the social losses from public enterprises are so large that even continuing to pay the employees while liquidating the enterprise and selling off its assets would still result in decreased social losses (aluminum smelting is probably such a case)

Figure 4 illustrates the relationship between these perceived trade-offs more leads to greater labor stress Change is necessary to move to higher production possibility curves and greater efficiency, which in turn are associated with an increasing degree of private ownership and control Obviously, Figure 4 is an oversimplification Many more factors than are shown here affect decision making, such as budget constraints and public opinion Still, Figure 4 represents why Egyptian policy makers have been willing to bear some very high public costs rather than liquidate enterprises experiencing severe financial difficulty

Efficiency, Change, and "Labor Stress" Trade-Offs
Facing Policy Makers in Privatization

Figure (4)



[24] Gamal Sesame El-Din, "Privatization at the Crossroads,' Al Ahram Weekly, 23-29 October 1997, p 4

[25] In fact, such factors as rent control and other non-wage compensation have led to great labor immobility in Egypt

4 3 Changes Related to Privatization

For each firm considered, the following general areas were examined for change

- Markets and competitive environment,
- Production processes,
- Financing,
- Management and administration,
- Governance, especially the degree of private control and ownership and principal client relationships, and
- Such factors as acquisitions, participation in joint ventures, and asset purchase/sale

Details of possible change related to privatization were sought for each firm under each of the above points The changes (if known) were noted as present or not and recorded in Table 16 The year the firm was privatized was also noted

Contrary to our expectations, the period of privatization was less important that we had believed In fact, some of the most recently privatized firms showed the greatest amount of change For example, ABC, privatized in 1996, had a greater percentage of change than any firm examined (32 of 34 possible areas, or 94%) Among the IPOs, Nasr City, privatized the same year as Telemisr, had 27 changes compared to the latter's 12 Among the ESA firms REGWA had 23 changes compared to 10 and 11 for the other two firms in the category, all were privatized the same year

Changes Related to Privatization by Firm (Year Privatized)

Table (16)

Type of Change	Anchor		IPO		ESA		
	B&W Egypt (1994)	ABC Co (1996)	Nasr City (1996)	Telemisr (1996)	REGWA (1994)	Kom Ombo (1994)	Upper Egypt (1994)
Market							
New Competition in Market	X	X		X	X		X
Entry/Exit of Market	X	X	X		X		
Product Lines	X	X	X				
Distribution		X	N/A		N/A	N/A	N/A
Sales & Marketing	X	X	X	X	X		
Production Process							
Raw Materials & Supplies	X	X	X		X		
Machinery & Equipment	X	X	X		X		
Techniques/Knowhow	X	X			X		
Inventories Management	X	X	X	X	X		
Technology/Investment	X	X			X		
Sourcing	X	X	X	X	X	X	X
Financial							
Bank/Suppliers Credit	X	X	X	X	X		
Bonds/Equity	X	X	X				
Retained Earnings Increase	X	X	X				
Dividend Pay Out Ratio	X	X	X		X	X	X
Publically Listed		X	X	X			
Management/Admin							
New Top	X	X		X			
New Middle	X	X					
Accounting (Mech)	X	X	X				
Accounting System							
Control & Info Systems	X	X	X	X			
Procurement	X	X	X	X	X	X	X
Governance							
Board Change	X	X	X	X	X	X	X
Private Controlling Group	X	X	X				
Shareholder Representation	X	X	X	X			
Government Audit Not Present	X				X	X	X
Labor							
Early Retirement Program	X	X	X		X	X	X
Reductions	X	X	X		X	X	X
New Hires	X	X	X		X		
Changed Skill Mix	X	X	X		X		
ESA (Minority)		X	X	X	N/A	N/A	N/A
Strikes/turmoil	X						
Changed Incentives	X	X	X	X	X	X	X
Other							
New Acquisitions or JVs	X	X	X		X		
Asset Sales		X	X		X	X	X
Asset Acquisitions			X		X	X	X

KEY X=Change Blank=No change or Unknown N/A= Not Applicable

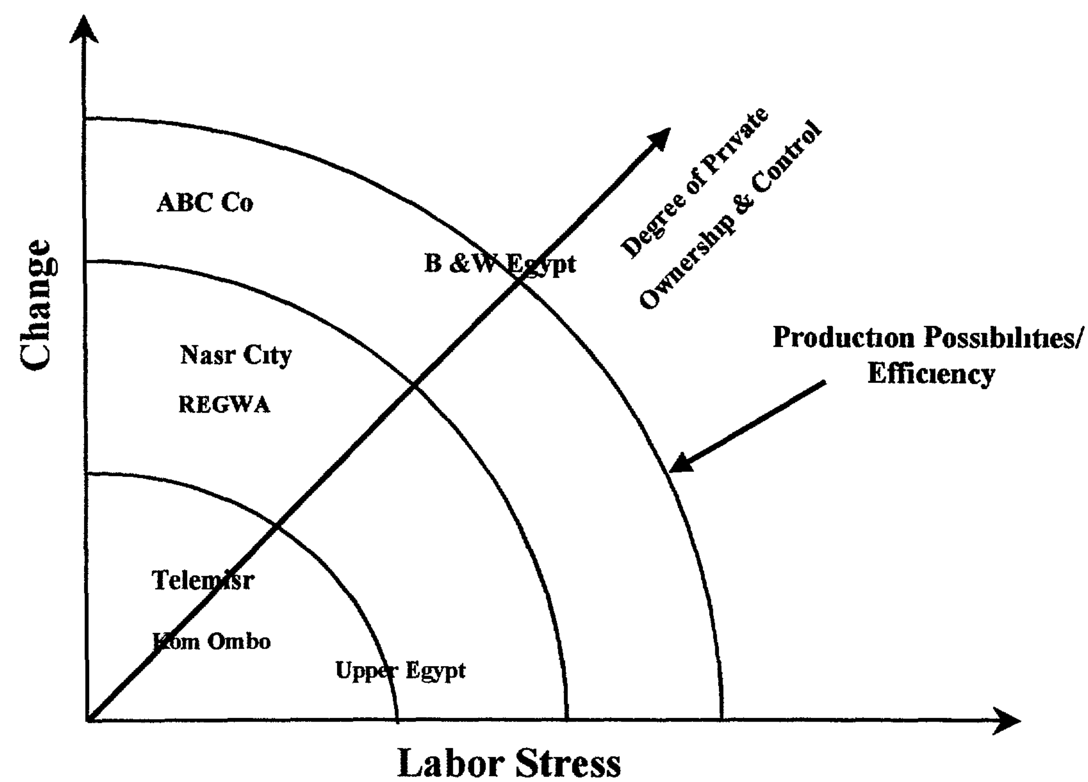
=Change in common =Major Change

Some types of changes were judged to be more important than others and are so indicated in the table, although all of the firms had changes in sourcing, procurement, the Board of Directors, and labor incentives The method employed is not foolproof,[26] nevertheless, the number of changes generally correlated with firm success

The changes scored in Table 16 were combined with case study knowledge and then plotted on the Figure 4 isoquant map to yield Figure 5

Efficiency, Change & "Labor Stress "
Relative Position of Firms Studied (from Table 16)

Figure (5)



4 4 Cross-Cutting Findings

1 USAID/Egypt, through the Bechtel contract, played a critical role in the privatizations studied Bechtel prepared information memorandums and other documentation for six of the seven case studies, although this was not revealed to the study team prior to selection of the firms The conclusion that must be drawn is that the information provided by that contract was critical in helping the GOE privatize these firms Even in the case of the most sophisticated privatization examined (ABC), the Bechtel documents had laid out the mixed ESA, anchor investment, and international/public IPO placement strategy that was eventually pursued so brilliantly by the Luxor Group The preparation of the final investment bank information memorandum was no doubt greatly facilitated by Bechtel's superior groundwork Even in cases where the GOE did not exactly follow Bechtel s advice (asset sales instead of ESAs, for example), the information was invaluable to GOE decision-makers

[26] Upper Egypt Dredging, for example, had more changes than Wadi Kom Ombo, principally because of poor business decisions

The logical conclusion here is that work of the type done by Bechtel will remain an integral part of GOE's decision making process, even with the anticipated greater involvement of investment banks in future privatizations It would also, no doubt, improve the quality and lower the costs of investment bank services and lead to greater GOE sales proceeds

2 There is evidence that the anchor route has labor peace trade-offs It could not be otherwise given state enterprise surplus labor and work ethic However, this study's mode-specific findings indicate that the perception of those risks is greater then the real risks of such turmoil The early retirement scheme and properly structured minority ESA's can greatly reduce the risk of real turmoil

3 Most of the firms studied exhibited operational improvements following privatization However, their operations had already started to improve with the greater discipline and management discretion that Law 203 governance provided

4 All of the firms examined were genuine privatizations involving, at a minimum, a change of legal status, increased procurement and marketing flexibility, and higher quality Board of Director composition For all the firms market signals became more important What does differ by method of privatization is the degree of private ownership and control Although ESA debt repayment interest rates are already below market, GOE recently announced a further rate reduction, indicating a continuing paternalism toward those firms over which it continues to exercise the greatest amount of management control [27]

5 Most (five) of the firms studied were profitable prior to privatization, the other two had a good chance at profitability The relative success achieved by most of the firms might not be duplicated by less profitable firms still to be privatized

6 Regarding the degree of change and improvement by method of privatization, it is clear that the anchors exhibited the most and quickest change, the IPOs less, and the ESAs least [An important exception is REGWA, a world class company with predominant technical capabilities (it is not clear why REGWA could not have been a successful anchor sale)] Also, time appears to be less important than the method of privatization used These findings put a premium on using the anchor route and having a private controlling group emerge as rapidly as possible in the case of IPOs

7 Anchor sales may be more difficult than IPOs, but this study indicates that their superior results warrant the extra effort involved Further, the ABC case shows the value of having investment bankers involved in such sales

8 Given present GOE interest in the anchor route, the importance of investment banks for anchor sales, and the need to pay them engagement fees for such sales, the USAID program's beta component (which permits the payment of such fees) should be activated as quickly as possible

10 While firm-level improvements because of privatization are economically important, a more important economic aspect of privatization may well be increased competition Thus, in evaluating the economic impacts of privatization, more focus on the markets affected as well as the firms privatized seems merited Indeed, in some instances, the greater flexibility of newer entrants into markets could result in the demise of newly privatized firms, this possibility would have to be balanced with the advantage of being first in the market

11 The recent GOE policy decision not to permit ESAs to sell their shares to the public, while no doubt well intentioned, could prove extremely harmful to labor/management relations or to firm-level

[27] If the correct financial ESOP methodology were used in majority-owned ESA firms, such as the use of pre-tax corporate earnings rather than only after-tax dividends to amortize ESA debt loan subsidies might not be necessary

savings It introduces dividend and retained earnings policies as an additional source of company labor/management conflict The prohibition on these sales should be reversed at once

12 The issue of liquidations does not fall under our Scope of Work, but there is no doubt that the GOE should pursue such asset sales more vigorously than in the past The assets alone of one of the ESAs examined were worth more to the GOE than was the firm as a going concern Asset sale and generous compensation to the workers would have been a better deal for all concerned, and less wasteful to the economy The reported large losses of a few firms (and distorted resource allocations in others) make this option economically important A study should be undertaken on how to structure liquidations so that current employees do not bear a disproportionate burden from such socially desirable firm closures and recycling of company assets at lower cost levels

5 METHOD-SPECIFIC FINDINGS AND RECOMMENDATIONS

5 1 Anchor Investor Sales

The anchor investment sales that we examined exhibited the most and quickest change These transactions delivered everything that is generally promised for them—both involved new technologies, investment, and good, new market access The sales led to rapid changes within the firms and also to the greatest degree of new competition Despite the obvious advantages of anchor sales, there remain substantial obstacles to implementation in addition to valuation problems and the perceived political risk of selling the "crown jewels "

5 1 1 Labor "Stress" or Turmoil Obstacle

The rapid change exhibited by anchor sales ***can*** lead to substantial labor force turmoil We found substantial turmoil in the case of B&W Egypt, yet almost none in ABC We did not attempt to interview Coca-Cola because of highly publicized labor turmoil, and we suspect that the reason another firm did not return our calls was because of labor problems

The question of labor turmoil and choice of privatization method was discussed at length in Section 4 Still, given the cases we examined, we would postulate as a working hypothesis for future study that the method of privatization is only one factor in this equation Further, the perceived risks of labor turmoil may well exceed the real ones Perhaps if B&W Egypt had not faced such an adverse change in the tariff regime, cost-cutting measures affecting the labor force might have been able to proceed more gradually as is occurring in ABC [28] Coke and Pepsi may be out layers in that their purchase prices were high and they are locked in a fiercely competitive battle for market share Further, at the time of the Nasr Boilers sale mechanisms such as state-assisted early retirement or minority ESAs had not been established

The minority ESA has almost become a "cookie cutter" feature of newer Egyptian privatizations While such ESAs have the potential to decrease tension between workers and the new owners, there is also the possibility that minority ESAs could become a ***systematic*** source of additional labor tension given the present restrictions on sales of ESA-owned shares This is because company dividends are currently used to amortize share purchase debt Often a company may want to pursue a "capital gain, retained earnings" dividend policy--one which lead to higher firm savings and share capital gains Yet, because dividend income is the only way that ESAs can presently retire share purchase debt (given the paternalistic restriction on share sales), dividend policy is added to wage and working conditions policies as a probable area of labor/management tension

Indications are that a systematic study of the means to lower labor turmoil (or its perception) would be well received Such a study would build on the present cases, examine actual labor conflicts in greater detail, study the usefulness of "cookie cutter" ESAs, and suggest approaches and (if merited) action programs to prepare the labor force in firms about to be privatized

5 1 2 Other Real or Perceived Obstacles to Anchor Sales

The Transition Problem

The case of B&W Egypt pointed out the problem of firm de-capitalization in the case of anchor sales Better due diligence and mechanisms such as escrow accounts (already used) might be helpful in this regard Still there needs to be a systematic look at how a firm's assets and cash flow might be better

[28] It should be noted that, despite the strikes and adverse tariff regime, the average wage at B&W Egypt has increased over 60% since the company was privatized in 1994 This compares to increases on the order of 20-25% in the ESAs that we studied

protected in an anchor sale A study is recommended in this regard It should look at such issues as how to shorten the transition period and possible incentives for existing management and labor in a transition

Public Procurement

In a centrally planned economy all firm-to-firm transactions are public procurements Public procurement therefore becomes a pivotal factor in a privatizing economy In Egypt various mechanisms were set up over time to inhibit private-sector entry into various areas Conversations with public officials indicate that there is now no bias toward government and state firm procurement over public sector firms One of our case studies indicates the contrary We believe that there are still systematic preferences for state-owned firms in public procurement, and if not preferences, at least practices If there are such preferences (or even the perception thereof), anchor sales of many public firms will fetch lower bid prices (and overall economic efficiency inhibited) We recommend further study in this area

The Exit Problem

The cost and difficulty of investor market exit came up in one of our case studies Again, this is an area where problems (or the perception thereof) exist In either case, further study on how to lower these costs (or to document their insignificance) would be useful The existence (or the perception) of exit problems tends to inhibit market entry or to increase the risk premium demanded by the investor who does

Investment Banks

The ABC case study illustrates the key role played by investment banks in the buying and selling of firms ABC illustrates the low costs of investment banking services relative to benefits GOE has heretofore been opposed to the use of investment banks, principally for political reasons Now that GOE officials appear to be revisiting that issue, it would seem opportune to conduct a study about which types of transactions lend themselves most to investment banking services and how the best use can be made of them [29]

5 2 Share Flotations (Initial Public Offerings)

Contrary to belief in some quarters, our two IPO case studies show that this method results in "real" privatizations Despite substantial remaining government ownership shares in these firms, the privatization of one firm led to a flurry of market entry and the other is acting like a fully private firm

Still, in the absence of a private controlling group, such as in Nasr City Housing and Development, the government remains the "anchor investor " Because of strong public sector habits, labor laws which affect exiting firms more then new ones, and inefficient capital structures, many of these newly privatized firms cannot compete with new private sector competitors This would not be such a serious problem if they were allowed to file for bankruptcy and if their failure did not inhibit further privatization

The problem of fostering the quicker emergence of PCGs in IPOs does seem to merit further study Such a study should cover the following

[29] USAID s privatization project contains a component to finance investment bank engagement fees This component called the beta component, was not previously activated because of lack of GOE interest It is our understanding that the GOE recently approached USAID on this use of program funds, but there may now be an internal USAID obstacle This question merits priority attention

- The sale of remaining holding company shares
- The problems involved in the conversion of remaining government shares to preferred stock, providing holding companies with continuing income but lessening government control
- How to keep public institutions as "portfolio" investors
- The usefulness of "worker" (management non-ESA) shares in helping to forge PCGs
- The usefulness of developing a pre-IPO business plan, and, if useful, who should prepare it (existing management)?

Land Valuations

The Nasr City case shows that land assets can be greatly undervalued and inaccurately reflected in the IPO offering price, resulting in large "windfalls" Prior to undertaking a study of this area, it is suggested that the Arthur Anderson valuation material be reviewed for its content on valuation of land assets Perhaps the problem results from the CAA's methods of assessing land value and this area should be reviewed with them Alternatively, land assets could be stripped from land development companies prior to their privatization and auctioned separately

5 3 Employee Shareholder Associations

In Egypt, Employee Shareholder Associations are permitted to own shares of a company on behalf of its employees The ESA administers a legal and organizational framework called an Employee Stock Ownership Plan [30] An ESOP is a special type of employee benefit plan that permits its members to pay for company shares from the dividends distributed on the shares owned by the ESA

In the privatization of state-owned enterprises in Egypt, ESA members acquire certain share-equivalent or "stack" rights as Holding Company loans are repaid for the sale of a minority or majority ownership interest in the company ESA members receive an annual profit proportional to their stakes and a cash value for their "stack" accounts upon retiring or withdrawing from the ESA ESA members vote their stack accounts on a one-person, one-vote basis to instruct the ESA on how to vote its company-owned shares

5 3 1 Findings

The types of changes related to privatization in the three majority-owned ESAs reviewed in this study show the following

Market Changes

- Government is still the major client
- Limited market planning

Financial Changes

- Going concerns were stripped of land and buildings prior to privatization to lower the cost so employees could afford to purchase the companies
- Limited efficiency in managing working capital
- Limited financial and administrative information systems
- No retained earnings policy
- Company performance is not close to the original projections of Betchel (much lower)

[30] An ESOP in Egypt is significantly different from an ESOP as defined under laws in the United States where it was first introduced in 1965

- A trade-off exists between updating and/or replacing production equipment and developing management systems

Governance Changes

Related to corporate governance

- Majority ESA CEOs have not changed
- Show limited organizational development

Related to ESA governance

- "Stacks" voted on a one-person, one-vote basis
- Confusion between share and stack rights and obligations
- ESA members' voting rights are generally respected
- Increasing transparency and access to financial information

Labor Changes

General findings included

- Extremely difficult to fire workers
- The three firms have adopted incentive plans
- Labor peace

ESA Technicalities

- Problem of repurchase liability
- ESA contracts prohibit paying stack accounts in shares
- The firms are becoming closed companies Limited hiring of new full-time employees, with most new workers hired on contract basis (non-ESA members)

5 3 2 Recommendations and Needs for Further Study

Immediate Problems and Recommendations

(1) Companies need to press forward with organization changes

(2) Financial information systems, such as costing systems, new accounting systems, budgeting procedures manuals, and cash flow forecasts, should be developed and computerized to enable management to plan, control, and evaluate performance

(3) Corporate management's lines of authority and accountability should be reviewed Who is ultimately responsible for management decisions? For example, in marketing, retention of earnings, and upgrading financial information systems during the time the ESA Association occupies (a) a minority position on the company Board of Directors or (b) a majority position on the company Board of Directors but without the power to confirm or remove the Chairman of the Board, are management decisions made by the ESA Association as the majority shareholder at the company General Assembly, or the Holding Company through its appointed directors to the company Board of Directors?

Financial Issues

(1) Determine alternative methods to fund repurchase liability to insure there is enough cash in the ESA Association to pay out stack accounts at market value under existing tax laws that use after-tax company dividends to fund the ESA Association

(2) Determine if a certain percentage of ESA owned shares should be given out to ESA members who are cashed out from their stack accounts (with a right of first refusal clause for the ESA Association in the ESA bylaws) rather than paying a retiring member only in cash What are the reasons to consider this option?

(3) Clarify the law permitting the ESA Association to pay out up to 10% of a long term service retiring employees' stack account in ESA-owned stock

(4) Evaluate whether the ESA should be allowed to sell ESA company shares to other third parties (not former employees) on the stock exchange to increase ESA cash reserves against the possibly that the ESA Association will thereby lower its ownership

(5) Clarify the law regarding the right of an ESA Association to sell ESA company shares after all loans to the Holding Company have been paid

(6) Analyze and recommend what additional equitable tax advantages can be introduced to improve the financial status of ESAs For example

(a) The use of pre-tax corporate contributions to the ESA Association to fund and pay ESA loans acquired to purchase ESA company shares Analyze the possibility of taxing ESA members at the individual income tax rate on their stack accounts when paid out in either cash or stock to prevent this tax deferral from becoming an open tax subsidy

(b) Give a tax deduction on the interest charged by banks for loans to ESA Associations if they use these loans to purchase ESA company existing or newly issued shares

(c) Provide entrepreneurial and investment information and guidance to employees who receive cash for their stack accounts on how they may wish to invest their funds

(d) Strengthen ADALA as the ESA representative organization in Egypt to provide training and advice to ESA Associations on corporate management, financial, and governance issues

Governance Issues

(1) Analyze and suggest recommendations on the value of one-share, one-vote vs one-person, one-vote of share-equivalent stacks in ESA members' accounts

(2) Analyze and make recommendations on different allocation formulas for ESA member stock or stack allocations Review how new full-time employees can participate Review the problem of part-time employees not participating in the ESA and its effect on the majority ESA company What is the effect of Egyptian labor laws that severely limit a company's ability to freely contract and dismiss full-time employees?

APPENDIX A

SCOPE OF WORK

Privatized Companies Case Study

I INTRODUCTION

An important component of IBTCI's efforts to monitor and evaluate Egypt's privatization program is the measurement of the impact of privatization on the economy The ability to measure that impact is dependent on such a large number of variables that the overall charge has been stated to be extremely difficult if not impossible Needless to say, if the privatization program has privatized only a distinct minority of the economy no overall impact of privatization would be observed

However, there are a variety of issues and procedures which are currently built into the privatization program which could or may impact the overall economy Privatization, per se is not a good in its own right unless it impacts the efficiency and productivity of the firms privatized The economic argument for its fulfillment rests on the premise that "ownership" matters But what if there is ownership without management control? In that case, ownership would not matter and the efficiencies and increased productivity which are suppose to result from privatization would not occur

This special study will describe and explain the tree principal methodologies being used by the Egyptian Government to privatize previously state owned enterprises The 100% sale of companies to employees (ESAs), anchor investor sales, and floatation's of at least 51% of a company's equity on the stock exchange

Each method has its own peculiarities which have or may dramatically impact the ability of private sector owners to impact management In addition, Egyptian law concerning corporate governance will also impact the new owners ability to effect management and/or production prodders Thirdly, the Egyptian labor law and other directives can or may impact the ability of new owners to make the kinds of management changes or production changes necessary to impact the efficiency of the firm

Consequently, the primary purpose of this special study is to derive the facts underlying privatization to discern if private sector ownership is having an impact on management, as that relates to efficiency and productivity in the Egyptian context

In this respect IBTCI has selected two companies which correspond to each of the three methods under study two ESAs, Upper Egypt Dredging Company and Engineering Design & Irrigation Project two anchor sales Nasr Co for Bottling and Nasr Boilers & Steam Vessel Manufacturing Co , and, two companies privatized through the stock exchange, Madinat Nasr Housing & Development and Egyptian Financial and Industrial

Two consultants will be needed to conduct this effort which is expected to take a minimum of six weeks One U S expatriate will be required with private sector experience especially as that relates to Board experience, corporate governance, and the legal and regulatory responsibilities of Board membership and governance procedures And, one Egyptian national with broad based experience in corporate accounting, auditing, finance, production, and marketing

The Egyptian consultant is expected to begin preparation for the U S consultant by obtaining relevant laws/regulations/studies/reports/ and past financials on the Egyptian companies under study, as well as, prepare appointments and time schedules for the efficient conduct of the study This study allows for 8 weeks of consulting time for the Egyptian consultant and 6 weeks of consulting time for the U S expatriate

SCOPE OF WORK

1 Review laws, directives, and regulatory oversight mechanisms related to the particular company under study, as well as, drafts of new laws which may change or impact existing corporate governance regulations as they relate to each type of privatization method ESAs, anchor sales, and stock floatations Identify any impediments to the ability of private sector ownership o effect private sector management and other types of technical or production changes which may be necessary to impact efficiency Examine Law 95's prohibition on mutual fund manager's ability to sit on Boards of Directors and other legal impediments to private sector control

Examine the allocation system for IPOs on the stock exchange for procedures which may prevent effective private sector control of newly privatized companies

Examine any special conditions placed on anchor sales to discern if there are stated or unstated conditions which would negate a buyer form exercising management control

Examine financing and operations of ESAs to determine if employee rights are being protected and if ESA ownership has had an impact on management or Board Governance Address the larger issue of whether employee ownership of large manufacturing concerns (as opposed to law firms, consulting firms, etc ,) have a positive, negative, or neutral impact on day to day firm management

1 Anchor Investor Sale

Describe and explain the current status of the anchor sales to include the extent to which production or efficiency has or has not changed after privatization Analyze the progress or lack thereof attained after privatization Examine the companies overall operations and financial condition and relate those to changes if any in management control brought on by privatization Describe any changes related to privatization which impacted the role of the board of directories, middle management, or workers Analyze any legal constraints to the full performance of private sector ownership if any Survey and examine relevant laws and regulations imposed by the government that may hinder the effective development of the company and the effective exercise of management control by the new private sector owners Analyze the impact of privatization on labor

2 Initial Public Offering

Describe and explain the current operational and financial standing of the two IPO companies and relate the current financial status to previous years Analyze the method by which the government exercises its ownership rights in the remaining minority share position and compare that to the ability of the new private sector owners to exercise their rights Examine any plan or impediment to second and third tranche offerings by the Holding Companies Describe the ability of the private owners to impact management If private sector owners have not had any ability to impact management, describe if the Government is introducing any management changes, technology or marketing know how to increase sales and productivity Examine problems and relevant laws impeding effective private sector control and describe appropriate solutions Examine the accuracy and timeliness of financial data and other information about the company going offered to the public and the CMA Examine whether financial data, auditing and accounting standards, meet international best practices or are still using the CAA mandated methodology Describe the role of shareholders with respect to corporate governance and especially the Board of Directors

3 Employee Shareholders' Associations

Examine the current functioning of the two ESA companies and compare it with the previous functioning before ESA's ownership role Describe and explain the original financing of the ESA purchase or the company Explain the internal financing and operational procedures of ESAs Describe and explain their impact, if any, on management Describe and explain the internal governing structure of ESAs Describe and explain the protection of workers rights under ESAs and their ability or inability to hold, sell, or dispose of shares in the company as they see fit Explain how ESAs determine the price at which they will sell or repurchase shares from current employees who are laid off, employees who pass away, and the ability of the employee's estate to hold, sell, or dispose of their share holdings Describe the extent to which ESA owned companies act as privatized companies versus public sector companies Analyze the basis on which shares were distributed under ESAs Analyze ESA's articles of incorporation and check on the application of law 95 to discern if ESA's can buy the shares of other privatized companies Describe the effect of ownership, if any, on workers productivity and level of absentees Describe the ESA's role with respect to choosing the Board of Directors If possible, examine the effect of ownership on employee productivity, their ability to take decisions to minimize costs and monitor the companies production efficiency Explain any current legislation which might delay the effective management control of the company by employees Describe the historical record in Eastern Europe and other countries of Workers Councils and other experiments at employee ownership and management control Relate those findings to the possible long term viability of ESA ownership Compare and contrast the potential for ESA's impact on worker welfare versus the more numerous Employee Stock Ownership Plans wherein employees have an ownership stake but not managerial or Board control

II **Deliverables** A draft report in English and Arabic will be presented to IBTCI/USAID for review and comment one week before the final report is due The final report will be in English with the local consultant responsible for translation services if into Arabic if necessary

III **Budget** Level of effort is estimated at 30 days for the U S expatriate and 40 days for the Egyptian Counterpart The entire study will cost $ 58,250 (See attached budget) Expatriate costs will account for $37,461 51 including fees, fringe, overhead, and travel The local consultant will cost $10,062 including fees, perdium, transportation, and travel The rest will be divided among other direct costs (communications and supplies), general and administrative costs and IBTCI fees

APPENDIX B
INTERVIEW TOPICS

(Working Guide IPOs and Anchors to be asked as appropriate)

Since the company has been private has there been an impact on

A Administrative Matters

1 Procurement & Contracting
--If so, why?
--Were there improvements with Law 203?
--Did moving to Law 159 have an impact?
--Has this led to economies? Examples?

2 Accounting, Internal Controls, Information Systems
--If so, why?
--Did moving to Law 159 have an impact?
--Does the company now use Internationally Accepted Accounting Standards?
--If you changed systems, how were your financial statements affected? For example, have you had to make adjustments, take charges, etc
--How do you view the role of the Central Accounting Authority? Do they attend your Board or other meetings? (IPOs)
--Have you modernized your accounting function?
--Have the changes had any impact on the business?

B Markets Served/Customers

1 Have you entered or exited from any markets?
2 Have you added/dropped any product lines?
3 Have you added/dropped any customers?
4 Are you doing more, or spending more, on sales and marketing?
5 Do you face more competition?
6 Have any of the above been due to being private? Would you have had more difficulty making these changes as a 203 company?
7 As a Law 159 Company are you now at a disadvantage with respect to other companies in public procurement (Law 9)?

C Production Process

1 Raw Material and Supplies
--Have you changed the composition/sourcing ? Have economies been achieved?
--Do you have greater options now as to suppliers? Do you exercise them?
--Have economies been achieved?
--Have any of the above been due to being private? Would you have had more difficulty making these changes as a 203 company?

2 Machinery and equipment
--Have you made new investments?
--Have you disposed of unneeded machinery and equipment?
--Would you have had more difficulty making these changes as a 203 company?

3 Techniques
--Have you made substantial modifications in the organization of work? Of processes?

D Inventories

1 Have your levels of input inventories changed?
2 Have your levels of output inventories changed?
3 Have you "disposed" of unneeded inventories of inputs or outputs?
4 Would you have had more difficulty making these inventory adjustments as a 203 company?
5 Have you introduced new inventory control processes?

E Other Assets

1 Have you acquired/disposed of land or buildings?
2 Would you have had more difficulty making these changes as a 203 company?

F Financial

1 Receivables
--Are there payment problems?
2 Credit/debt
a debt service
--Is debt service a problem? Has there been any "work out" prior to or after privatization?
b credit
--Is bank credit easier or harder?
--Is supplier's credit easier or harder?
c bonds
--Have you considered a bond flotation? If not, why not?
3 Equity
--Plans for issuing new equity?
--Dividend policy? Specifically, are there problems using retained earnings giving that workers are accustomed to receding year-end earnings distributions
--Worker shares
--ESA shares

G Labor

1 Supply
--Have you increased/decreased the number of workers since privatization?
--Do you have "excess" workers?
--Could you reduce the payroll without affecting output? If so, why haven't you done so?
--Has privatization increased your flexibility in regard to the above?
2 Skill mix
--Do you have the right labor skill mix? If not, what are the impediments?
3 Organization
--Do you have a union? Is there a contract?
--Do you have Law 159 Worker's Committee's?
--Have you had strikes or serious threats thereof? If so, what have been the issues?
4 ESA and worker's shares
--Do you have an ESA?
--Are there other worker-owned shares?
--Are the above represented on the Board?

H Taxes

-- Has privatization had an impact on the taxes you pay?

I Board of Directors (IPOs)

1 Are any private stockholders represented on the Board of Directors? If so, did they own 10% of the shares? If not, how were they selected/elected?
2 Is the ESA represented on the Board of Directors? (If applicable)
3 Are workers represented on the Board of Directors?
4 Is the Government represented on the Board?
5 Is the CAA represented on the Board?

J Other Issues

1 Are there still outstanding legal issues related to privatization?
2 Does the company have title to all its assets?
3 Are there potential or actual third party legal claims?
4 Do you see any other advantages to privatization? Technology access? Market access?

APPENDIX C

QUESTIONNAIRE AND INTERVIEW GUIDELINES TO BE USED IN THE ANALYSIS OF MAJORITY-OWNED ESA/ESOP PRIVATIZED EGYPTIAN COMPANIES UNDER REVIEW

(Final Version Used In Interviews)
November 15, 1997

QUESTIONNAIRE GUIDE FOR INTERVIEWS WITH THE CHAIRMAN AND CEO OF A MAJORITY-OWNED ESA COMPANY

(I) General Information On The Corporation
(II) Corporate Management
(III) Workplace Atmosphere
(IV) Corporate Efficiency and Productivity

NAMES AND TITLES OF INDIVIDUALS PRESENT AT THE INTERVIEW

PLEASE PROVIDE

(A) Audited financial statements of the company from 1992 to 1997 and answer the following questions in writing for the same time period (See Attached list of questions in Arabic) on page 19

(1) Total number of work force for

Production Departments	Administrative Departments
(a) Permanent staff	(a) Permanent staff
(b) Temporary staff	(b) Temporary staff

(2) Loans

Long Term Loans	Dates and original amounts of the loans Repayments made and balance due on each Interest rate charged and amounts of interest paid year
Over-Draft Facilities	Year obtained, its value, interest rate and interest payments

(3) Photocopies of each of the following

(a) ESA Company stock sale contract and loan agreement between the ESA Association and the Holding Company

(b) ESA Articles of Incorporation, any approved amendments and Association Bylaws

(c) Annual Statement of Account or Certificates given to ESA members

(d) Allocation Stack Lists issued using ADALA's computer program model

(e) The factors used to determine Stack Allocation and the weight of each

(f) Annual Reports of the ESA Association

(4) Newly developed systems after privatization

(a) Incentive, costing, accounting, organization structure, any new added departments and their functions

I GENERAL INFORMATION ON THE CORPORATION

Since the company was privatized has there been an impact on

(A) Administrative Matters

General Question

What is the history of the company in your own words? What does it do?

Specific Questions

(1) What is the present organizational chart of the company and how does it compare to the organizational chart before the firm was privatized?

(2) Have you modernized your accounting system? Did any computerized system exist before privatization? Has one been introduced or updated since the company was privatized?

(B) Market Served/Customers

(1) Have any new departments been added? A marketing department?

(2) Do you feel your company is more competitive since it was privatized?

(3) Have you entered or exited from any markets?

(4) Have you added/ dropped any customers?

(5) Is the company spending less, or spending more on sales and marketing? How much comparatively speaking?

(6) Do you face more competition?

(7) Have any of the above been due to being private?

(C) Production Process

(1) What kind of supplies or raw materials does your company purchase? Do you have greater options now as to suppliers? Have economies been achieved?

(2) Have you made any new investments in machinery and equipment?

(3) Have you disposed of unneeded machinery and equipment?

(4) Has maintenance of equipment increased since the firm was privatized?

(D) Inventories

(1) Do you have inventories of products that are sold? If so, have their levels of inputs and outputs changed? Have you disposed" of unneeded inventories of inputs or outputs? Have you introduced new inventory control processes?

(E) Other Assets

(1) Has your firm acquired/disposed of land or buildings? Does the company have title to all its assets or is it leasing some from the holding company? What are the lease conditions?

(F) Financial

(1) Receivables Are there payment problems for products or services sold?

(2) Credit/debt Is debt service a problem? Is bank credit easier or harder to obtain? Is supplier credit easier or harder?

(G) Labor

(1) How many full time and part-time administrative employees has the company had from 1992 to 1997? Production department employees? How many administrative and production department employees are five years or less to retirement age?

(2) Have you increased/ decreased the number of workers since privatization?

(3) Do you have "excess" workers?

(4) Could you reduce the payroll without affecting input?

(5) Has privatization increased your flexibility in regard to the above?

(6) Skill Mix Do you have the right labor skill mix? If not, what are the impediments?

(H) Taxes

(1) Has privatization had an impact on the taxes your company pays?

(I) Other issues

(1) Do you see any other advantages to privatization? Technology access? Market access?

(J) Physical Inspection of the Administrative, Plant, or Site Facilities

If possible, an on-site review of the company's facilities can give additional data (In a majority-owned ESA company, are employees taking better care of the premises and the equipment?) Look for

- State of equipment
- Maintenance
- If employees look busy or are relaxing
- What are people doing?
- See new equipment such as computers
- Observe how employees are working and how finished products, provided services (are) or project sites look
- Would you accept the company s finished products, construction, or services as a client or customer?
- How does the company maintain quality controls?

II CORPORATE MANAGEMENT

General Question

Explain how the ESA functions in your own words

Specific Questions

(1) What effect has the ESA/ESOP had on your job as CEO to manage the firm effectively? Why? Can you give some examples?

(2) How many ESA representatives are on the company's board of directors? What effect has this had on your ability to manage the company?

(3) What has been the level of absenteeism, percentage of employees arriving late (tardiness), and turnover of employees per year before and since the firm was privatized?

(4) Are there any potential problems with which you need help in solving the functioning and relationship of the ESA to the company?

(5) How has the composition of the company's Board of Directors changed before and after the sale of the company to the ESA? (Age of Board members, education level, management experience, etc)

III WORKPLACE ATMOSPHERE

(1) Do you and your Board have a vision of where the company should be in the medium and long term? What common values should the company's management and employee have to insure the success of the firm? Please explain

(2) Has the ESA/ESOP influenced the functioning of the company and, if so, how has this been shown regarding

(a) Employee interest in company progress?

(b) Employee morale?

(c) Employee/management communication?

(d) Cooperation among employees?

(e) Employee suggestions to improve the firm's performance, efficiency, cost savings, and profitability?

(3) Do you have a labor union? What is the labor union's attitude toward employee stock ownership and the ESA Association?

IV CORPORATE EFFICIENCY AND PRODUCTIVITY

(1) Is the company more or less profitable since it was privatized? To what extent has employee ownership had an effect on the firm's profitability? What statistics or information do you have you show this effect?

(a) For example, by comparing the ratios of company sales and annual labor compensation per year since privatization (If the ratio becomes smaller relative to sales, an assumption is made that the company is getting more LE out of each LE spent on labor and therefore, labor productivity is improving for the year)

(2) Has the company increased sales? Have employees' attitudes changed toward your customers? How? What statistics or information do you have to show this? If sales have not increased, why not?

(3) What is the average return on equity per year since the firm was privatized? (See company's financial statements)

(4) What is the book value per share growth, which is a means of estimating growth of a shareholder's investments (See company's financial statements)

(5) Investor returns (calculated as the increase in stock price plus dividends) (See company's financial statements)

(6) How has privatization affected salaries? Has the company paid monthly, quarterly, or yearly incentive bonuses (independent of the 10% government-mandated profit year-end sharing plan)? If so, by how much per year?

(7) Is the firm through dividend payments to the ESA Association repaying its debt to purchase the shares from the holding company on time? What is the repayment period? What was the original purchase price? How much has been paid and how much is owed? What is the interest rate charged? Will the company be able to pay off the loan before the original repayment period? If so, by how many years?

QUESTIONNAIRE GUIDE FOR THE PRESIDENT AND OTHER ESA BOARD OF DIRECTORS

(I) Workplace Atmosphere
(II) Corporate Efficiency and Productivity
(III) Governance
(IV) Technical Issues of the ESA/ESOP Plan

NAMES AND TITLE OF INDIVIDUALS INTERVIEWED

I WORKPLACE ATMOSPHERE

(1) What do you as an ESA Board member say to the members regarding the concept of ownership? What does it mean to you and what should it mean to the ESA member? Are there certain core values which you are trying to teach the ESA members? For example

(a) An atmosphere of fairness and openness
(b) Motivation
(c) Opportunities
(d) Success in the competitive marketplace
(e) Establishing incentives
(f) Fostering commitment at all levels
(g) Structuring opportunities for all owners to participate in decisions affecting their workplace
(h) Continuing participatory ownership education and access to the company's financial information
(i) Voting for board members preferable on a one-share, one vote-basis
(j) Two way accountability

(2) What are the relations between the labor union and the ESA Association?

II CORPORATE EFFICIENCY AND PRODUCTIVITY

(1) What do you think of the obligatory 10% year-end profit sharing plan which is applied to all companies in Egypt? If the company is not profitable one year, do you think the company should pay the 10% year-end profit sharing anyway?

(2) Does your company have any monthly, quarterly or other time period incentive bonuses linked to the profits of the company? Are these bonus or incentive programs designed with the participation of all of the employees or are they designed solely by management? Does the ESA Board participate in designing the programs? If your company has such a bonus plan(s) has it helped increase employees' productivity and awareness of their equity stake in the ESA? Why?

III GOVERNANCE

(1) Documents needed

(a) ESA Articles of Incorporation added amendments and regulations, and ESA Bylaws

(b) ESA Employee Stock Ownership Plan description
  (i) Example of ESA Allocation documents and amendments
  (ii) ESA ESOP training materials

(iii) Any written information given to ESA members

(c) The valuation price at which the company was sold to the ESA and the methodology study which was used (to determine if the ESA and the government paid fair market prices)

(d) Annual reports and audited financial statements of the of the ESA for the last years since privatization

(e) Annual statements and financial information given to the ESA members for the last years since privatization

(f) Copies of any other documents, informative brochures, letters, etc given to ESA members during the last year

(2) Board Membership

(a) Are ESA board members elected to their positions on a one-person, one-vote basis by ESA members?

(b) Are all board members of the ESA elected by its members?

(c) What is the length of membership on the ESA board? Can board members be reelected?

(d) Are staggered memberships on the board specified in the ESA Articles or Bylaws? If so, how is membership staggered?

(e) What is the composition of the Board of Directors? How many employee "blue collar" members are there, how many management employees? What is the age of each of the current members? How many members are named by the Holding Company? Are any directors named by the ESA or company? As the loan is repaid, how does the composition of the Board of Directors change?

(3) Is voting at the ESA General Assembly secret or open on each issue discussed?

(4) If voting is not secret on all decisions, is voting confidential in (a) the reelection of existing members of the ESA Board of Directors or their dismissal and (b) the election of new Board members?

(5) Are ESA Board Directors paid some form of compensation to participate on the Board of Directors? Is the amount of compensation reviewed at the annual General Assembly meetings of the ESA? How is it paid?

(6) Are ESA Board Directors voted individually to Board membership or is only "slate" (voting for the entire group of Board members up for election) permitted? If only slate voting is permitted, how do the bylaws regulate the presentation of alternative slates to be presented before the ESA General Assembly?

(7) Do ESA Board Directors represent the ESA members in the General Assembly of the company for the purpose of voting ESA-held company shares? Or, are other ESA members chosen to represent the employees at the General Assembly of the company? Can ESA members be **both** members of the Board of Directors and ESA representatives to the company's General Assembly?

(8) Does the ESA have a managing director and other personnel? How were they chosen?

(9) What is the agenda which must be presented at the annual ESA General Assembly? Please attach a copy of the agenda and minutes of the last general assembly and the documents discussed by the ESA Board of Directors and given to members of the association

(10) Are the functions of each principal ESA board member specified in the ESA Articles or Bylaws? (See ESA Articles)

(11) Do the ESA Articles or Bylaws specify that an external auditor must be chosen to audit the ESA financial statements? (See Bylaws) Is the same auditor used by the ESA company?

(12) Is the auditor's report of the ESA's financial statements read at the ESA General Assembly Meeting? Does it include financial data and information on how the ESA ESOP Plan is currently administered with a yearly update on share -equivalent allocation and vesting for each individual ESA member? How detailed is this information?

(13) Do the ESA bylaws require that the ESA-administered Employee Stock Ownership Plan financial information be presented at the ESA General Assembly? If not, what are the reasons? Is partial information provided and, if so, what is it?

(14) At the ESA General Assembly, is every member attending entitled to discuss the items included on the General Assembly agenda, and to ask members of the Board of Directors, and especially the auditor, questions about these reports?

(15) Are the audited ESA company financial statements and other information normally given to all company shareholders also given to the ESA Board of Directors? If not, why and what information is given to them? Is this information made available to the ESA members at their annual General Assembly? If not, why and what information is given to them?

NOTE There may be legitimate reasons why at the beginning of an ESOP Plan certain corporate information may not be released to ESA members but held for review only by ESA Directors Sensitive (for example, marketing) information may never be released ESA members, however, are usually advised in a General Assembly of the reasons why sensitive corporate and financial information must not be given out A process should begin so that over the years an ESA ESOP Plan exists, the information provided all shareholders is given to ESA members even though they own "share-equivalents" and not actual shares of the company

(16) Are newsletters and regular meetings held with employees to answer their concerns and questions by the ESA Board?

(17) In Egypt are the only stated restrictions of ESA/ESOPs to usual shareholders rights (1) The Chairman and CEO of the ESA company cannot be removed during the repayment period to the Holding Company, and (2) Employee beneficiaries and members of the ESA cannot be cashed out in company shares, but are paid a cash ("stack") equivalent?

IV TECHNICAL ISSUES OF THE ESA/ESOP PLAN

(1) Your view on cashing out employees with shares rather than cash

(2) Do you think funding repurchase liability is a problem?

(3) Can the ESA sell some of its shares to cash out employees who are retiring?

(4) Do ESA Board Directors and ESA Association members understand the difference between "book' and "fair market" value?

(5) Should "fair market" value other than just "book" value of ESA company shares be used to pay out cash on employees' share-equivalent vested accounts when they retire? Is this already being done?

(6) Are employees taxed when they receive cash from the ESA for their stacks? At what rate? Does it matter if they receive a lump sum or is it better to receive partial payment over a period of years?

(7) Do you feel ESA members really understand their rights and obligations? What are the problems?

(8) Do ESA members understand the financial information they receive? Is enough given to them? Do they have access to financial information of the ESA Association and the ESA company?

(9) Were employees fired when companies were privatized? Were early retirement plans used?

(10) Should the existing one-person, one-vote per ESA member be changed to one share-equivalent or stack votes?

(11) Should employees retire with their accounts fully vested, for example, with 5 or 7 years of service if they are that far away from retirement? This would be the exception to the rule of not paying an employee unless he/she reaches retirement age Are employees vested only at retirement or do they receive their stacks on a vesting schedule equal to the repayment period of the ESA Association to the company or lender?

(12) Does your ESA company and ESA Association permit some of the ESA stacks to be cashed out to retired employees in the form of ESA company stock? How?

(13) Do you think the ESA should cash out employees' share-equivalents at "book" value or at "fair market" value? (Define "fair market" value for the individual interviewed if he or she does not know)

(14) If an employee leaves the company and is a member of the ESA, must the employee resign from the ESA as a member to receive his or her vested share-equivalents (stacks)?

(15) Does the ESA Board believe the ESA should pay the resigning employees interest on the amount due them if payments are made in installments and then pay then at the then market value of the company's share equivalents rather than their book value?

(16) Is any group providing training to the ESA Board or members?

(17) What are the restrictions to permit a full-time employee to participate as an ESA member?

(18) What is the vesting schedule for ESA members of allocated share-equivalents or stocks in your company's plan?

(19) What is the difference between a company share of stock and share-equivalents or stacks? What rights does each one have?

(20) Is an independent appraiser hired to periodically determine the value of the share-equivalents in the ESA members' accounts?

(21) What method was used to determine each ESA members initial and ongoing allocation of share equivalents? What are the factors used and the weight of each? Do wages and salary include all basic wages, bonuses, allowances, profit sharing, and Board of Directors (BOD) bonuses for management? Is the length of service included in the formula? Are there any other factors included? Are "Breaks in Service" permitted? If an employee takes a leave of absence, does this time still count for allocation of share-equivalent (stack) rights?

(22) Do the ESA ESOP Plan regulations permit the ESA to pay an employee taking early retirement his or her vested share equivalents over a period of time? If so, how long? Is a market rate of interest paid on the undo balance to the retiring employee?

(23) In your company's ESA, are voting rights passed through to the ESA only on paid-for shares? Are voting rights passed through the ESA to its members on allocated or just vested shares? What specific voting rights are given to the ESA on the shares it owns? What specific voting rights are given to the ESA members on the allocated and vested share- equivalents (stacks) they own?

(24) Are ESA members notified on all issues which will be discussed at the General Assembly of the company and given an explanation why these issues will be discussed? Are shortened versions of stockholder reports prepared by the ESA Board for its members?

(25) Does the ESA Board of Directors administer the ESOP Plan directly or is there an administrative committee which does this? If there is an Administrative Committee does the General Assembly have the right to elect one or more members to this Administrative Committee? Describe the functions of the Committee or the ESA Board

QUESTIONNAIRE GUIDE FOR INTERVIEW WITH ESA BOARD MEMBERS AND ESA COMPANY EMPLOYEES

(I) Employee Ownership Culture
(II) Corporate Efficiency and Productivity
(III) Governance

EMPLOYEE IDENTIFICATION INFORMATION

Position in the company ____________________________

Number of Years Employed in the Company ______

Age_______ Male or Female _______________

Married ____________ Single ______________

Dependents ____________________

FORMAT QUESTIONS BASED ON POINT RESPONSE PLUS ANSWERS TO DIRECT QUESTIONS

The scores are based on a 4 point scale, with "1" indicating strong disagreement, "2" mild disagreement, "3" mild agreement, and "4" strong agreement The employee should be told the scale is from 1 to 4 and to please choose one number

I EMPLOYEE OWNERSHIP CULTURE

(1) I'm proud to own stock in this company

(2) I prefer working for the company now rather than when it was owned by the government

(3) Because of employee ownership, my work is more satisfying

(4) Do you feel safer, more secure for your retirement years as an owner and ESA member?

(5) Owning stock in this company makes me more interested in the company's financial success

(6) Because of employee ownership people here try to cooperate more

(7) I am more careful and conscientious in my work because I own stock in this company

(8) Owning stock in this company makes me want to stay with this company longer than I would if I did not own stock

(9) Do you agree or disagree with this statement "This company and its people are the greatest "

QUESTIONS

(A) Describe in your own words, your understanding of the ESA and ownership of shares in the company

(B) What do you want to see happen in this company since you are now a shareholder and owner through the ESA?

(C) Would you leave this company for a company which did not have an ESA ESOP Plan?

II CORPORATE EFFICIENCY AND PRODUCTIVITY

(10) Owning stock in this company makes me want to stay longer than I would if I did not own

(11) I am more careful and conscientious in my work because I own stock in this company

(12) I work harder on my job because I own company ESA stacks (share-equivalents)

(13) If your company has an incentive bonus plan increase employee productivity and efficiency ?

(14) Do you think the employees take better care of the company's equipment?

(15) If you saw a co-worker not working hard enough, for example, taking too many breaks or taking a nap, would you tell him not to do it?

(16) If the company needs to, should it hire more full-time employees even though they would become members of the ESA and participate as owners of the company?

(17) Do you think that your fellow workers are less absent from work because they own ESA share-equivalents?

(18) Total pay and benefits are better than they would be without the employee ownership plan in this company

QUESTION

(D) What differences have you noted in the company's efficiency, production, employee turnover, employee motivation and helpful suggestions to management since the ESA bought shares from the government and you became a member of the ESA?

III GOVERNANCE

(19) I am able to vote my ESA "stack" (share-equivalents) as I wish

(20) Employees in my company have more influence in corporate decision-making than they would if they did not own ESA stacks (company share-equivalents)

(21) Owning stock in this company makes me more interested in the company's financial performance

(22) Employees here have more say in company decisions because they own stacks

(23) Employees here have more say in company decisions because the ESA Association owns stock

(24) Do you agree or disagree with this statement "If you don't vote the stock, you don't really own it"

QUESTIONS

(E) Who attends the General Assembly of the company for you? Do these individuals vote your share-equivalents the way you instructed them to do so?

(F) Do you understand the difference between owning a share of stock in the company and a share-equivalent ("stack") in the ESA? What is it?

(G) What ESA and company financial information is given to you by the ESA at the General Assembly? Is any other kind of information provided? What kind?

(H) Do you understand the information you are given? If not, does the ESA association, company, holding company, or ADALA help you understand the financial and other information about your participation in the ESA? Is it sufficient? If so, why? If not, why? What do you feel is lacking?

APPENDIX D

FULL FINANCIAL FOR ESA COMPANIES SURVEYED IN THIS REPORT

Condensed Financial Statements	in LE Million													
Wadi Kom Ombo														
Income Statement	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
							LE	%	LE	%	LE	%	LE	%
Revenues	*122.80*	*102.91*	*109.48*	*87 82*	*86.66*	*108.09*	*-19.89*	*-16%*	*6.57*	*6%*	*-21 66*	*-20%*	*-1 16*	*-1%*
Cost of sales	65 77	61 25	64 51	53 92	56 72	74 49	-4.52	-7%	3.26	5%	-10.59	-16%	2.80	5%
Profit Margin	57 03	41 66	44.97	33.90	29 94	33.60	-15.37	-27%	3.31	8%	-11 07	-25%	-3.96	-13%
Admin. & Selling Exp.	42.28	46.70	36.18	10.44	11 95	15.71	4.42	10%	-10.52	-23%	-25.74	-71%	1 51	13%
Interest Exp.	5 38	4 24	4 61	2.25	2.65	3 77	-1 14	-21%	0.37	9%	-2.36	-51%	0.40	15%
Depreciation Exp.	*10.45*	*13.49*	*13.15*	*6.97*	*7 66*	*2.45*	3.04	29%	-0.34	-3%	-6.18	-47%	0.69	9%
Total Exp.	58.11	64.43	53.94	19 66	22.26	21 93	6.32	11%	-10.49	-16%	-34.28	-64%	2.60	12%
Operating Income	-1 08	-22.77	-8.97	14.24	7 68	11 67	-21 69	1999%	13.80	-61%	23.21	-259%	-6.56	-85%
Other Revenues & Expenses	21 41	41 26	32.67	9 08	14 16	10.62	19.85	93%	-8.59	-21%	-23.59	-72%	5.08	36%
Income Before Tax	20.33	18.49	23.70	23.32	21 84	22.29	-1 84	-9%	5.21	26%	-0.38	-2%	-1 48	-7%
Income Tax	8.78	6.03	8.44	7 13	6.25	6.50	-2.75	-31%	2.41	40%	-1 31	-16%	-0.88	-14%
Net Income After Tax	11 55	12.46	15.26	16.19	15.59	15.79	0.91	8%	2.80	22%	0.93	6%	-0.60	-4%
Profits Distribution in LE '000														
Workers	*595.60*	*796.50*	*1,271 80*	*1,313.00*	*28.00*	*28.00*	200.90	34%	475.30	60%	41 20	3%	-1,285.00	-4589%
Board Of Directors (Management)	*331 90*	*404.50*	*96.90*	*291 40*			72.60	22%	-307 60	-76%	194.50	201%	-291.40	
Mgmt Allow. & Profit Sharing	331 90	404 50	166.90	361 40	100 00	100 00	72.60	22%	-237 60	-59%	194.50	117%	-261.40	-261%
COS/ REVENUE	54%	60%	59%	61%	65%	69%	0.06	11%	-0.01	-1%	0.02	4%	0.04	6%
PM/ REVENUE	46%	40%	41%	39%	35%	31%	-0.06	-13%	0.01	1%	-0.02	-6%	-0.04	-12%
Admin Exp. / REVENUE	34%	45%	33%	12%	14%	15%	0.11	32%	-0.12	-27%	-0.21	-64%	0.02	14%
Interest Exp. / REVENUE	4%	4%	4%	3%	3%	3%	0.00	-6%	0.00	2%	-0.02	-39%	0.00	16%
Net Income / REVENUE	9%	12%	14%	18%	18%	15%	0.03	29%	0.02	15%	0.04	32%	0.00	-2%

Condensed Financial Statements														
Wadi Kom Ombo														
Balance Sheet														
in LE Million			**in LE Million**											
Assets	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Current Assets							LE	%	LE	%	LE	%	LE	%
Cash	12.66	15.13	34.16	34.11	40.93	17.94	2.47	20%	19.03	126%	-0.05	0%	6.82	17%
Trade Receivable	124.63	155.00	139.89	124.46	111.15	134.38	30.37	24%	-15.11	-10%	-15.43	-11%	-13.31	-12%
Allowance of Doubtful Accounts	-5.55	-8.64	-9.43	-6.99	-8.07	-7.72	-3.09	56%	-0.79	9%	2.44	-26%	-1.08	13%
Inventory	24.78	23.60	28.54	24.03	25.89	28.65	-1.18	-5%	4.94	21%	-4.51	-16%	1.86	7%
Other Current Assets	20.25	28.70	40.44	30.77	28.04	40.02	8.45	42%	11.74	41%	-9.67	-24%	-2.73	-10%
Total Current Assets	176.77	213.79	233.60	206.38	197.94	213.27	37.02	21%	19.81	9%	-27.22	-12%	-8.44	-4%
Non-Current Assets	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Fixed Assets							LE	%	LE	%	LE	%	LE	%
Equipment	51.80	68.62	72.44	83.76	87.99	93.45	16.82	32%	3.82	6%	11.32	16%	4.23	5%
Other Fixed Assets	11.80	13.95	22.25	28.07	36.78	47.63	2.15	18%	8.30	59%	5.82	26%	8.71	24%
Leased Fixed Assets														
Less. Accumulated Depreciation	-38.26	-50.08	-61.60	-68.57	-76.22	-78.68	-11.82	31%	-11.52	23%	-6.97	11%	-7.65	10%
Sub-Total	25.34	32.49	33.09	43.26	48.55	62.40	7.15	28%	0.60	2%	10.17	31%	5.29	11%
F.A. Under Construction	1.36	4.46	9.22	4.77	7.07	4.97	3.10	228%	4.76	107%	-4.45	-48%	2.30	33%
Total Fixed Assets	26.70	36.95	42.31	48.03	55.62	67.37	10.25	38%	5.36	15%	5.72	14%	7.59	14%
Long Term Accounts Receivable	9.97	9.53	11.47	6.18	4.83	2.10	-0.44	-4%	1.94	20%	-5.29	-46%	-1.35	-28%
Total Assets	213.44	260.27	287.38	260.59	258.39	282.74	46.83	22%	27.11	10%	-26.79	-9%	-2.20	-1%
Total Assets Turnover	0.58	0.40	0.38	0.34	0.34	0.38	-0.18	-31%	-0.01	-4%	-0.04	-12%	0.00	0%
Equip Turnover	2.37	1.50	1.51	1.05	0.98	1.16	-0.87	-37%	0.01	1%	-0.46	-31%	-0.06	-6%
Fixed Assets Turnover	4.60	2.79	2.59	1.83	1.56	1.60	-1.81	-39%	-0.20	-7%	-0.76	-29%	-0.27	-17%
A/R Turnover	1.03	0.70	0.84	0.75	0.84	0.85	-0.33	-32%	0.14	19%	-0.09	-11%	0.09	11%
Inventory Turnover	4.96	4.36	3.84	3.65	3.35	3.77	-0.59	-12%	-0.52	-12%	-0.18	-5%	-0.31	-9%

Condensed Financial Statements	in LE Million													
Wadi Kom Ombo														
Balance Sheet														
LIABILITIES	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Current Liabilities							LE	%	LE	%	LE	%	LE	%
Overdraft			1 72	2.27	0 67	7 95	0 00	#DIV/0!	1 72	#DIV/0!	0 55	32%	-1 60	-239%
Trade Payables	8 58	10 75	12 11	75 12	45 99	58 85	2.17	25%	1 36	13%	63 01	520%	-29 13	-63%
Other Payables	54.72	75.52	96 75	0 00	29 79	34.98	20 80	38%	21 23	28%	-96.75	-100%	29 79	100%
Total Current Liabilities	63 30	86 27	110.58	77 39	76 45	101 78	22.97	36%	24 31	28%	-33 19	-30%	-0 94	-1%
NET WORKING CAPITAL	113 47	127 52	123 02	128 99	121 49	111 49	14 05	12%	-4 50	-4%	5.97	5%	-7 50	-6%
Non-Current Liabilities														
Long Term Loans	46 65	61 87	61 36	55 30	51 95	42 91	15 22	33%	-0 51	-1%	-6.06	-10%	-3 35	-6%
Other Reserves	70 58	74 06	76 57	76 13	75 90	81 79	3 48	5%	2.51	3%	-0 44	-1%	-0 23	0%
Total Non-Current Liabilities	117 23	135.93	137 93	131 43	127 85	124.70	18 70	16%	2.00	1%	-6.50	-5%	-3.58	-3%
Total Liabilities	180 53	222.20	248.51	208.82	204.30	226.48								
Stockholders Equity	91/92	92/93	93/94	94/95	95/96	96/97								
Paid in Capital	5 60	5 60	5 60	5 60	5 60	5 60	0 00	0%	0 00	0%	0 00	0%	0.00	0%
Reserves	27 31	32.47	33 27	29 99	32 90	34 87	5.16	19%	0 80	2%	-3.28	-10%	2.91	9%
Retained Earnings				16 18	15 59	15 79	0 00		0 00		16 18		-0 59	-4%
Total Stockholders' Equity	32.91	38 07	38 87	51 77	54.09	56 26	5.16	16%	0 80	2%	12.90	33%	2.32	4%
Total Liab. & Stockholders Equity	213.44	260.27	287 38	260 59	258.39	282.74	46 83	22%	27 11	10%	-26.79	-9%	-2.20	-1%
	213 44	260 27	287 38	260 59	258 39	282.74								
	0 00	0 00	0 00	0 00	0 00	0 00								
Investment in 95% interest				50 95	50 95	50 95								
Return On Equity	65%	108%	84%	18%	26%	19%	0 43	67%	-0 24	-22%	-0 67	-79%	0 09	33%
Current Ratio	1 97	1 80	1 27	1 61	1 45	1 32	-0 17	-9%	-0 53	-30%	0.34	27%	-0.15	-11%
Debt/Equity Ratio	5 49	5 84	6 39	4 03	3 78	4 03	0 35	6%	0 56	10%	-2.36	-37%	-0 26	-7%
Debt Ratio	7 12	6 84	7 51	4 83	4 21	3 63	-0 29	-4%	0 67	10%	-2.68	-36%	-0 62	-15%
Sales to WC	1 08	0 81	0 89	0 68	0 71	0 97	-0 28	-25%	0 08	10%	-0 21	-23%	0 03	5%
ESA Return On Investment				17%	26%	20%					0.17		0 09	36%

Condensed Financial Statements														
Wadi Kom Ombo														
Workforce statistics	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Production Departments														
Permanent Staff	957	910	883	852	847	856	-47	-5%	-27	-3%	-31	-4%	-5	-1%
Temporary Staff Contracts	375	356	346	334	332	335	-19	-5%	-10	-3%	-12	-3%	-2	-1%
Total Production Depts.	**1332**	**1266**	**1229**	**1186**	**1179**	**1191**	-66	-5%	-37	-3%	-43	-3%	-7	-1%
Administrative Staff														
Permanent Staff	209	199	193	186	185	187	-10	-5%	-6	-3%	-7	-4%	-1	-1%
Temporary Staff Contracts	16	15	14	14	14	14	-1	-6%	-1	-7%	0	0%	0	0%
Total Administrative Depts.	**225**	**214**	**207**	**200**	**199**	**201**	-11	-5%	-7	-3%	-7	-3%	-1	-1%
Company-wide workforce														
Permanent Staff	1166	1109	1076	1038	1032	1043	-57	-5%	-33	-3%	-38	-4%	-6	-1%
Temporary Staff Contracts	391	371	360	348	346	349	-20	-5%	-11	-3%	-12	-3%	-2	-1%
Total No. of workers	1557	1480	1436	1386	1378	1392	-77	-5%	-44	-3%	-50	-3%	-8	-1%
Workers Compensation														
Average Worker/Wage p.a.	6731	8182	7869	7027	7533	8628	1452	22%	-313	-4%	-842	-11%	505	7%
Average Worker/Profit Share p.a.	383	538	886	947	978	974	156	41%	347	65%	62	7%	31	3%
Average Worker/Pay p.a.	***7113***	***8721***	***8755***	***7975***	***8511***	***9602***	1607	23%	34	0%	-780	-9%	536	6%

FINANCIAL RATIOS	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
							LE	%	LE	%	LE	%	LE	%
Fixed Assets Turnover	4 85	3 17	3 31	2 03	1 78	1 73	-1 68	-35%	0 14	4%	-1 28	-39%	-0 25	-14%
COS/Revenue	54%	60%	59%	61%	65%	69%	0 06	11%	-0 01	-1%	0 02	4%	0 04	6%
CM/Revenue	46%	40%	41%	39%	35%	31%	-0 06	-13%	0 01	1%	-0 02	-6%	-0 04	-12%
Revenue/Equity	373%	270%	282%	170%	160%	192%	-1 03	-28%	0 11	4%	-1 12	-40%	-0 09	-6%
Net Income/Equity	35%	33%	39%	31%	29%	28%	-0 02	-7%	0 07	20%	-0 08	-20%	-0 02	-9%
Revenue/total workforce LE'000	78 87	69 53	76 24	63 36	62 89	77 65	-9.33	-12%	6.71	10%	-12.88	-17%	-0 47	-1%

Detaıled Fınancıal Statements	in LE Mıllıon													
Wadı Kom Ombo														
	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Income Statement							LE	%	LE	%	LE	%	LE	%
Revenues	***122 80***	***102 91***	***109 48***	***87 82***	***86 66***	***108 09***	***-19 89***	***16%***	***-21 66***	***-20%***	***21 43***	***25%***	***19 72***	***-99%***
Cost of sales														
Wages	7 84	8 58	8 23	7 44	8 15	9 36	0 74	9%	-0 79	-10%	1 21	15%	-0 65	-87%
Other costs	57 93	52 67	56 28	46 48	48 57	65 13	-5 26	-9%	-9 80	-17%	16 56	34%	5 17	-98%
Total Cost Of Goods Sold	65 77	61 25	64 51	53 92	56 72	74 49	-4 52	-7%	-10 59	-16%	17 77	31%	4 45	-98%
Profit Margın	**57 03**	**41 66**	**44 97**	**33 90**	**29 94**	**33 60**	***-15 37***	***-27%***	***3 31***	***8%***	***-11 07***	***-25%***	***-3 96***	***-13%***
Admin & Sellıng Exp														
Wages	2 64	3 53	3 07	2 30	2 23	2 65	***0 89***	***34%***	***0 46***	***-13%***	***-0 77***	***-25%***	***-0 07***	***-3%***
General Admın & Sellıng Exp	13 27	14 28	20 84	2 52	3 19	3 25	***1 01***	***8%***	***6 56***	***46%***	***18 32***	***88%***	***0 67***	***21%***
Interest Exp	5 38	4 24	4 61	2 25	2 65	3 77	***-1 14***	***-21%***	***0 37***	***9%***	***-2 36***	***51%***	***0 40***	***15%***
Depreciatıon Exp	***10 45***	***13 49***	***13 15***	***6 97***	***7 66***	***2 45***	***3 04***	***29%***	***0 34***	***-3%***	***-6 18***	***-47%***	***0 69***	***9%***
Other Allowances	26 37	28 89	12 27	5 62	6 53	9 81	***2 52***	***10%***	***-16 62***	***-58%***	***6 65***	***-54%***	***0 91***	***14%***
Total Exp	**58 11**	**64 43**	**53 94**	**19 66**	**22 26**	**21 93**	***6 32***	***11%***	***-10 49***	***-16%***	***-34 28***	***64%***	***2 60***	***12%***
Operatıng Income	**-1 08**	**-22 77**	**-8 97**	**14 24**	**7 68**	**11 67**	***-21 69***	***1999%***	***13 80***	***-61%***	***23 21***	***-259%***	***-6 56***	***-85%***
Other Revenues & Expenses														
Prıor Perıods revenues	10 01	37 99	16 36	3 24	10 81	6 29	***27 98***	***280%***	***-21 63***	***-57%***	***-13 12***	***-80%***	***7 57***	***70%***
Prıor Perıods Expenses	-3 83	-12 50	10 52	-5 84	-7 11	-5 87	***-8 67***	***226%***	***1 98***	***-16%***	***4 68***	***-44%***	***-1 27***	***18%***
Capıtal Gaıns	0 83	1 19	1 68	0 55	0 45	0 57	***0 36***	***43%***	***0 49***	***41%***	***-1 13***	***-67%***	***-0 10***	***-22%***
BOD allowances			-0 07	-0 07	-0 1	-0 1	***0 00***		***-0 07***		***0 00***	***0%***	***-0 03***	***30%***
Allowances written back			***8 79***	***5 33***	***4 88***	***5 35***	***0 00***		***8 79***		***-3.46***	***-39%***	***-0 45***	***-9%***
Mısc revenues	14 40	14 58	16 43	5 87	5 23	4 38	***0 18***	***1%***	***1 85***	***13%***	***-10 56***	***-64%***	***-0 64***	***-12%***
Total Other Revenues & Expenses	21 41	41 26	32 67	9 08	14 16	10 62	***19 85***	***93%***	***8 59***	***-21%***	***-23 59***	***-72%***	***5 08***	***36%***
Income BeforeTax	**20 33**	**18 49**	**23 70**	**23 32**	**21 84**	**22 29**	***-1 84***	***-9%***	***5 21***	***28%***	***-0 38***	***-2%***	***-1 48***	***-7%***
Income Tax	**8 78**	**6 03**	**8 44**	**7 13**	**6 25**	**6 50**	***-2 75***	***-31%***	***2 41***	***40%***	***-1 31***	***-16%***	***-0 88***	***-14%***
Net Income After Tax	**11 55**	**12 46**	**15 26**	**16 19**	**15 59**	**15 79**	***0 91***	***8%***	***2 80***	***22%***	***0 93***	***6%***	***-0 60***	***-4%***
Profits Dıstrıbutıon ın LE '000														
Workers	***596***	***797***	***1272***	***1313***	***1348***	***1356***	***200 90***	***34%***	***475 30***	***60%***	***41 20***	***3%***	***35 00***	***3%***
Board Of Dırectors Profit Sharing	***332***	***405***	***97***	***291***	***190***	***140***	***72 60***	***22%***	***-307 60***	***-76%***	***194 50***	***201%***	***-101 40***	***-53%***
BOD allowances ın LE 000			***70***	***70***	***100***	***100***			***70 00***		***0 00***	***0%***	***30 00***	***30%***
Total Mgmt Allow & Profit Sharing	***332***	***405***	***167***	***361***	***290***	***240***	***72 60***	***22%***	***-237 60***	***-59%***	***194.50***	***117%***	***-71 40***	***-25%***

Detailed Financial Statements	in LE Million													
Wadi Kom Ombo														
Balance Sheet														
Assets	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Current Assets							LE	%	LE	%	LE	%	LE	%
Cash	12.66	15.13	34.16	34.11	40.93	17.94	2.47	20%	19.03	126%	-0.05	0%	6.82	17%
Trade Receivable	124.63	155.00	139.89	124.46	111.15	134.38	30.37	24%	-15.11	-10%	-15.43	-11%	-13.31	-12%
Allowance of Doubtful Accounts	-5.56	-8.64	-9.43	-6.99	-8.07	-7.72	-3.09	56%	-0.79	9%	2.44	-26%	-1.08	13%
Inventory	24.78	23.60	28.54	24.03	25.89	28.65	-1.18	-5%	4.94	21%	-4.51	-16%	1.86	7%
Investments in Securities	0.62	1.12	1.12	1.12	1.12	1.14	0.50	81%	0.00	0%	0.00	0%	0.00	0%
Other debit accounts	19.63	27.58	39.32	29.65	26.92	38.88	7.95	40%	11.74	43%	-9.67	-25%	-2.73	-10%
Total Current Assets	176.77	213.79	233.60	206.38	197.94	213.27	37.02	21%	19.81	9%	-27.22	-12%	-8.44	-4%
Non-Current Assets	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Fixed Assets							LE	%	LE	%	LE	%	LE	%
Land	0.96	0.29	0.78	4.23	5.32	10.71	-0.67	-70%	0.49	169%	3.45	442%	1.09	20%
Buildings	1.87	4.11	3.89	1.28	5.81	8.31	2.24	120%	-0.22	-5%	-2.61	-67%	4.53	78%
Equipment	51.80	68.62	72.44	83.76	87.99	93.45	16.82	32%	3.82	6%	11.32	16%	4.23	5%
Transport Equip.	8.06	8.55	16.46	21.21	24.17	26.77	0.49	6%	7.91	93%	4.75	29%	2.96	12%
Tools	0.11	0.21	0.26	0.34	0.34	0.36	0.10	91%	0.05	24%	0.08	31%	0.00	0%
Furniture & Fixtures	0.80	0.79	0.86	1.01	1.14	1.48	-0.01	-1%	0.07	9%	0.15	17%	0.13	11%
Less: Accumulated Depreciation	-38.26	-50.08	-61.60	-68.57	-76.22	-78.68	-11.82	31%	-11.52	23%	-6.97	11%	-7.65	10%
Sub-Total	25.34	32.49	33.09	43.26	48.55	62.40	7.15	28%	0.60	2%	10.17	31%	5.29	11%
F.A. Under Construction	1.36	4.46	9.22	4.77	7.07	4.97	3.10	228%	4.76	107%	-4.45	-48%	2.30	33%
Total Fixed Assets	26.70	36.95	42.31	48.03	55.62	67.37	10.25	38%	5.36	15%	5.72	14%	7.59	14%
Long Term Accounts Receivable	9.97	9.53	11.47	6.18	4.83	2.10	-0.44	-4%	1.94	20%	-5.29	-46%	-1.35	-28%
Total Assets	213.44	260.27	287.38	260.59	258.39	282.74	46.83	22%	27.11	10%	-26.79	-9%	-2.20	-1%

Detailed Financial Statements	in LE Million															
Wadi Kom Ombo																
Balance Sheet																
LIABILITIES	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth			
Current Liabilities							LE	%	LE	%	LE	%	LE	%		
Overdraft			1.72	2.27	0.67	7.95			1.72		0.55	32%	-1.60	-239%		
Trade Payables	8.58	10.75	12.11	75.12	45.99	58.85	2.17	25%	1.36	13%	63.01	520%	-29.13	-63%		
Short-term Loans					4.65	1.01							4.65	100%		
Accrued Expenses	4.02	4.94	1.11		5.30	2.40	0.92	23%	-3.83	-78%	-1.11	-100%	5.30	100%		
Dividends Payable	11.85	13.43	22.25		3.82	3.50	1.58	13%	8.82	66%	-22.25	-100%	3.82	100%		
Other Payables	22.05	24.53	32.57				2.48	11%	8.04	33%	-32.57	-100%	0.00			
Customers-credit balances	16.80	32.62	40.82		16.02	28.07	15.82	94%	8.20	25%	-40.82	-100%	16.02	100%		
Total Current Liabilities	63.30	86.27	110.58	77.39	76.45	101.78	22.97	36%	24.31	28%	-33.19	-30%	-0.94	-1%		
NET WORKING CAPITAL	*113.47*	*127.52*	*123.02*	*128.99*	*121.49*	*111.49*	14.05	12%	-4.50	-4%	5.97	5%	-7.50	-6%		
Non-Current Liabilities																
Long Term Loans	46.65	61.87	61.36	55.30	51.95	42.91	15.22	33%	-0.51	-1%	-6.06	-10%	-3.35	-6%		
Other Reserves	70.58	74.06	76.57	76.13	75.90	81.79	3.48	5%	2.51	3%	-0.44	-1%	-0.23	0%		
Total Non-Current Liabilities	117.23	135.93	137.93	131.43	127.85	124.70	18.70	16%	2.00	1%	-6.50	-5%	-3.58	-3%		
Stockholders' Equity	91/92	92/93	93/94	94/95	95/96	96/97										
Paid in Capital	5.60	5.60	5.60	5.60	5.60	5.60	0.00	0%	0.00	0%	0.00	0%	0.00	0%		
Reserves	27.31	32.47	33.27	29.99	32.90	34.87	5.16	19%	0.80	2%	-3.28	-10%	2.91	9%		
Retained Earnings				16.18	15.59	15.79	0.00		0.00		16.18		-0.59	-4%		
Total Stockholders' Equity	32.91	38.07	38.87	51.77	54.09	56.26	5.16	16%	0.80	2%	12.90	33%	2.32	4%		
Total Liab. & Stockholders Equity	213.44	260.27	287.38	260.59	258.39	282.74	46.83	22%	27.11	10%	-26.79	-9%	-2.20	-1%		

Detailed Financial Statements	in LE Million													
Wadi Kom Ombo														
Workforce statistics	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Production Departments														
Permanent Staff	957	910	883	852	847	856	*-47*	*-5%*	*-27*	*-3%*	*-31*	*-4%*	*-5*	*-1%*
Temporary Staff- Contracts	375	356	346	334	332	335	*-19*	*-5%*	*-10*	*-3%*	*-12*	*-3%*	*-2*	*-1%*
Total Production Depts.	**1332**	**1266**	**1229**	**1186**	**1179**	**1191**	***-66***	***-5%***	***-37***	***-3%***	***-43***	***-3%***	***-7***	***-1%***
Administrative Staff														
Permanent Staff	209	199	193	186	185	187	*-10*	*-5%*	*-6*	*-3%*	*-7*	*-4%*	*-1*	*-1%*
Temporary Staff- Contracts	16	15	14	14	14	14	*-1*	*-6%*	*-1*	*-7%*	*0*	*0%*	*0*	*0%*
Total Administrative Depts.	**225**	**214**	**207**	**200**	**199**	**201**	***-11***	***-5%***	***-7***	***-3%***	***-7***	***-3%***	***-1***	***-1%***
Company-wide workforce														
Permanent Staff	**1166**	**1109**	**1076**	**1038**	**1032**	**1043**	***-57***	***-5%***	***-33***	***-3%***	***-38***	***-4%***	***-6***	***-1%***
Temporary Staff- Contracts	**391**	**371**	**360**	**348**	**346**	**349**	***-20***	***-5%***	***-11***	***-3%***	***-12***	***-3%***	***-2***	***-1%***
Total No. of workers	***1557***	***1480***	***1436***	***1386***	***1378***	***1392***	***-77***	***-5%***	***-44***	***-3%***	***-50***	***-3%***	***-8***	***-1%***
Workers Compensation (permanent only)														
Average Worker/Wage p.a.	***6731***	***8182***	***7869***	***7027***	***7533***	***8628***	***1452***	***22%***	***-313***	***-4%***	***-842***	***-11%***	***505***	***7%***
Average Worker/Profit Share p.a.	***383***	***538***	***886***	***947***	***978***	***974***	***156***	***41%***	***347***	***65%***	***62***	***7%***	***31***	***3%***
Average Worker/Pay p a	***7113***	***8721***	***8755***	***7975***	***8511***	***9602***	***1607***	***23%***	***34***	***0%***	***-780***	***-9%***	***536***	***6%***
FINANCIAL RATIOS	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
							LE	**%**	**LE**	**%**	**LE**	**%**	**LE**	**%**
Fixed Assets Turnover	4 85	3 17	3 31	2.03	1 78	1 73	***-1 68***	***-35%***	***0 14***	***4%***	***-1 28***	***-39%***	***-0 25***	***-14%***
COS/Revenue	54%	60%	59%	61%	65%	69%	***0 06***	***11%***	***-0 01***	***-1%***	***0 02***	***4%***	***0 04***	***6%***
CM/Revenue	46%	40%	41%	39%	35%	31%	***-0 06***	***-13%***	***0 01***	***1%***	***-0 02***	***-6%***	***-0 04***	***-12%***
Revenue/Equity	373%	270%	282%	170%	160%	192%	***-1 03***	***-28%***	***0 11***	***4%***	***-1 12***	***-40%***	***-0 09***	***-6%***
Net Income/Equity	35%	33%	39%	31%	29%	28%	***-0 02***	***-7%***	***0 07***	***20%***	***-0 08***	***-20%***	***-0 02***	***-9%***
Revenue/total workforce LE'000	***78 87***	***69 53***	***76.24***	***63 36***	***62.89***	***77 65***	***-9 33***	***-12%***	***6 71***	***10%***	***-12.88***	***-17%***	***-0 47***	***-1%***

Detailed Financial Statements	in LE Million													
REGWA														
	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Income Statement							LE	%	LE	%	LE	%	LE	%
Revenues	41 89	64.11	67 71	66.06	71 61	86.76	22.22	53%	3 60	6%	-1 65	-2%	5.55	8%
Cost of sales														
Wages	5 18	9 85	9 22	5 55	8 70	6 99	4 67	90%	-0 63	-6%	-3.67	-40%	3.15	36%
Other costs	26 04	38 33	37 77	37 35	41 07	48 88	12.29	47%	-0 56	-1%	-0.42	-1%	3.72	9%
Total Cost Of Goods Sold	31 22	48 18	46 99	42.90	49 77	55.87	16.96	54%	-1 19	-2%	-4.09	-9%	6.87	14%
Profit Margin	10 67	15.93	20.72	23.16	21 84	30 89	5.26	49%	4.79	30%	2.44	12%	-1 32	-6%
Admin & Selling Exp														
Wages	0 97	1 61	1 46	3 28			0 64	66%	-0.15	-9%	1 82	125%	-3.28	
General Admin & Selling Exp	3 99	5 33	6 51	6 70	10 20	10 44	1 34	34%	1 18	22%	0 19	3%	3 50	34%
Interest Exp.	2 29	2 30	3 14	3 57	2 88	3 43	0 01	0%	0 84	37%	0 43	14%	-0.69	-24%
Depreciation Exp.	2.50	4.94	5.55	5.30	5.60	9 76	2.44	98%	0 61	12%	-0.25	-5%	0 30	5%
Other Expenses	0 11	0 79	3 26	3 81	3 03	3 58	0 68	618%	2.47	313%	0 55	17%	-0 78	-26%
Other Allowances	9 55	1 63	0 50	1 07	1 44	0 73	-7 92	-83%	-1 13	-69%	0 57	114%	0 37	26%
Total Exp.	19.41	16.60	20 42	23.73	23.15	27 94	-2.81	-14%	3 82	23%	3.31	16%	-0.58	-3%
Operting Incom	-8.74	-0 67	0 30	-0.57	-1 31	2.95	8.07	-92%	0 97	-145%	-0.87	-290%	-0.74	56%
Other Revenues & Expenses														
Prior Periods revenues	0 60	42 51	0 40	3 04	4 00	0 58	41 91	6985%	-42.11	-99%	2.64	660%	0 96	24%
Prior Periods Expenses	-2.27	-41 89	-3 81	-1 49	-1 50	-1 01	-39 62	1745%	38.08	-91%	2.32	-61%	-0.01	1%
Allowances written back					0 31		0 00	#DIV/0!	0 00	#DIV/0!	0 00	#DIV/0!	0 31	100%
Misc. revenues	11 43	3 23	4 63	0 50	1 22	0 56	-8.20	-72%	1 40	43%	-4.13	-89%	0 72	59%
Total Other Revenues & Expenses	9 76	3 85	1 22	2.05	4 03	0 13	-5.91	-61%	-2.63	-68%	0 83	68%	1 98	49%
Income BeforeTax	1 02	3 18	1 52	1 48	2.72	3 08	2.16	212%	-1 66	-52%	-0.04	-3%	1 24	46%
Income Tax			0 10											
Net Income After Tax	1 02	3 18	1 42	1 48	2.72	3 08	2.16	212%	-1 76	-55%	0 06	4%	1 24	46%
Profits Distribution in LE '000														
Workers	0 00	445.70	497 50	1154.6	1279 6	1487 8	445.70	#DIV/0!	51 80	12%	657 10	132%	125.00	10%
Board Of Directors (Management)	20.50	36.30	42.40	187 9	209 8	246.4	15.80	77%	6.10	17%	145.50	343%	21 90	10%

Detailed Financial Statements	in LE Million													
REGWA														
Balance Sheet														
Assets	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Current Assets							**LE**	**%**	**LE**	**%**	**LE**	**%**	**LE**	**%**
Cash	4.92	3.24	9.78	6.02	16.56	27.41	-1.68	-34%	6.54	202%	-3.76	-38%	10.54	64%
Trade Receivable	20.37	99.67	146.33	174.09	123.99	127.67	79.30	389%	46.66	47%	27.76	19%	-50.10	-40%
Allowance of Dubtful Accounts	-0.77	-0.44	-0.53	-61.10	-51.66	-72.12	0.33	-43%	-0.09	20%	-60.57	11428%	9.44	-18%
Inventory	26.47	43.73	42.16	47.09	55.09	62.15	17.26	65%	-1.57	-4%	4.93	12%	8.00	15%
Other debit accounts	4.18	7.65	15.97	39.98	62.86	63.59	3.47	83%	8.32	109%	24.01	150%	22.88	36%
Other current Assets	8.09	8.98	12.60				0.89	11%	3.62	40%	-12.60	-100%	0.00	
Total Current Assets	**63.26**	**162.83**	**226.31**	**206.08**	**206.84**	**208.70**	**99.57**	**157%**	**63.48**	**39%**	**-20.23**	**-9%**	**0.76**	**0%**
Non-Current Assets	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Fixed Assets							**LE**	**%**	**LE**	**%**	**LE**	**%**	**LE**	**%**
Land	3.24	3.54	3.55	0.72	0.72	0.72	0.30	9%	0.01	0%	-2.83	-80%	0.00	0%
Buldings	1.37	3.72	3.93	3.77	5.49	5.49	2.35	172%	0.21	6%	-0.16	-4%	1.72	31%
Equipment	***16.00***	***19.47***	***28.78***	***31.38***	***41.82***	***49.56***	3.47	22%	9.31	48%	2.60	9%	10.44	25%
Transport Equp.	7.96	12.44	12.82	13.94	15.30	27.76	4.48	56%	0.38	3%	1.12	9%	1.36	9%
Furniture & Fixtures	0.56	1.53	1.35	2.74	3.32	3.40	0.97	173%	-0.18	-12%	1.39	103%	0.58	17%
Leased Fixed Assets				4.63	4.62	4.61	0.00		0.00		4.63	#DIV/0!	-0.01	0%
Less: Accumulated Depreciation	***-14.26***	***-20.60***	***-23.16***	***-27.57***	***-33.41***	***-42.74***	-6.34	44%	-2.56	12%	-4.41	19%	-5.84	17%
Sub-Total	***14.87***	***20.10***	***27.27***	29.61	***37.86***	48.80	5.23	35%	7.17	36%	2.34	9%	8.25	22%
F.A. Under Construction	8.11	8.30	7.71	3.89	4.40	2.93	0.19	2%	-0.59	-7%	-3.82	-50%	0.51	12%
Total Fixed Assets	22.98	28.40	34.98	33.50	42.26	51.73	5.42	24%	6.58	23%	-1.48	-4%	8.76	21%
Other Long Investment	0.37	0.61	0.60	0.10	0.10	0.10	0.24	65%	-0.01	-2%	-0.50	-83%	0.00	0%
Total Assets	86.61	191.84	261.89	239.68	249.20	260.53	105.23	121%	70.05	37%	-22.21	-8%	9.52	4%

Detailed Financial Statements	in LE Million													
REGWA														
Balance Sheet														
LIABILITIES	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Current Liabilities							LE	%	LE	%	LE	%	LE	%
Overdraft	**3.38**	**9.04**	**22.48**	**27.09**	**37.23**	**34.41**	*5.66*	*167%*	*13.44*	*149%*	*4.61*	*21%*	*10.14*	*27%*
Trade Payables	3.62	3.80	3.48	6.99	9.25	15.69	*0.18*	*5%*	*-0.32*	*-8%*	*3.51*	*101%*	*2.26*	*24%*
Short-term Loans				0.69	1.21	2.17	*0.00*		*0.00*		*0.69*	*#DIV/0!*	*0.52*	*43%*
Foreign Notes Payable	3.27	5.23	6.57	4.32	1.48	7.77	*1.96*	*60%*	*1.34*	*26%*	*-2.25*	*-34%*	*-2.84*	*-192%*
Dividends Payable	0.67	0.95	1.21	7.94	11.28	11.92	*0.28*	*42%*	*0.26*	*27%*	*6.73*	*556%*	*3.34*	*30%*
Other Payables	16.65	19.11	26.17	64.73	135.47	107.96	*2.46*	*15%*	*7.06*	*37%*	*38.56*	*147%*	*70.74*	*52%*
Customers-credit balances	19.63	46.56	88.00	84.46			*26.93*	*137%*	*41.44*	*89%*	*-3.54*	*-4%*	*-84.46*	
Total Current Liabilities	**47.22**	**84.69**	**147.91**	**196.22**	**195.92**	**179.92**	*37.47*	*79%*	*63.22*	*75%*	*48.31*	*33%*	*-0.30*	*0%*
NET WORKING CAPITAL	**16.04**	**78.14**	**78.40**	**9.86**	**10.92**	**28.78**	*62.10*	*387%*	*0.26*	*0%*	*-68.54*	*-87%*	*1.06*	*10%*
Non-Current Liabilities														
Long Term Loans	1.56	1.56	6.62	9.36	13.11	13.11	*0.00*	*0%*	*5.06*	*324%*	*2.74*	*41%*	*3.75*	*29%*
Other Reserves	20.04	82.50	80.03	11.21	16.17	42.19	*62.46*	*312%*	*-2.47*	*-3%*	*-68.82*	*-86%*	*4.96*	*31%*
Total Non-Current Liabilities	**21.60**	**84.06**	**86.65**	**20.57**	**29.28**	**55.30**	*62.46*	*289%*	*2.59*	*3%*	*-66.08*	*-76%*	*8.71*	*30%*
Stockholders' Equity	91/92	92/93	93/94	94/95	95/96	96/97								
Paid in Capital	5.57	5.57	5.57	5.57	5.57	5.57	*0.00*	*0%*	*0.00*	*0%*	*0.00*	*0%*	*0.00*	*0%*
Reserves	11.72	17.19	15.32	17.32	18.43	19.74	*5.47*	*47%*	*-1.87*	*-11%*	*2.00*	*13%*	*1.11*	*6%*
Retained Earnings	0.50	0.34	6.43				*-0.16*	*-32%*	*6.09*	*1791%*	*-6.43*	*-100%*	*0.00*	
Total Stockholders' Equity	**17.79**	**23.10**	**27.32**	**22.89**	**24.00**	**25.31**	*5.31*	*30%*	*4.22*	*18%*	*-4.43*	*-16%*	*1.11*	*5%*
Total Liab. & Stockholders Equity	**86.61**	**191.85**	**261.88**	**239.68**	**249.20**	**260.53**	*105.24*	*122%*	*70.03*	*37%*	*-22.20*	*-8%*	*9.52*	*4%*

Detailed Financial Statements	in LE Million													
REGWA														
Workforce statistics	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Production Departments														
Permenenat Staff	1223	1233	1182	1143	1099	1087	*10*	*1%*	*-51*	*-4%*	*-39*	*-3%*	*-44*	*-4%*
Temporary Staff	290	290	285	282	275	277	*0*	*0%*	*-5*	*-2%*	*-3*	*-1%*	*-7*	*-3%*
Total Production Depts.	**1513**	**1523**	**1467**	**1425**	**1374**	**1364**	*10*	*1%*	*-56*	*-4%*	*-42*	*-3%*	*-51*	*-4%*
Administrative Staff														
Permenenat Staff	276	270	264	245	249	245	*-6*	*-2%*	*-6*	*-2%*	*-19*	*-7%*	*4*	*2%*
Temporary Staff	50	45	30	22	22	21	*-5*	*-10%*	*-15*	*-33%*	*-8*	*-27%*	*0*	*0%*
Total Administrative Depts.	**326**	**315**	**294**	**267**	**271**	**266**	*-11*	*-3%*	*-21*	*-7%*	*-27*	*-9%*	*4*	*1%*
Company-wide workforce														
Permenenat Staff	**1499**	**1503**	**1446**	**1388**	**1348**	**1332**	*4*	*0%*	*-57*	*-4%*	*-58*	*-4%*	*-40*	*-3%*
Temporary Staff	**340**	**335**	**315**	**304**	**297**	**298**	*-5*	*-1%*	*-20*	*-6%*	*-11*	*-3%*	*-7*	*-2%*
Total No. of workforce	*1839*	*1838*	*1761*	*1692*	*1645*	*1630*	*-1*	*0%*	*-77*	*-4%*	*-69*	*-4%*	*-47*	*-3%*
Permenant Workers' Compensation		*In LE' 000*												
Average Worker/Wage p.a.	*4,103*	*7,625*	*7,386*	*6,362*	*6,454*	*5,248*	*3522*	*86%*	*-239*	*-3%*	*-1,024*	*-14%*	*92*	*1%*
Average Worker/Profit Share p.a.	*0*	*297*	*344*	*832*	*949*	*1,117*	*297*		*48*	*16%*	*488*	*142%*	*117*	*12%*
Average Worker/Pay p a.	***4,103***	***7,921***	***7,730***	***7,194***	***7,403***	***6,365***	*3819*	*93%*	*-191*	*-2%*	*-536*	*-7%*	*210*	*3%*
BOD Bonuses	20,500	36,300	42,400	187,900	209,800	246,400	*15800*	*77%*	*6,100*	*17%*	*145,500*	*343%*	*21,900*	*10%*
REGWA	**in LE Million**													
FINANCIAL RATIOS	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Fixed Assets Turnover	2.82	3 19	2 48	2.23	1 89	1 78	*0 37*	*13%*	*-0 71*	*-22%*	*-0 25*	*-10%*	*-0.34*	*-18%*
COS/Revenue	75%	75%	69%	65%	70%	64%	*0 01*	*1%*	*-0 06*	*-8%*	*-0 04*	*-6%*	*0 05*	*7%*
CM/Revenue	25%	25%	31%	35%	30%	36%	*-0 01*	*-2%*	*0 06*	*23%*	*0 04*	*15%*	*-0.05*	*-15%*
Revenue/Equity	235%	278%	248%	289%	298%	343%	*0 42*	*18%*	*-0.30*	*-11%*	*0 41*	*16%*	*0 10*	*3%*
Net Income/Equity	6%	14%	5%	6%	11%	12%	*0 08*	*140%*	*-0 09*	*-62%*	*0 01*	*24%*	*0 05*	*43%*
Revenue/total workforce LE'000	22 78	34 88	38 45	39 04	43 53	53 23	*12 10*	*53%*	*3 57*	*10%*	*0 59*	*2%*	*4 49*	*10%*

Condensed Financial Statements	in LE Million													
REGWA														
	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Income Statement							LE	%	LE	%	LE	%	LE	%
Revenues	*41.89*	*64.11*	*67.71*	*66.06*	*71.61*	*86.76*	*22.22*	*53%*	*3.60*	*6%*	*-1.65*	*-2%*	*5.55*	*8%*
Cost of sales	31.22	48.18	46.99	42.90	49.77	55.87	*16.96*	*54%*	*-1.19*	*-2%*	*-4.09*	*-9%*	*6.87*	*14%*
Profit Margin	10.67	15.93	20.72	23.16	21.84	30.89	*5.26*	*49%*	*4.79*	*30%*	*2.44*	*12%*	*-1.32*	*-6%*
Admin. & Selling Exp.	14.62	9.36	11.73	14.86	14.67	14.75	*-5.26*	*-36%*	*2.37*	*25%*	*3.13*	*27%*	*-0.19*	*-1%*
Interest Exp.	2.29	2.30	3.14	3.57	2.88	3.43	*0.01*	*0%*	*0.84*	*37%*	*0.43*	*14%*	*-0.69*	*-24%*
Depreciation Exp.	*2.50*	*4.94*	*5.55*	*5.30*	*5.60*	*9.76*	*2.44*	*98%*	*0.61*	*12%*	*-0.25*	*-5%*	*0.30*	*5%*
Total Exp.	19.41	16.60	20.42	23.73	23.15	27.94	*-2.81*	*-14%*	*3.82*	*23%*	*3.31*	*16%*	*-0.58*	*-3%*
Operating Income	-8.74	-0.67	0.30	-0.57	-1.31	2.95	*8.07*	*-92%*	*0.97*	*-145%*	*-0.87*	*-290%*	*-0.74*	*56%*
Other Revenues & Expenses	9.76	3.85	1.32	2.05	4.03	0.13	*-5.91*	*-61%*	*-2.53*	*-66%*	*0.73*	*55%*	*1.98*	*49%*
Net Income After Tax	1.02	3.18	1.62	1.48	2.72	3.08	*2.16*	*212%*	*-1.56*	*-49%*	*-0.14*	*-9%*	*1.24*	*46%*
							92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Profits Distribution in LE'000							LE	%	LE	%	LE	%	LE	%
Workers	*0.00*	*445.70*	*497.50*	*1154.6*	*1279.6*	*1487.8*	*445.70*	*#DIV/0!*	*51.80*	*12%*	*657.10*	*132%*	*125.00*	*10%*
Board Of Directors (Management)	*20.50*	*36.30*	*42.40*	*187.9*	*209.8*	*246.4*	*15.80*	*77%*	*6.10*	*17%*	*145.50*	*343%*	*21.90*	*10%*
COS/ REVENUE	75%	75%	69%	65%	70%	64%	*0.01*	*1%*	*-0.06*	*-8%*	*-0.04*	*-6%*	*0.05*	*7%*
PM/ REVENUE	25%	25%	31%	35%	30%	36%	*-0.01*	*-2%*	*0.06*	*23%*	*0.04*	*15%*	*-0.05*	*-15%*
Admin Exp. / REVENUE	35%	15%	17%	22%	20%	17%	*-0.20*	*-58%*	*0.03*	*19%*	*0.05*	*30%*	*-0.02*	*-10%*
Interest Exp. / REVENUE	5%	4%	5%	5%	4%	4%	*-0.02*	*-34%*	*0.01*	*29%*	*0.01*	*17%*	*-0.01*	*-34%*
Net Income / REVENUE	2%	5%	2%	2%	4%	4%	*0.03*	*104%*	*-0.03*	*-52%*	*0.00*	*-6%*	*0.02*	*41%*

Condensed Financial Statements	in LE Million													
REGWA														
Balance Sheet														
Assets	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Current Assets							LE	%	LE	%	LE	%	LE	%
Cash	4 92	3.24	9 78	6 02	16 56	27 41	-1 68	-34%	6.54	202%	-3.76	-38%	10.54	64%
Trade Receivable	20 37	99 67	146.33	174 09	123 99	127 67	79.30	389%	46.66	47%	27 76	19%	-50.10	-40%
Allowance of Doubtful Accounts	-0 77	-0 44	-0 53	-61 10	-51 66	-72.12	0.33	-43%	-0.09	20%	-60.57	11428%	9.44	-18%
Inventory	26 47	43 73	42.16	47 09	55 09	62.15	17 26	65%	-1 57	-4%	4.93	12%	8.00	15%
Other current Assets	12.27	16 63	28 57	39 98	62.86	63 59	4.36	36%	11 94	72%	11 41	40%	22.88	36%
Total Current Assets	63.26	162.83	226.31	206.08	206.84	208.70	99.57	157%	63.48	39%	-20.23	-9%	0.76	0%
Non-Current Assets	91/92	92/93	93/94	94/95	95/96	96/97	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Fixed Assets							LE	%	LE	%	LE	%	LE	%
Equipment	16.00	19.47	28.78	31 38	41 82	49.56	3.47	22%	9.31	48%	2 60	9%	10.44	25%
Other Fixed Assets	13.13	21 23	21 65	21 17	24.83	37 37	8.10	62%	0.42	2%	-0.48	-2%	3 66	15%
Leased Fixed Assets				4 63	4 62	4 61					4 63		-0.01	0%
Less: Accumulated Depreciation	-14.26	-20.60	-23.16	-27 57	-33.41	-42.74	-6.34	44%	-2.56	12%	-4.41	19%	-5.84	17%
Sub-Total	14.87	20.10	27 27	29 61	37 86	48.80	5.23	35%	7 17	36%	2.34	9%	8.25	22%
F.A. Under Construction	8.11	8.30	7 71	3.89	4 40	2.93	0.19	2%	-0.59	-7%	-3.82	-50%	0.51	12%
Total Fixed Assets	22.98	28.40	34.98	33.50	42.26	51 73	5.42	24%	6.58	23%	-1 48	-4%	8.76	21%
Other Long Investment	0 37	0 61	0.60	0 10	0 10	0 10	0.24	65%	-0.01	-2%	-0.50	-83%	0.00	0%
Total Assets	86.61	191 84	261 89	239.68	249.20	260.53	105.23	121%	70.05	37%	-22.21	-8%	9.52	4%
Total Assets Turnover	0.48	0.33	0.26	0.28	0.29	0.33	-0.15	-31%	-0.08	-23%	0.02	7%	0.01	4%
Equip. Turnover	2.62	3.29	2.35	2.11	1 71	1 75	0.67	26%	-0.94	-29%	-0.25	-11%	-0.39	-23%
Fixed Assets Turnover	1 82	2.26	1 94	1 97	1 69	1 68	0.43	24%	-0.32	-14%	0.04	2%	-0.28	-16%
A/R Turnover	2.06	0.64	0.46	0.38	0.58	0.68	-1 41	-69%	-0.18	-28%	-0.08	-18%	0.20	34%
Inventory Turnover	1 58	1 47	1 61	1 40	1 30	1 40	-0.12	-7%	0.14	10%	-0.20	-13%	-0.10	-8%

Condensed Financial Statements	in LE Million													
REGWA														
Balance Sheet														
LIABILITIES	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Current Liabilities							LE	%	LE	%	LE	%	LE	%
Overdraft	**3.38**	**9.04**	**22.48**	**27 09**	**37 23**	**34.41**	*5.66*	*167%*	*13.44*	*149%*	*4.61*	*21%*	*10.14*	*27%*
Trade Payables	3.62	3.80	3.48	6.99	9 25	15 69	*0.18*	*5%*	*-0.32*	*-8%*	*3.51*	*101%*	*2.26*	*24%*
Other Payables	**40.22**	**71 85**	**121 95**	**162.14**	**149.44**	**129 82**	*31 63*	*79%*	*50.10*	*70%*	*40.19*	*33%*	*-12.70*	*-8%*
Total Current Liabilities	**47 22**	**84.69**	**147 91**	**196.22**	**195.92**	**179.92**	*37 47*	*79%*	*63.22*	*75%*	*48.31*	*33%*	*-0.30*	*0%*
NET WORKING CAPITAL	**16.04**	**78.14**	**78.40**	**9.86**	**10.92**	**28.78**	*62.10*	*387%*	*0.26*	*0%*	*-68.54*	*-87%*	*1 06*	*10%*
Non-Current Liabilities														
Long Term Loans	1 56	1 56	6.62	9 36	13 11	13.11	*0.00*	*0%*	*5.06*	*324%*	*2.74*	*41%*	*3.75*	*29%*
Other Reserves	20 04	82.50	80 03	11 21	16.17	42.19	*62.46*	*312%*	*-2.47*	*-3%*	*-68.82*	*-86%*	*4.96*	*31%*
Total Non-Current Liabilities	**21 60**	**84.06**	**86.65**	**20.57**	**29.28**	**55.30**	*62.46*	*289%*	*2.59*	*3%*	*-66.08*	*-76%*	*8.71*	*30%*
Total Liabilities	**68.82**	**168.75**	**234.56**	**216.79**	**225.20**	**235.22**	*99.93*	*145%*	*65.81*	*39%*	*-17 77*	*-8%*	*8.41*	*4%*
Stockholders' Equity	91/92	92/93	93/94	94/95	95/96	96/97								
Paid in Capital	5.57	5 57	5 57	5 57	5 57	5 57	*0.00*	*0%*	*0.00*	*0%*	*0.00*	*0%*	*0.00*	*0%*
Reserves	11 72	17 19	15 32	17 32	18.43	19 74	*5.47*	*47%*	*-1 87*	*-11%*	*2.00*	*13%*	*1 11*	*6%*
Retained Earnings	0 50	0 34	6.43				*-0.16*	*-32%*	*6.09*	*1791%*	*-6.43*	*-100%*	*0.00*	
Total Stockholders' Equity	**17 79**	**23.10**	**27 32**	**22.89**	**24.00**	**25.31**	*5.31*	*30%*	*4.22*	*18%*	*-4.43*	*-16%*	*1 11*	*5%*
Total Liab. & Stockholders Equity	**86.61**	**191.85**	**261 88**	**239.68**	**249.20**	**260.53**	*105.24*	*122%*	*70.03*	*37%*	*-22.20*	*-8%*	*9.52*	*4%*
Investment in 95% interest					**17 39**	**17 39**								
Return On Equity	*6%*	*14%*	*6%*	*6%*	*11%*	*12%*	*0.08*	*140%*	*-0.08*	*-57%*	*0.01*	*9%*	*0.05*	*43%*
Current Ratio	1 34	1 92	1 53	1 05	1 06	1 16	*0.58*	*44%*	*-0.39*	*-20%*	*-0.48*	*-31%*	*0.01*	*1%*
Debt/Equity Ratio	3.87	7 31	8 59	9 47	9 38	9 29	*3.44*	*89%*	*1 28*	*18%*	*0.89*	*10%*	*-0.09*	*-1%*
Debt Ratio	0 79	0 88	0 90	0 90	0 90	0 90	*0.09*	*11%*	*0.02*	*2%*	*0.01*	*1%*	*0.00*	*0%*
Sales to WC	2 61	0 82	0 86	6.70	6 56	3.01	*-1 79*	*-69%*	*0.04*	*5%*	*5.84*	*676%*	*-0.14*	*-2%*
ESA Return On Investment					*15%*	*17%*	*0.00*	*#DIV/0!*	*0.00*	*#DIV/0!*	*0.00*		*0.15*	*100%*

Condensed Financial Statements	in LE Million													
REGWA														
Workforce statistics	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Production Departments														
Permenenat Staff	1223	1233	1182	1143	1099	1087	10	1%	-51	-4%	-39	-3%	-44	-4%
Temporary Staff	290	290	285	282	275	277	0	0%	-5	-2%	-3	-1%	-7	-3%
Total Production Depts.	1513	1523	1467	1425	1374	1364	10	1%	-56	-4%	-42	-3%	-51	-4%
Administrative Staff														
Permenenat Staff	276	270	264	245	249	245	-6	-2%	-6	-2%	-19	-7%	4	2%
Temporary Staff	50	45	30	22	22	21	-5	-10%	-15	-33%	-8	-27%	0	0%
Total Administrative Depts.	326	315	294	267	271	266	-11	-3%	-21	-7%	-27	-9%	4	1%
Company-wide workforce														
Permenenat Staff	1499	1503	1446	1388	1348	1332	4	0%	-57	-4%	-58	-4%	-40	-3%
Temporary Staff	340	335	315	304	297	298	-5	-1%	-20	-6%	-11	-3%	-7	-2%
Total No. of workforce	1839	1838	1761	1692	1645	1630	-1	0%	-77	-4%	-69	-4%	-47	-3%
Permenant Workers' Compensation		*In LE'000*												
Average Worker/Wage p.a.	1,288	10,153	14,537	16,275	15,230	25,405	8866	689%	4,384	43%	1,739	12%	-1,045	-7%
Average Worker/Profit Share p.a.	42	108	157	148	153	157	66	157%	48	44%	-8	-5%	5	3%
Average Worker/Pay p.a.	1,330	10,261	14,693	16,424	15,383	25,562	8932	672%	4,432	43%	1,731	12%	-1,040	-7%
BOD Bonuses	0	0	0	0	0	0	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
REGWA	**in LE Million**													
FINANCIAL RATIOS	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Fixed Assets Turnover	1 82	2 26	1 94	1 97	1 69	1 68	0.43	24%	-0.32	-14%	0.04	2%	-0.28	-16%
COS/Revenue	23%	6%	2%	3%	6%	0%	-0.17	-74%	-0.04	-68%	0.01	59%	0.03	45%
CM/Revenue	2%	5%	2%	2%	4%	4%	0.03	104%	-0.03	-52%	0.00	-6%	0.02	41%
Revenue/Equity	3127%	3334%	4425%	6290%	6783%	7480%	2 08	7%	10 91	33%	18.65	42%	4.93	7%
Net Income/Equity	-57%	-23%	-35%	-5818%	-4893%	-6217%	0 35	-60%	-0.12	51%	-57 83	16695%	9.24	-19%
Revenue/total workforce LE'000	1 25	1 25	1 78	2 11	1 75	2 10	0.01	0%	0.53	42%	0.33	18%	-0.36	-21%

Detailed Financial Statements	in LE Million													
Upper Egypt Dredging														
Income Statement	91/92	92/93	93/94	94/95	95/96	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth		
						LE	%	LE	%	LE	%	LE	%	
Revenues	**14 85**	**15 46**	**17 77**	**13 63**	**19 10**	***0 61***	***4%***	***2 31***	***15%***	***-4 14***	***23%***	***5 47***	***29%***	
Cost of sales														
Wages	3 06	3 08	3 00			***0 02***	***1%***	***0 08***	***-3%***	***-3 00***	***-100%***	***0 00***		
Other costs	8 22	9 03	12 19	12 12	16 01	***0 81***	***10%***	***3 16***	***35%***	***-0 07***	***-1%***	***3 89***	***24%***	
Total Cost of sales	11 28	12 11	15 19	12 12	16 01	***0 83***	***7%***	***3 08***	***25%***	***-3 07***	***-20%***	***3 89***	***24%***	
Profit Margin	**3 57**	**3 35**	**2 58**	**1 51**	**3 09**	***-0 22***	***-6%***	***-0 77***	***-23%***	***-1 07***	***-41%***	***1 58***	***51%***	
Admin & Selling Exp														
Wages	0 65	0 72	0 78											
General Admin & Selling Exp	1 83	1 64	0 42	1 24	1 98	***0 19***	***10%***	***-1 22***	***-74%***	***0 82***	***195%***	***0 74***	***37%***	
Interest Exp	6 55	6 88	0 76	1 01	0 81	***0 33***	***5%***	***-6 12***	***-89%***	***0 25***	***33%***	***-0 20***	***-25%***	
Depreciation Exp	1 34	1 64	1 76	0 73	1 15	***0 30***	***22%***	***0 12***	***7%***	***-1 03***	***-59%***	***0 42***	***37%***	
BOD Allowances			0 01	0 01	0 01	***0 00***		***0 01***		***0 00***	***0%***	***0 00***	***0%***	
Other Allowances	1 18	0 63	0 18	5 40	0 52	***0 55***	***47%***	***-0 45***	***-71%***	***5 22***	***2900%***	***-4 88***	***-938%***	
Total Exp	**11 55**	**11 51**	**3 91**	**8 39**	**4 47**	***0 04***	***0%***	***-7 60***	***-66%***	***4 48***	***115%***	***3 92***	***-88%***	
Operating Income	**-7 98**	**8 16**	**1 33**	**6 88**	**1 38**	***-0 18***	***2%***	***6 83***	***-84%***	***-5 55***	***417%***	***5 50***	***-399%***	
Other Revenues & Expenses														
Prior Periods revenues	0 87	0 88	0 92	0 04		***0 01***	***1%***	***0 04***	***5%***	***-0 88***	***-96%***	***-0 04***		
Prior Periods Expenses	0 24	0 13	0 01	0 34		***0 11***	***46%***	***0 12***	***-92%***	***-0 33***	***3300%***	***0 34***		
Capital Gains			0 20	0 72	0 23			***0 20***		***0 52***	***260%***	***-0 49***	***-213%***	
other Expenses			0 74	0 98	0 08			***-0 74***		***-0 24***	***32%***	***0 90***	***-1125%***	
Allowances written back				1 03				***0 00***		***1 03***		***-1 03***		
Interest Revenue			1 24	1 11	0 83			***1 24***		***-0 13***	***-10%***	***-0 28***	***-34%***	
Misc revenues	8 65	8 61	0 11	0 32	1 21	***-0 04***	***0%***	***-8 50***	***-99%***	***0 21***	***191%***	***0 89***	***74%***	
Total Other Revenues & Expenses	9 28	9 36	1 72	1 90	2 19	***0 08***	***1%***	***-7 64***	***-82%***	***0 18***	***10%***	***0 29***	***13%***	
Net Income	**1 30**	**1 20**	**0 39**	**-4 98**	**0 81**	***-0 10***	***-8%***	***-0 81***	***-68%***	***-5 37***	***-1377%***	***5 79***	***715%***	
Profits Distribution in LE '000														
Workers	0	258			75	***258 00***		***-258 00***	***-100%***	***0 00***		***75 00***	***100%***	
Board Of Directors (Management)	37	24			16	***-13 00***	***-35%***	***24 00***	***-100%***	***0 00***		***16 00***	***100%***	
B O D Allowances			51	52	55	***0 00***		***51 00***		***1 00***	***2%***	***3 00***	***5%***	
Total BOD Bonuses	37	24	51	52	71	***-13 00***	***-35%***	***27 00***	***113%***	***1 00***	***2%***	***19 00***	***27%***	

Detailed Financial Statements		in LE Million												
Upper Egypt Dredging														
Balance Sheet														
Assets	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**		
Current Assets						LE	%	LE	%	LE	%	LE	%	
Cash	0 03	0 03	0 32	4 96	7 56	*0.00*	*0%*	*0.29*	*967%*	*4.64*	*1450%*	*2.60*	*34%*	
Trade Receivable	11 89	16 62	16 23	15 98	14 91	*4.73*	*40%*	*-0.39*	*-2%*	*-0.25*	*-2%*	*-1 07*	*-7%*	
Allowance of Doubtful Accounts	-1 64	-1 93	-1 85	-1 76	-1 52	*-0 29*	*18%*	*0.08*	*-4%*	*0.09*	*-5%*	*0.24*	*-16%*	
Inventory	8 49	8 00	8 67	8 37	7 98	*-0.49*	*-6%*	*0.67*	*8%*	*-0.30*	*-3%*	*-0.39*	*-5%*	
Investments in Securities	8 65	6 84	5 53	0 00		*-1 81*	*-21%*	*-1 31*	*-19%*	*-5.53*	*-100%*	*0.00*		
Other debit accounts	7 69	5 89	7 72	1 86		*-1 80*	*-23%*	*1 83*	*31%*	*-5.86*	*-76%*	*-1 86*		
Other current Assets	0 12	0 07	0 02	4 90	3 41	*-0 05*	*-42%*	*-0.05*	*-71%*	*4.88*	*24400%*	*-1 49*	*-44%*	
Total Current Assets	**35.23**	**35.52**	**36.64**	**34.31**	**32.34**	*0.29*	*1%*	*1 12*	*3%*	*-2.33*	*-6%*	*-1 97*	*-6%*	
Non-Current Assets	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**		
Fixed Assets						LE	%	LE	%	LE	%	LE	%	
Land	0 01	0 01	0 01			*0.00*	*0%*	*0.00*	*0%*	*-0.01*	*-100%*	*0 00*		
Buildings	0 13	0 16	0 16	0 19	0 19	*0.03*	*23%*	*0.00*	*0%*	*0.03*	*19%*	*0.00*	*0%*	
Equipment	11 53	13 97	14 21	12.96	15 78	*2.44*	*21%*	*0.24*	*2%*	*-1 25*	*-9%*	*2.82*	*18%*	
Transport Equip	2 87	2 91	2 92	3 01	3 01	*0.04*	*1%*	*0.01*	*0%*	*0.09*	*3%*	*0.00*	*0%*	
Tools	0 11	0 17	0 35	0 41	0 44	*0.06*	*55%*	*0.18*	*106%*	*0.06*	*17%*	*0.03*	*7%*	
Furniture & Fixtures	0 21	0.26	0 33	0 35	0 37	*0.05*	*24%*	*0.07*	*27%*	*0.02*	*6%*	*0.02*	*5%*	
Less Accumulated Depreciation	-12.73	-13 61	-13 91	-13 06	-14 21	*-0.88*	*7%*	*-0.30*	*2%*	*0.85*	*-6%*	*-1 15*	*8%*	
Sub-Total	2.13	3 87	4 07	3 86	5 58	*1 74*	*82%*	*0.20*	*5%*	*-0.21*	*-5%*	*1 72*	*31%*	
F.A. Under Construction	0 49	0 17	0 22	0 23		*-0.32*	*-65%*	*0.05*	*29%*	*0.01*	*5%*	*-0.23*		
Total Fixed Assets	**2.62**	**4.04**	**4.29**	**4.09**	**5 58**	*1 42*	*54%*	*0.25*	*6%*	*-0.20*	*-5%*	*1 49*	*27%*	
Other Long Term Assets				**0.44**	**0 24**	*0.00*		*0.00*		*0.44*		*-0.20*	*-83%*	
Deferred charges				**0 25**	**0 13**	*0.00*		*0.00*		*0.25*		*-0.12*	*-92%*	
Total Assets	**37 85**	**39.56**	**40.93**	**39 09**	**38.16**	*1 71*	*5%*	*1 37*	*3%*	*-1 84*	*-4%*	*-0.93*	*-2%*	

Detailed Financial Statements	in LE Million												
Upper Egypt Dredging													
Balance Sheet													
LIABILITIES	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Current Liabilities						**LE**	**%**	**LE**	**%**	**LE**	**%**	**LE**	**%**
Overdraft	0.46	0.49	0.94	3.65	3.64	*0.03*	*7%*	*0.45*	*92%*	*2.71*	*288%*	*-0.01*	*0%*
Trade Payables	2.66	1 78	2.21	2.55	1 77	*-0.88*	*-33%*	*0.43*	*24%*	*0.34*	*15%*	*-0.78*	*-44%*
Other Payables	4 21	0.35	0.46	9.67	10.19	*-3.86*	*-92%*	*0.11*	*31%*	*9.21*	*2002%*	*0.52*	*5%*
Accrued Expenses	1 00	7 83	9.48	0.82	0.48	*6.83*	*683%*	*1 65*	*21%*	*-8.66*	*-91%*	*-0.34*	*-71%*
Dividends Payable	2.77	2.58	0.79	0.73	0.73	*-0.19*	*-7%*	*-1 79*	*-69%*	*-0.06*	*-8%*	*0.00*	*0%*
Total Current Liabilities	**11 10**	**13.03**	**13.88**	**17.42**	**16.81**	*1 93*	*17%*	*0.85*	*7%*	*3.54*	*26%*	*-0.61*	*-4%*
NET WORKING CAPITAL	**24.13**	**22.49**	**22.76**	**16.89**	**15.53**	*-1 64*	*-7%*	*0.27*	*1%*	*-5.87*	*-26%*	*-1.36*	*-9%*
Non-Current Liabilities													
Long Term Loans	8.15	8.58	8.07	6.83	6 14	*0.43*	*5%*	*-0.51*	*-6%*	*-1 24*	*-15%*	*-0.69*	*-11%*
Other Reserves	5.08	3.41	3.45	4.32	4.46	*-1 67*	*-33%*	*0.04*	*1%*	*0.87*	*25%*	*0.14*	*3%*
Total Non-Current Liabilities	**13.23**	**11 99**	**11 52**	**11 15**	**10.60**	*-1 24*	*-9%*	*-0.47*	*-4%*	*-0.37*	*-3%*	*-0.55*	*-5%*
Stockholders' Equity	91/92	92/93	93/94	94/95	95/96								
Paid in Capital	8 16	8 16	9.00	9.00	9.00	*0.00*	*0%*	*0.84*	*10%*	*0.00*	*0%*	*0.00*	*0%*
Reserves	5.36	6.38	6.53	1 53	1 53	*1 02*	*19%*	*0.15*	*2%*	*-5.00*	*-77%*	*0.00*	*0%*
Retained Earnings						*0.00*		*0.00*		*0.00*		*0.00*	
Total Stockholders' Equity	**13.52**	**14.54**	**15.53**	**10.53**	**10.53**	*1 02*	*8%*	*0.99*	*7%*	*-5.00*	*-32%*	*0.00*	*0%*
Total Liab. & Stockholders Equity	**37.85**	**39.56**	**40.93**	**39.10**	**37 94**	*1 71*	*5%*	*1 37*	*3%*	*-1 83*	*-4%*	*-1 16*	*-3%*

Detailed Financial Statements		in LE Million												
Upper Egypt Dredging														
Workforce statistics	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**		
Production Departments														
Permanent Staff	674	659	670	628	589	-15	-2%	11	2%	-42	-6%	-39	-7%	
Temporary Staff Contracts	79	118	122	297	125	39	49%	4	3%	175	143%	172	-138%	
Temporary Staff Daily basis	237	200	188	5	151	-37	-16%	-12	-6%	-183	97%	146	97%	
Total Production Depts	**990**	**977**	**980**	**930**	**865**	-13	-1%	3	0%	-50	-5%	-65	-8%	
Administrative Staff														
Permanent Staff	69	71	75	76	75	2	3%	4	6%	1	1%	-1	-1%	
Temporary Staff Contracts	18	21	30	26	26	3	17%	9	43%	-4	-13%	0	0%	
Temporary Staff Daily basis	5	9	7	9	6	4	80%	-2	-22%	2	29%	-3	-50%	
Total Administrative Depts	**92**	**101**	**112**	**111**	**107**	9	10%	11	11%	-1	-1%	-4	-4%	
Company-wide workforce														
Permanent Staff	**743**	**730**	**745**	**704**	**664**	-13	-2%	15	2%	-41	6%	-40	-6%	
Temporary Staff Contracts	**97**	**139**	**152**	**323**	**151**	42	43%	13	9%	171	113%	-172	-114%	
Temporary Staff Daily basis	**242**	**209**	**195**	**14**	**157**	-33	-14%	-14	-7%	-181	-93%	143	91%	
Total No of workers	*1082*	*1078*	*1092*	*1041*	*972*	-4	0%	14	1%	-51	-5%	-69	-7%	
Workers Compensation														
Average Worker/Wage p a	*4993*	*5205*	*5074*	*0*	*0*	212	4%	-132	-3%	-5074	-100%	0		
Average Worker/Profit Share p a	*0*	*353*	*0*	*0*	*113*	353		-353	-100%	0		113	100%	
Average Worker/Pay p a	*4993*	*5559*	*5074*	*0*	*113*	566	11%	-485	-9%	-5074	-100%	113	100%	
Upper Egypt Dredging														
FINANCIAL RATIOS	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**		
	91/92	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**		
Fixed Assets Turnover	6 97	3 99	4 37	3 53	3 42	-2 98	-43%	0 37	9%	-0 84	-19%	-0 11	-3%	
COS/Revenue	76%	78%	85%	89%	84%	0 02	3%	0 07	9%	0 03	4%	-0 05	-6%	
CM/Revenue	24%	22%	15%	11%	16%	-0 02	-10%	-0 07	-33%	-0 03	-24%	0 05	32%	
Revenue/Equity	110%	106%	114%	129%	181%	-0 04	-3%	0 08	8%	0 15	13%	0 52	29%	
Net Income/Equity	10%	8%	3%	47%	8%	-0 01	-14%	-0 06	-70%	-0 50	-1983%	0 55	715%	
Revenue/total workforce LE 000	13 72	14 34	16 27	13 09	19 65	0 62	4%	1 93	13%	-3 18	-20%	6 56	33%	

Condensed Financial Statements	in LE Million												
Upper Egypt Dredging													
Income Statement	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
						LE	%	LE	%	LE	%	LE	%
Revenues	**14.85**	**15.46**	**17.77**	**13.63**	**19.10**	*0.61*	*4%*	*2.31*	*15%*	*-4.14*	*-23%*	*5.47*	*29%*
Cost of sales	11.28	12.11	15.19	12.12	16.01	*0.83*	*7%*	*3.08*	*25%*	*-3.07*	*-20%*	*3.89*	*24%*
Profit Margin	**3.57**	**3.35**	**2.58**	**1.51**	**3.09**	*-0.22*	*-6%*	*-0.77*	*-23%*	*-1.07*	*-41%*	*1.58*	*51%*
Admin. & Selling Exp	**3.66**	**2.99**	**1.39**	**6.65**	**2.51**	*-0.67*	*-18%*	*-1.60*	*-54%*	*5.26*	*378%*	*-4.14*	*-165%*
Interest Exp.	6.55	6.88	0.76	1.01	0.81	*0.33*	*5%*	*-6.12*	*-89%*	*0.25*	*33%*	*-0.20*	*-25%*
Depreciation Exp.	1.34	1.64	1.76	0.73	1.15	*0.30*	*22%*	*0.12*	*7%*	*-1.03*	*-59%*	*0.42*	*37%*
Total Exp.	**11.55**	**11.51**	**3.91**	**8.39**	**4.47**	*-0.04*	*0%*	*-7.60*	*-66%*	*4.48*	*115%*	*-3.92*	*-88%*
Operting Income	**-7.98**	**-8.16**	**-1.33**	**-6.88**	**-1.38**	*-0.18*	*2%*	*6.83*	*-84%*	*-5.55*	*417%*	*5.50*	*-399%*
Other Revenues & Expenses	9.28	9.36	1.72	1.90	2.19	*0.08*	*1%*	*-7.64*	*-82%*	*0.18*	*10%*	*0.29*	*13%*
Net Income After Tax	**1.30**	**1.20**	**0.39**	**-4.98**	**0.81**	*-0.10*	*-8%*	*-0.81*	*-68%*	*-5.37*	*-1377%*	*5.79*	*715%*
Profits Distribution in LE '000													
Workers	0	258			75	*258.00*		*-258.00*	*-100%*	*0.00*		*75.00*	*100%*
Board Of Directors (Management)	37	24			16	*-13.00*	*-35%*	*-24.00*	*-100%*	*0.00*		*16.00*	*100%*
BOD Allowances			51	52	55			*51.00*		*1.00*	*2%*	*3.00*	*5%*
Total BOD Bonuses & Allow.	37	24	51	52	71								
COS/ REVENUE	76%	78%	85%	89%	84%	*0.02*	*3%*	*0.07*	*9%*	*0.03*	*4%*	*-0.05*	*-6%*
PM/ REVENUE	24%	22%	15%	11%	16%	*-0.02*	*-10%*	*-0.07*	*-33%*	*-0.03*	*-24%*	*0.05*	*32%*
Admin Exp / REVENUE	25%	19%	8%	49%	13%	*-0.05*	*-22%*	*-0.12*	*-60%*	*0.41*	*524%*	*-0.36*	*-271%*
Interest Exp. / REVENUE	44%	45%	4%	7%	4%	*0.00*	*1%*	*-0.40*	*-90%*	*0.03*	*73%*	*-0.03*	*-75%*
Net Income / REVENUE	9%	8%	2%	-37%	4%	*-0.01*	*-11%*	*-0.06*	*-72%*	*-0.39*	*-1765%*	*0.41*	*962%*

Condensed Financial Statements	in LE Million												
Upper Egypt Dredging													
Balance Sheet													
Assets	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Current Assets						LE	%	LE	%	LE	%	LE	%
Cash	0 03	0 03	0 32	4 96	7 56	0.00	0%	0.29	967%	4.64	1450%	2.60	34%
Trade Receivable	11 89	16 62	16 23	15 98	14 91	4.73	40%	-0.39	-2%	-0.25	-2%	-1 07	-7%
Allowance of Duobtful Accounts	-1 64	-1 93	-1 85	-1 76	-1 52	-0.29	18%	0.08	-4%	0.09	-5%	0.24	-16%
Inventory	8 49	8 00	8 67	8 37	7 98	-0.49	-6%	0.67	8%	-0.30	-3%	-0.39	-5%
Other current Assets	16 46	12 80	13 27	6 76	3 41	-3 66	-22%	0.47	4%	-6.51	-49%	-3 35	-98%
Total Current Assets	35.23	35.52	36 64	34.31	32.34	0.29	1%	1 12	3%	-2.33	-6%	-1 97	-6%
Non-Current Assets	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**92/93 Growth**		**93/94 Growth**		**94/95 Growth**		**95/96 Growth**	
Fixed Assets						LE	%	LE	%	LE	%	LE	%
Equipment	11 53	13 97	14 21	12 96	15 78	2.44	21%	0.24	2%	-1 25	-9%	2.82	18%
Other Fixed Assets	3.33	3.51	3.77	3.96	4.01	0.18	5%	0.26	7%	0.19	5%	0.05	1%
Less. Accumulated Depreciation	-12.73	-13 61	-13 91	-13 06	-14 21	-0.88	7%	-0 30	2%	0.85	-6%	-1 15	8%
Sub-Total	2.13	3 87	4 07	3 86	5 58	1 74	82%	0.20	5%	-0.21	-5%	1 72	31%
F A Under Construction	0 49	0 17	0 22	0 23		-0.32	-65%	0.05	29%	0.01	5%	-0.23	
Total Fixed Assets	2.62	4.04	4.29	4.09	5.58	1 42	54%	0.25	6%	-0.20	-5%	1 49	27%
Other Long Term Assets				0.69	0.37	0.00		0.00		0.69		-0.32	-86%
Total Assets	37 85	39 56	40 93	39 09	38 29	1 71	5%	1 37	3%	-1 84	-4%	-0.80	-2%
Total Assets Turnover	0 39	0.39	0.43	0.35	0.50	0.00	0%	0.04	11%	-0.09	-20%	0.15	30%
Equip Turnover	1 29	1 11	1 25	1 05	1 21	-0.18	-14%	0.14	13%	-0.20	-16%	0.16	13%
Fixed Assets Turnover	5.67	3.83	4.14	3.33	3.42	-1 84	-32%	0.32	8%	-0.81	-20%	0.09	3%
A/R Turnover	1 25	0.93	1 09	0.85	1 28	-0.32	-26%	0.16	18%	-0.24	-22%	0.43	33%
Inventory Turnover	1 75	1 93	2.05	1 63	2.39	0.18	10%	0.12	6%	-0.42	-21%	0.77	32%

Condensed Financial Statements	in LE Million												
Upper Egypt Dredging													
Balance Sheet													
LIABILITIES	91/92	92/93	93/94	94/95	95/96	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Current Liabilities						LE	%	LE	%	LE	%	LE	%
Overdraft	0 46	0 49	0 94	3 65	3 64	0.03	7%	0.45	92%	2.71	288%	-0.01	0%
Trade Payables	2 66	1 78	2 21	2 55	1 77	-0.88	-33%	0.43	24%	0.34	15%	-0.78	-44%
Other Payables	7 98	10.76	10 73	11 22	11 40	2.78	35%	-0.03	0%	0.49	5%	0.18	2%
Total Current Liabilities	11 10	13.03	13.88	17 42	16.81	1 93	17%	0.85	7%	3.54	26%	-0.61	-4%
NET WORKING CAPITAL	24.13	22.49	22.76	16.89	15.53	-1 64	-7%	0.27	1%	-5.87	-26%	-1 36	-9%
Non-Current Liabilities													
Long Term Loans	8 15	8 58	8 07	6 83	6 14	0.43	5%	-0.51	-6%	-1 24	-15%	-0.69	-11%
Other Reserves	5 08	3 41	3 45	4 32	4 46	-1 67	-33%	0.04	1%	0.87	25%	0.14	3%
Total Non-Current Liabilities	13.23	11 99	11 52	11 15	10.60	-1 24	-9%	-0.47	-4%	-0.37	-3%	-0.55	-5%
Total Liabilities	24 33	25 02	25 40	28 57	27 41								
Stockholders' Equity	91/92	92/93	93/94	94/95	95/96								
Paid in Capital	8 16	8 16	9 00	9 00	9 00	0.00	0%	0.84	10%	0.00	0%	0.00	0%
Reserves	5 36	6 38	6 53	1 53	1 53	1 02	19%	0.15	2%	-5.00	-77%	0.00	0%
Retained Earnings						0.00	#DIV/0!	0.00	#DIV/0!	0.00	#DIV/0!	0.00	#DIV/0!
Total Stockholders' Equity	13.52	14.54	15.53	10.53	10.53	1 02	8%	0.99	7%	-5.00	-32%	0.00	0%
Total Liab. & Stockholders Equity	37 85	39 56	40.93	39.10	37 94	1 71	5%	1 37	3%	-1 83	-4%	-1 16	-3%
	37 85	39 56	40 93	39 09	38.29								
Investment in 95% interest				5.26	5.26								
Return On Equity	10%	8%	3%	-47%	8%	-0.01	-14%	-0.06	-70%	-0.50	-1983%	0.55	715%
Current Ratio	3 17	2.73	2.64	1 97	1 92	-0.45	-14%	-0.09	-3%	-0.67	-25%	-0.05	-2%
Debt/Equity Ratio	1 80	1 72	1 64	2.71	2.60	-0.08	-4%	-0.09	-5%	1 08	66%	-0.11	-4%
Debt Ratio	0.64	0.63	0.62	0.73	0.72	-0.01	-2%	-0.01	-2%	0.11	18%	-0.02	-2%
Sales to WC	0.62	0.69	0 78	0 81	1.23	0.07	12%	0.09	14%	0.03	3%	0.42	34%
ESA Return On Investment				-90%	15%	0.00	#DIV/0!	0.00	#DIV/0!	-0.90		1 05	715%

Condensed Financial Statements	in LE Million												
Upper Egypt Dredging													
Workforce statistics	91/92	92/93	93/94	94/95	95/96	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
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Total Production Depts	**990**	**977**	**980**	**930**	**865**	-13	-1%	3	0%	-50	-5%	-65	-8%
Administrative Staff													
Permenenat Staff	69	71	75	76	75	2	3%	4	6%	1	1%	-1	-1%
Temporary Staff- Contracts	18	21	30	26	26	3	17%	9	43%	-4	-13%	0	0%
Temporary Staff Daily basis	5	9	7	9	6	4	80%	-2	-22%	2	29%	-3	-50%
Total Administrative Depts	**92**	**101**	**112**	**111**	**107**	9	10%	11	11%	-1	-1%	-4	-4%
Company-wide workforce													
Permenenat Staff	**743**	**730**	**745**	**704**	**664**	-13	-2%	15	2%	-41	-6%	-40	-6%
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Temporary Staff Daily basis	**242**	**209**	**195**	**14**	**157**	-33	-14%	-14	-7%	-181	93%	143	91%
Total No of workers	*1082*	*1078*	*1092*	*1041*	*972*	-4	0%	14	1%	-51	-5%	-69	-7%
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Average Worker/Profit Share p a	*0*	*353*	*0*	*0*	*113*	353		-353	-100%	0		113	100%
Average Worker/Pay p a	*4993*	*5559*	*5074*	*0*	*113*	566	11%	-485	-9%	-5074	-100%	113	100%
Upper Egypt Dredging													
FINANCIAL RATIOS	91/92	92/93	93/94	94/95	95/96	92/93 Growth		93/94 Growth		94/95 Growth		95/96 Growth	
Fixed Assets Turnover	6 97	3 99	4 37	3 53	3 42	-2 98	-43%	-0 84	-19%	*-0 84*	*-19%*	2 55	-86%
COS/Revenue	76%	78%	85%	89%	84%	0 02	3%	0 03	4%	*0 03*	*4%*	0 01	32%
CM/Revenue	24%	22%	15%	11%	16%	-0 02	-10%	-0 03	-24%	*-0 03*	*-24%*	-0 07	316%
Revenue/Equity	110%	106%	114%	129%	181%	-0 04	-3%	0 15	13%	*0 15*	*13%*	0 00	-9%
Net Income/Equity	10%	8%	3%	-47%	8%	-0 01	-14%	-0 50	-1983%	*-0 50*	*-1983%*	-0 13	940%
Revenue/total workforce LE 000	13 72	14 34	16 27	13 09	19 65	0 62	4%	-3 18	-20%	*-3 18*	*-20%*	-0 57	-93%