

A rock of stability in a troubled region, Egypt has a clear vision of where it wants to go and how to get there. The most populous Arab nation is undertaking major economic development projects to support its drive for exports.

Egypt

Alexandria Library (below) is a symbol of the modernized state that Egypt is becoming

BACK ON THE GROWTH PATH AND SEEKING INVESTMENT

President Hosni Mubarak often remarks that Egypt's most valuable asset is its people. The largest of the Arab nations, and the second largest economy, has a population of 70 million. A huge consumer market in its own right, Egypt possesses a well-educated, skilled, and multilingual labor force that is expanding by almost a million a year, with the largest number of university graduates in the Middle East and Africa.

Egypt is an important producer of oil and—increasingly—gas, and has a tourism industry that has recently been bringing in record numbers of visitors. Other important sources of hard currency include remittances from Egyptian workers abroad, tolls from the Suez Canal, and foreign aid.

The economy enjoyed strong growth in the late 1990s and, while this slowed in recent years, there are strong indications that it is coming back and that the long-term macroeconomic prospects are favorable. The International Monetary Fund (IMF) which visited Egypt in January,

judged the country's economic performance much higher than had been expected—despite the war in Iraq, instability in the Middle East, and the weakness of the world economy. Growth in the first quarter of the current fiscal year 2003/2004 was 4.2% and is expected to rise to 4.5% by June 2004.

Egypt's oil revenues have increased significantly with the rise in world oil prices and investment by international oil companies in exploration. Both the commodities (including oil and gas) and agricultural sectors have shown growth. Revenues

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from the Suez Canal have shown a marked rise, up by 25% to \$2.5 billion in 2003 from \$2 billion in 2002, following the carrying out of improvements, and the 1998-2002 deficit in the balance of payments has been turned into a \$650 million surplus.

The government, which wants to attract greater foreign investment into the country, is continuing its policy of economic reforms, liberalization, and privatization. Egypt has implemented a market-determined exchange rate regime, and new legislation has been introduced with respect to protection of intellectual property rights, banking reform, and combatting money laundering.

Import and export procedures are being streamlined and the bureaucracy that has discouraged foreign investment in the past is being reduced.

Prime Minister Atef Ebeid declares, "Our objective is to make Egypt part of the developed world with rules that are no different from the rules in Europe, the United States, Japan, or South East Asia, but with added incentives."

Dr. Ebeid points out that Egypt has a clear and competitive advantage with regard to

its geographical location at the crossroads of Europe, Africa, and Asia. He notes the quality of investment coming into the country. "During the last three years we have attracted some of the best investors from around the world, not only in the oil sector but also in the production sector."

Mohamed Ibrahim Soliman, Minister of Housing, Utilities and Urban Communities, believes that U.S. investors can play a significant role in the ongoing development of the country's infrastructure. "We have already invested about £65 billion Egyptian pounds (\$10.6 billion) in the area of water and sewage treatment, for example. For this kind of investment we need a foreign investor to work with us in management, maintenance, and rehabilitation."

U.S. Ambassador David Welch points out that Egypt has a distinct advantage in the region when it comes to attracting investment. "One of the strongest selling points of this country is its

security and stability," he says. "In a region that has seen no small share of difficulties in recent years, security and stability is like money in the bank."

Egypt is committed to bringing about peace in the Middle East. Amre Moussa, Secretary General of the League of Arab States, says Egypt has led the Arab efforts in the peace process and has been an active player from the beginning. "Egypt has a special role and status, and the way it acts is very influential."

The government supports U.S. involvement, which it regards as crucial to the peace process. Ahmed Maher El Sayed, Minister of Foreign Affairs, says, "It is very clear that without the continuation of U.S. engagement, we will not reach peace."

According to the Minister, Egypt itself is motivated to promote peace for reasons that are both idealistic and a matter of national self-interest. "You cannot build a country in an environment that is antagonistic," he says.



AHMED MAHER EL SAYED
Minister of Foreign Affairs



DAVID WELCH
U.S. Ambassador to Egypt

NEW BANKING LAW BRINGS CHANGE FOR THE BETTER

Stricter rules on capitalization and credit will tighten up the system and improve performance

Egypt has one of the oldest and largest banking sectors in the Middle East. A far-reaching new banking law passed last year is aimed at establishing a modern, efficient, and well-capitalized banking system, and to restore public confidence after a series of loan default scandals.

Egypt's Central Bank has been granted greater independence and the Governor of the bank reports directly to President Mubarak. The bank has been given responsibility for managing monetary policy, in addition to regulating the banking system.

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mercial, specialized, and trade banks have been removed. Corporate governance practices are being promoted and implemented by the four large public banks that dominate the system—Bank of Alexandria, Banque du Caire, National Bank of Egypt, and Banque Misr—with the recruitment of individuals from the private sector into their senior management. Encouragement is being given to foreign investment in the sector through acquisition of public sector ownership in joint venture banks.

A spur to modernization has been provided by the upcoming (2006) implementation of the Basel II accord, the international agreement aimed at regulating the global banking system. The accord focuses on risk management and demands higher capital requirements, a supervisory review process, and market discipline.

Egypt has been working to ensure that it has the sound credit culture required. The minimum capital adequacy ratio has been increased from 8% to 10% across the board, and an automated credit risk information system is being developed to provide online access to clients' credit profiles.

The new law gives Egyptian banks three years to meet a minimum paid in capital require-



Banque du Caire is the first large Egyptian bank to turn its attention to micro-lending, helping to build the small industries of the future

ment of £500 million Egyptian pounds (\$83 million), while the paid in capital of foreign banks operating in Egypt has been increased to £50 million Egyptian pounds (\$8 million).

The number of banks operating in Egypt—almost 60—is expected to reduce. “We are over-banked and I am sure we will see lots of movement,” says a spokesman for the Central Bank. “If banks fail to increase their capital within the grace period allowed by the new law, some tough decisions will have to be made about their future, including mergers or acquisitions by bigger banks, or liquidation.”

Mohamed Kamal El Din Barakat, Chairman of Banque Misr, says, “It was a courageous step for the government to implement these changes. It is the first time they have ever appointed people to the public sector banks from the private sector. They are giving full support to enable the public banks to develop as viable commercial concerns.”

Ahmed El Bardai, Chairman of Banque du Caire, agrees that the effects of the new law have been beneficial. “The perception in the

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FROM AID TO TRADE

Egypt has long been one of the most important allies of the United States in the Middle East, where it represents a voice of moderation. The U.S. government regards Egypt as having an indispensable role to play in achieving peace and democracy in the region.

U.S. Ambassador David Welch emphasizes the nation's position at the center of the Arab world. “Work in three areas—trade and investment, democracy and reform, and education—can once again catapult Egypt into the leading country in the Arab Middle East and beyond; indeed, into a global leader,” he says.

Egypt is second only to Israel in the amount of American military and economic aid it receives—an average of \$2 billion a year.

Both Egypt and the United States want to see the balance switch from aid to trade and investment. Egypt is a major market for American goods, and U.S. investments in the country currently total more than \$2.5 billion.

FOCUSING ON STRENGTHS



Banque Misr has been upgrading its IT systems to bring all its branches online

Established in 1920 with 100% Egyptian capital, Banque Misr is Egypt's second largest bank, with 453 branches. The management of the Banque Misr has recently been privatized and restructured in a move to improve its efficiency and competitiveness.

The board's mission is to further develop the bank's position in the domestic and international market. “There is great potential in the bank

that we are seeking to capitalize on,” says Mohamed Kamal El Din Barakat, the bank's Chairman. “We are focusing on our strengths, chiefly our extensive branch network. We are developing our retail side in addition to developing the business on the corporate side.”

A pioneer in adopting the use of IT in the sector and the first to launch credit cards on the market, Banque Misr has been upgrading its systems to bring all its branches online, and implementing training initiatives to improve staff skills.

From its inception, the bank has been involved in investing in industrial projects, financing major projects such as the Cairo underground, the power sector, mobile networks, and the cotton trade. The bank has a presence in Europe through a branch in Paris and a subsidiary in Frankfurt, in addition to a 27-branch network bank in Lebanon.

One of its current target sectors is petrochemicals. “We have a number of projects in the fertilizer industry because it is export oriented, and we are studying proposals to expand in this area,” says Mr. Barakat. “Other sectors we are interested in are the cement, IT, and telecommunication industries, all of which are doing well.”

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market has changed. Now if you borrow the bank's money, you have to think how you are going to pay it back. The standard of credits has improved enormously, and the collection has improved as well."

Banque du Caire itself is in a much stronger position, Mr. El Bardai believes.

"The bank is better today than it was yesterday. We are as good as any other local or international bank operating in Egypt. The balance sheet is much stronger than when we took over. Our liquidity has improved dramatically—we are actually over-liquid and are looking for interesting and profitable ways to use our money.

"Our systems have been upgraded and customer services have achieved a totally new standard; the concept of customer service used to be non-existent in any of the public sector banks."

Approximately 30% of Banque du Caire's portfolio is focused on financing trade. Recently, however, the bank became the first large institution in Egypt to enter into micro-lending—currently it serves more



AHMED EL BARDAI
Chairman of Banque du Caire

than 60,000 clients in this area. "These are the small industries of the future; they are micro now but they will become bigger," Mr. El Bardai explains. "In the Egyptian economy, micro, small, and medium industries constitute a very large proportion of GDP."

The Cairo and Alexandria Stock Exchange (CASE), which celebrated its 100th anniversary last year, has a close relationship with the New York Stock Exchange, which has been providing assistance with the development of Egypt's capital market.

"We have accomplished a lot with regard to listing requirements and introducing new rules so that the listed companies can improve their disclosure, corporate governance, and transparency, and also deal with legal issues regarding trading," says CASE's Chairman, Sameh El Torgoman.

Dr. El Torgoman believes that the stronger the local market becomes, the more it will attract foreign investors. Egypt has already seen a significant increase in foreign portfolio investment, especially following the flotation of the Egyptian pound last year.

BUILDING AN INFORMATION AND KNOWLEDGE-BASED SOCIETY

Development of Egypt's information and communications technology industries is crucial to the country's social and economic advance

Egypt has established a very strong infrastructure network on which to base its plans for modernization and development. Large industrial zones and new urban areas have been created to stimulate industry, increase employment, attract foreign investment, and expand the inhabited area of the country. Airports and ports are being upgraded to support the country's drive to increase exports and tourism.

Crucial to the government's plans for social and economic progress is the expansion of the information and communications technology (ICT) sector, which has been growing at a rate of around five times that of the economy as a whole. "It is one of the drivers of growth, and we are imple-



AHMED NAZIF
Minister of Communications and Information Technology

menting a very ambitious plan for the development of the sector," says Minister of Communications and Information Technology Ahmed Nazif.

The Egyptian Information Society Initiative, an innovative partnership between the public and private sectors, is designed to help bridge the digital divide and facilitate Egypt's evolution into an Information Society. The aim is to offer every individual, business, and community the opportunity to harness the ben-

efits of the new information era, including e-government, e-business, e-learning, e-culture, and tele-medicine.

September last year saw the opening of Egypt's first Smart Village—just a short distance from the Great Pyramids of Giza.

SETTING THE STANDARD

When President Mubarak emphasized the need for Egypt's ports to upgrade recently, there was no surprise when he held up Sokhna Port and Logistics Center as the model for others to copy.

Strategically placed on the west coast of the Red Sea, 25 miles south of Suez and 80 miles east of Cairo, Sokhna is Egypt's newest port, and is positioned at the heart of one of the country's most ambitious development projects: the Suez Special Economic Zone (SSEZ). The port is scheduled for development up to the year 2020, and when completed will be part of a huge economic and industrial zone extending over 22,000 acres.

Captain Ossama Al Sharif, President and CEO of Sokhna Port Development Company (SPDC), explains, "What we are creating is a trading zone with a port, heavy and light industries, a strategic distribution center and, as part of the future development, a fully-fledged city, with retail outlets, a developed infrastructure, and services."

A deep-sea facility for the handling of liquids and bulk cargo, containers, break bulk, and general cargo, Sokhna has been designed to be the major port and logistics center south of the Suez Canal,

serving the SSEZ, the Red Sea area, and the Greater Cairo Region. "We will achieve the highest standards and intend to maximize Egypt's potential by integrating fully into global trade," says Capt. Al Sharif.

The port has been in operation since 2002 and is already handling a healthy flow of business. Given favorable development of the Egyptian economy, cargo volumes passing through Sokhna are projected at 45 million tons by 2010, doubling to 90 million tons by 2020.

Development of the port is on schedule. It boasts state-of-the-art equipment and has already won an enviable reputation for efficiency.

Sokhna is the first port in Egypt to offer a fully automated customs clearance procedure, using Electronic Data Interchange (EDI) for all transactions. "We are very proactive in obtaining the very latest technology and implementing it," says Capt. Al Sharif. The objective is to make Sokhna "one of the most sophisticated ports in the world."

The introduction of new equipment continues to raise the port's performance. New Super Post Panamax gantry cranes, capable of handling the largest super



OSSAMA AL SHARIF
President and CEO of Sokhna Port



State-of-the-art equipment has turned Sokhna into one of the world's most sophisticated ports

container ships in the world, are due to be delivered in the summer and will dramatically boost the productivity of the container terminal.

Recently, the port signed a deal with several partners to establish a multi-million dollar biodiesel plant for the production of environmentally friendly fuel from renewable resources. Most of the production from the plant—the first of its kind in the Middle East—will be exported to the United States, Europe, and Asia.

The port has an advanced security

system and has recently been negotiating with both the Maritime Safety Council and the U.S. Coastguard.

Capt. Al Sharif highlights the logistics center, which offers its customers streamlined and efficient supply chain operations.

"Ports are important for the entry and exit of goods, but they have also developed into logistical platforms and trading centers," he says. "We are inviting multinationals to use Sokhna as their strategic distribution center for the area."



Egypt has embraced the benefits of the information era and ICT industries are expanding.

Already home to Alcatel, Microsoft, Vodafone, and Telecom Egypt, the 450-acre technology park is scheduled to be fully operational by 2007.

Deregulation of the telecommunication market will be complete by 2006. Meanwhile, the numbers of fixed line and mobile phone subscribers have rocketed; a huge leap has also taken place in the number of internet users.

Dr. Nazif says, "We now have the number one and number two mobile operators in the world—Vodafone and Orange—working in Egypt, and they are both doing very well."

"Egypt's combination of low penetration and high growth means great opportunities for business, and I think we will be able to sustain that for at least the next 3-5 years. The basic infrastructure, the number of fixed lines, mobiles, and internet users are all growing at rates that are unprecedented."

Egypt's largest mobile phone operator, Mobinil, more than doubled its net income to £915 million Egyptian pounds (\$148 million) last year. In February it announced it had reached the milestone of 3 million subscribers.

Osman Sultan, President and CEO, says, "The development of mobile services goes beyond the telecommunication sector; it is a fundamental infrastructure for the development of many different sectors."

The prime example of an Egyptian company that has become a major regional player is Orascom Telecom Holding (OT), part of the Orascom Group. OT has grown to become the leading GSM operator in the Middle East, Africa, and Pakistan, and holds more than 10 licenses. In 2003, its number of subscribers across the region rose to

more than 7.6 million, a staggering 70.7% increase on 2002.

One of Egypt's largest and most successful conglomerates, OT is an integrated telecommunications company, with activities in internet and satellite, technical management, and telecom support services. The company is majority-owned by the Sawiris family and is traded on both the Cairo and Alexandria Stock Exchange and the London Stock Exchange.

OT began by acquiring Mobinil in 1998, in which it currently holds a 32% stake. Since then it has expanded its network to cover Algeria, Tunisia, Pakistan, Congo Brazzaville, Chad, the Democratic Republic of Congo, and Zimbabwe.

Naguib Sawiris, Chairman and CEO, sums up his philosophy thus: "I am a risk taker, but I do not take uncalculated risks. I decided to go for the region before Telefonica or Orange or Vodafone came."

The company's most recent advance came in October 2003, when a consortium led by OT won the tender for the first license to provide mobile telephony services in the central region of Iraq, including Baghdad.

For the present, however, OT is focusing on growth and profitability in its core operations. "We have a lot on our hands," says Mr. Sawiris. "In Egypt, you have a country of 76 million and only about 4 million have mobile phones. In Pakistan, we are adding around 100,000 subscribers every month in a country of 140 million people; we could end up with 10 or 15 million. In Algeria, it is the same story; we have more than 1.2 million subscribers in a country of 36 million people."



NAGUIB SAWIRIS
Chairman and CEO
of Orascom Telecom

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TURNING UP THE GAS WILL BOOST ENERGY SECTOR

One of the world's top 20 energy-producers, Egypt is looking forward to exporting large quantities of natural gas to Europe and the United States

Since the first oil explorations were launched in Egypt over 100 years ago, the petroleum sector has been a major contributor to the economy. It is the single largest industrial activity and, according to a recent study for the American Chamber of Commerce in Egypt, accounts for 8% of GDP, 30% of total exports, and 95% of the country's primary energy requirements.

U.S. companies have played a major role in the development of Egypt's energy sector. Almost half of around 300 concession agreements have been signed with American firms, and Houston-based Apache Oil is currently Egypt's largest single American investor in the country. Between 1988/89 and 2002/03 petroleum exports to the United States rose from \$44 million to \$157 million, and this value is expected to further increase as LNG exports come on board.

The U.S. Commercial Service identifies Egypt, along with Turkey, as energy hotspots where billions of dollars of procurements in oil and gas exploration, production, refining, and transportation, backed by blue-chip international oil consortia, will create major opportunities over the next six years.

Egyptian Minister of Petroleum Sameh

Fahmy says, "Egypt can become a hub for energy resources to the United States."

The current target is to maintain production of oil and condensate at 750,000 barrels per day, and the government is encouraging investment, exploration, and the use of new technology to achieve this.

Major discoveries are still being made. Last September, for example, BP announced the largest oil find in the Gulf of Suez in 14 years, with estimated reserves of 80 million barrels.



SAMEH FAHMY
Minister of Petroleum

Egypt also has significant downstream oil activity, with the majority of the production refined domestically—indeed the country has one of the strongest refining industries on the African continent at Suez, Cairo, and Alexandria.

The government is well aware that oil will not remain a main-

stay of the economy forever and, as domestic demand continues to increase, chances for crude oil and petroleum products exports will diminish. It is the development of Egypt's natural gas industry that offers the brightest prospects for the future.

Following successful exploration in the Mediterranean and the Western Desert, proven reserves of gas have risen dramati-



Major foreign companies are already involved in exploration and production in Egypt's energy sector

INTERVIEW SAMEH FAHMY, MINISTER OF PETROLEUM

Why should international energy firms invest in Egypt's energy sector?

Egypt is an attractive place for oil and gas exploration and production, and we have been very successfully attracting foreign direct investment. International companies operating in Egypt, such as Apache, BP, BG, Shell, ENI-Agip, and others, have all made discoveries in their concessions.

What is being done to attract foreign investors?

Egypt enjoys the political and economic stability that all investors look for. Our strategy includes issuing several bid rounds per year and speeding up the evaluation and awarding processes. We are very transparent with our partners and always seek a balanced, win-win agreement. We provide all possible assistance to foreign direct investors to ensure the timely execution of projects. We have established several entities to

promote oil and gas activities and we have a clear vision for the future, which we have converted into business plans. Future projects are clearly defined and we know what we want.

In terms of concessions, how much is on offer to foreign investors? Can you identify some of the key activities open to investment by U.S. firms?

More than 60% of Egypt is still open for exploration. Activities that have the potential to attract investors include exploration and production, gas export projects, petrochemical projects, pump manufacturing, maintenance and repair of compressors and turbines, safety gears and equipment manufacturing, drilling services, and the manufacture of valves and piping.

How do you see development of the petrochemical industry?

The petrochemical industry is at the

top of our agenda. Our current production of petrochemicals includes PVC, ethylene, polyethylene, propylene and polypropylene, and linear alkyl benzene. A petrochemical master plan has been developed with an incentive package in order to attract FDI.

Our current consumption exceeds our production in products such as PVC and linear alkyl benzene; the local market is growing very fast. Our estimate of Egypt's future consumption is 7-8 million tons per year by 2020, representing almost 50% of the total planned petrochemical production.

Our production will grow steadily. Our plan is to build three mega olefin complexes every 6-7 years. As for fertilizers, we are already gaining a competitive edge and 4-6 plants are likely to be established in the next few years.

Egypt is advantageously placed for exporting petrochemical products due to its proximity to international markets to the east and the west.

cally in recent years, and are now put at 62 trillion cubic feet (tcf). According to some estimates, a further 100-120 tcf are yet to be discovered.

The Nile Delta has emerged as a premier natural gas basin, while successful exploration activities have dubbed the offshore waters of the Mediterranean "a world-class gas region." Mr. Fahmy points out that Egypt is the first country in the Middle East to produce gas from deep water and to implement sub-sea completion techniques.

In 2001, the government formed a new state-owned entity, the Egyptian Natural Gas Holding Company (EGAS), to manage the natural gas sector separately from the Egyptian General Petroleum Corporation (EGPC).

Major foreign companies involved in exploration and production of gas in Egypt include BG, BP, ENI-Agip, Apache, and Shell. Last year, in a notable signal of confidence in the country's future as a gas producer, the Asian energy giant Petronas bought its way into the West Delta Deep Marine Concession (WDDM), which it now shares with BG.

In the longer term, Egypt's demand for



Gas is expected to replace oil as the world's largest energy source over the next 20 years



Egypt will gradually switch over to increased use of gas for both industrial and domestic use

energy will be met by gradually switching over to increased use of gas in both the industrial and domestic sectors. The government has also been promoting the use of gas to free up more oil and petroleum products for export.

In addition to meeting domestic needs, however, the major objective is to ensure that Egypt becomes a global player in the gas and petrochemical industries. Egypt is positioning itself to become a major supplier, not only to its Middle Eastern neighbors, but also to Europe and the United States.

Mr. Fahmy predicts that investments totaling \$6 billion will be made in the natural gas sector over the next four years. He believes Egypt will be ranked the sixth largest natural gas producer in the world by 2006. "Our goal is to have exported 20,000 tons of natural gas by 2010," he says.

An important step toward that goal took place in July last year, when President Mubarak and King Abdullah II of Jordan inaugurated the first phase of the \$1 billion Arab Natural Gas Pipeline Project. Phase I of the project runs from the Mediterranean,

through Al-Arish to Taba, east of Sinai on the Red Sea, and on to the Jordanian port of Al-Aqaba.

Phase II, to North Jordan, is to be carried out by 2006. It is Egypt's target to start executing future phases of the Arab Gas Pipeline simultaneously with Phase II. The ultimate goal is to extend the pipeline across Turkey to reach eastern and central Europe.

As for LNG, two major liquefied natural gas (LNG) complexes are currently under construction close to the gas-rich waters off the coast of the Nile Delta. The single-train facility near the port of Damietta, being built by the Spanish utility company Union Fenosa and ENI of Italy, is scheduled to come on stream this year. Gas from the plant will be exported to power generation plants in Spain and elsewhere in Europe.

The second plant, at Idku, is under development by Egyptian LNG, a group of joint-venture companies including BG, Petronas, EGPC, EGAS, and Gaz de France. This is a two-train development, but the site is designed to allow other gas producers in Egypt to invest in future LNG

export gas trains, without having to replicate supporting infrastructure.

Production from the first train at Idku is due to start in 2005 and Gaz de France will buy the plant's entire production under a 20-year purchase contract. Deliveries from the second train are expected to begin in 2006.

Also due to start operations this year is a world-class natural gas liquids (NGL) plant currently being developed at Port Said by BP, the ENI-Agip subsidiary IEOC, and the Egyptian Natural Gas Company (GASCO), a transmission and distribution affiliate of EGAS.

The plant is designed to process 1,100 million standard cubic feet of gas per day. Most of the projected annual output of 330,000 tons of liquefied petroleum gas (LPG), 280,000 tons of propane, and 1 million barrels of condensate will be absorbed by the domestic market, some of it being used as feedstock for Egypt's emerging petrochemical industry.

Right: the route of the Arab Natural Gas Pipeline Project, the first phase of which (shown in blue) recently came on stream

HUGE POTENTIAL IN PETROCHEMICALS

Gas is the primary feedstock for the petrochemical industry, so Egypt's vast reserves give it the potential to turn itself into a major producer and exporter of high-demand petrochemical products.

At present, Egypt has five petrochemical plants producing around 750,000 tons annually—insufficient to meet national needs, requiring imports from countries with more developed petrochemical industries.

This is set to change, however, with the launch of a 20-year plan to propel Egypt into the ranks of major global petrochemical producers. By 2020, the government hopes to achieve annual revenues of \$7 billion from petrochemical products, including \$3 billion from exports, and the creation of 100,000 new jobs.

Approximately 345 million square feet of prime real estate have been designated solely for petrochemical projects. The three-stage plan envisages the building of 14 new complexes, located at sites around Alexandria, Port Said, and Suez, to facilitate exports.

An integrated, full-service economic zone is planned for each area, complete with infrastructure, utilities, and off-site services.

The target is to increase Egypt's petrochemical production to 15 million tons a year by 2020. The complexes

will produce products such as polypropylene, linear alkyl benzene, ethylene, polyethylene, and polystyrene. Downstream projects will be established for the manufacture of vinyls, polyester, acrylics, aromatics, styrenics, and detergents.

International petrochemical companies are invited to participate in the building of the industry, with the Ministry of Petroleum aiming to attract \$10 billion in investments.

The task of developing and managing the industry and of attracting foreign investment falls to the Egyptian

Petrochemicals Holding Company (ECHEM). The company's mission is to establish a strong and reliable

petrochemical industry in Egypt based on state-of-the-art technology.

Established in 2002, ECHEM operates as a one-stop shop designed to help investors obtain approvals, clearances, and land, steering them through evaluation and feasibility studies.

ECHEM has the systems, procedures, and organization in place to guide investors from the early stages of project evaluation, feasibility studies and environmental impact assessment to financing, construction, management, and product marketing.



EXPORTS RISE AS INVESTMENT IN INDUSTRY INCREASES

With over 100 state-owned companies divested so far, the privatization program is continuing as other companies are readied for sale

Investment in Egypt's industrial sector rose to more than \$1 billion in 2003, with well over half of it coming from private companies. The value of industrial production grew by 2.6%.

Egyptian exports have been increasing by an average of 20% per year for the last three years. "By 2005, we hope to achieve 30%," says Minister of Foreign Trade Youssef Boutros-Ghali.

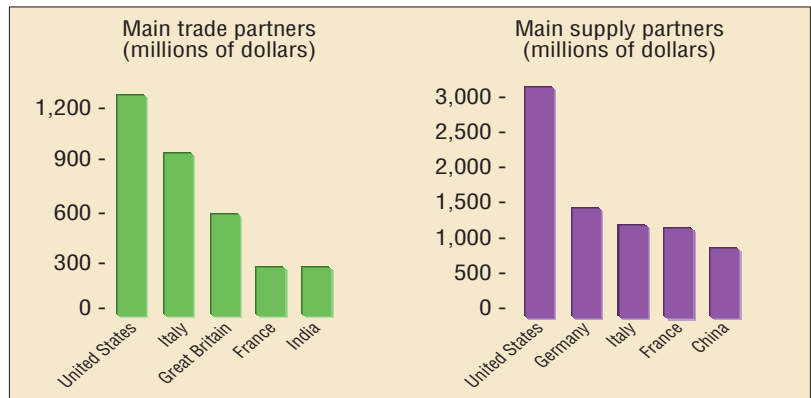
"Egypt is not a country with a history of exporting but we have managed to achieve an openness of mind that forces producers to start looking outside. We have streamlined the procedures for both exports and imports. The floating of the Egyptian pound last year has proven very effective in bolstering our exports."



YOUSSEF BOUTROS-GHALI
Minister of Foreign Trade

The United States is Egypt's leading single trading partner and the second most important trading bloc after the European Union. In July 1999, the two countries signed a Trade and Investment Framework Agreement (TIFA), and Egypt is eager to advance negotiations on a free trade agreement (FTA). "The sooner the better. We would like it to start tomorrow," says Mr. Boutros-Ghali.

In January, the trade section of the Egypt-EU Partnership Agreement was put into effect, removing export restrictions, notably on Egyptian textile and garment exports; according to the agreement, any amount of Egyptian exports to the European market will be customs-free.



Also in January, representatives of the European Fair Trade Association (EFTA) states and Egypt met to bring their negotiations on an FTA closer to conclusion, and talks are due to start soon with Singapore.

Recent years have witnessed the private sector percentage of overall Egyptian GDP growing by around 1.5% annually, with more than 100 state-owned enterprises privatized since 1994. Around 180 state-owned export-oriented enterprises are currently being managed by holding companies while awaiting privatization.

One of the largest holding companies is the Metallurgical Industries Holding Company (MICOR), which supervises firms with operations covering a range of industrial and manufacturing activities. Among the most important in its privatization portfolio are the Egyptian Iron and Steel Company and the Aluminum Company of Egypt.

Chairman M. Adel El Danaf says that privatization lies at the top of MICOR's strategic agenda. In the meantime, getting the companies in the best possible shape to be sold off requires sorting out their balance sheets, settling their debts with the banks, and dealing with problems such as overstaffing.

"We have a group of companies that need to be reformed before being privatized," Mr. El Danaf explains. "These companies need restructuring because of the policies adopted in the past decades when the centralized economy prevailed. As a result, many accumulated problems over the years."

Concern over the possible social effects of privatization means that progress is gradual. "We studied the experiences of other



M. ADEL EL DANAF
Chairman of the Metallurgical Industries Holding Company

countries around the world and learned from these experiences. We put considerable emphasis on minimizing the negative social impact. We have been accused of moving slowly, but we want to carry it out with the least harmful effects and I believe that we have succeeded in achieving this."

The privatization program is, nevertheless, very flexible. Mr. El Danaf says, "We will consider any proposal coming from investors, such as leasing for a certain period with an option to buy."

There have been a number of inquiries about MICOR companies from the United States and Europe, in particular about the aluminum and steel businesses. "Egypt has good access to the United States for our products. We export both aluminum and steel there."

PROVIDING A HELPING HAND

An important contribution to economic and social improvement in Egypt is made by the Social Fund for Development (SFD), which operates under the direct supervision of the Prime Minister and under the umbrella of the United Nations Development Program (UNDP).

The fund receives loans and grants from the international community and the government. Its objectives are to boost

employment and provide a social safety net for the poor, including those most directly affected by the economic reform measures.

The SFD provides access to small loans and financial services, focusing in particular on encouraging the development of small and medium-sized businesses (SMEs).

"Through SMEs we can create jobs and

alleviate poverty," says SFD's Managing Director M. Hany Seif El Nasr. "With start-ups we subsidize them for one or two years until they are up and running."

In 2002/2003, the SFD spent more than \$100 million and created 80,500 new jobs; \$46 million were allocated to financing more than 11,000 SME projects, creating 50,000 job opportunities.

Proposing unlimited metal profits

Metallurgical Industries Company is presently inviting bids for **Alexandria Refractories Company**, an established Egyptian manufacturer of aluminum silicate refractory bricks and calcined, castable kaolin that also provides contracting and technical consulting services. Using state-of-the-art technology, Alexandria Refractories produces highly demanded, top-quality products that meet international standards. The company has been awarded an AB-Green License, and its products are exported throughout Europe and the Arab world.

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Natural gas... naturally successful

Egypt's Ministry of Petroleum is successfully developing an environmentally-safe strategy for self-sufficiency in natural gas, in partnership with several leading companies.

The time has come to further Egypt's already advanced gas sector. Aiming to satisfy a significant share of the nation's LPG market, the United Gas Derivatives Company (UGDC) has risen to the responsibility of the construction and management of a major LPG plant, with extensive marine exports and considerable pipeline facilities. Successful production projections suggest greatly increased propane exports and a large expansion in future LPG self-sufficiency for Egypt.

With forecasts of an impressive 7.56 bcm annual LNG production, the Spanish Egyptian Gas Co.'s Damietta Port plant looks set to lead the field in liquefied natural gas production. Due for completion in 2004, the SEGAS plant will greatly add to Egypt's reputation as a country where visions for a state-of-the-art future are combined with dramatic results.

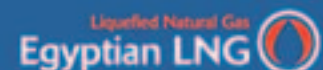
Further equally fruitful advances are planned by Egyptian Liquefied Natural Gas (ELNG). The company is proud to be responsible for developing and operating an integrated LNG production and export facility in Idku on the Mediterranean coast. This progressive project involves the construction of a high-technology onshore liquefaction plant and export terminal that will initially produce 3.6 million tons of LNG per annum from its first production train beginning in 2005, with rapidly increasing yields to follow.



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SURGE IN VISITORS BOOSTS TOURISM

Record-breaking numbers in 2003 raise confidence that ambitious targets can be achieved

Egypt's tourism industry has high hopes for 2004 following the arrival of a record-breaking number of visitors last year. Red Sea resorts were packed in the second half of 2003, boosting confidence that the country's key foreign currency earner is well and truly back on course.

Minister of Tourism Mamdouh El-Beltagui says, "Egypt is witnessing a boom. The tourism industry has weathered the storms and completely recovered from the war on Iraq, the ongoing Palestinian-Israeli conflict, and other international predicaments that made the sector sluggish."

Offering a year-round mild climate, 1,600 miles of beaches, a unique archeological and cultural heritage, the Nile, and a wide range of modern tourism products ranging from golf to health tourism, Egypt lacks nothing in terms of attractions. And, as the aftershock of the events of September 11 has faded, European tourists have flooded back, joining the large

numbers of visitors from Egypt's neighboring countries.

Almost 6.5 million travelers visited last year—Egypt's highest annual figure. The Europeans came mostly from Italy, Germany, France, and the UK, with Libya and Saudi Arabia topping the list of Arab states. Visitors have also been staying longer—an average of nine nights, as opposed to six in 2000.

American tourists have remained more cautious, and the Egyptian authorities are at pains to point out that, in addition to its unique appeal, Egypt is perfectly safe to visit. "Egypt is truly the cradle of civilization. It is an open historical museum," says Dr. El-Beltagui. "The culture of Egyptians is coexistence, welcoming people, and friendliness."

The recent upsurge in visitors has been apparent at the Jolie Ville group of hotels—the Mövenpick Resort and Casino and the Mövenpick Golf and Resort, both in Sharm

Guest numbers are up at the Jolie Ville hotels in Sharm El Sheikh and Luxor

El Sheikh, and the Mövenpick Luxor Resort—which are part of the HKS Group.

Most businessmen believe that Egypt has the potential to double its present visitor figures to 12 million a year within the near future, bringing an income of about \$12 billion.

Samih Sawiris, Chairman of Orascom Hotel Holdings (OHH) and Orascom Projects and Touristic Development (OPTD), which built the Red Sea resort of El Gouna, is con-

vinced that Egypt can attract both large numbers of visitors and more demanding top-dollar tourists.

"There is absolutely no contradiction in having rich and selective clients together with mass tourism," says Mr. Sawiris. "There is nothing to stop Egypt from being a successful tourist destination for everybody."



JOLIE VILLE

DISPLAYING ANCIENT TREASURES

A dozen major museums are being built in Egypt to display the ancient treasures that make up the country's unique cultural heritage.

The work is taking place under the supervision of the Supreme Council of Antiquities, which oversees the preservation and renovation of the ancient monuments.

With hundreds of archeological expeditions working in Egypt, the council, which preserves and protects the ancient monuments, has recently introduced new rules for fieldwork.

Zahi Hawass, the council's

Secretary General, believes that much of the legacy of Egypt's past is yet to be found. "I believe we have only discovered about 30% of it, and that 70% is still buried beneath the ground."



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PROFIT AND RESPONSIBILITY

Easy access to drinking water is an essential requirement for tourism development. Providing water to Sharm El Sheikh, one of the most successful tourist resorts on the Sinai peninsula, is the South Sinai Water Company (SSWC), the largest privately-owned desalination plant in Egypt.

SSWC is part of the HKS Group, a leading private sector investment company. Over the last 25 years, the group's activities have ranged from oil and gas, power generation, and construction, to tourism and infrastructure.

As the owner of the Jolie Ville Hotel chain, HKS is a major player in the tourism and travel industry, which it now regards as its core business. Recently, the group established the first private sector duty free company, Sharm El Sheikh Duty Free Shops, occupying retail outlets in Sharm El Sheikh International Airport.

"We have also opened a new business center for conference tourism in Naama Bay in Sharm El Sheikh, which can accommodate up to 1000 visi-



Protecting the environment is an important aspect of HKS Group projects

tors," says HKS Chairman Hussein K. Salem.

Environmental concerns are high on the HKS Group's list of priorities. Its SSWC plant uses the environmentally-friendly reverse osmosis process, and the MIDOR Electricity

Company (MidElec), which HKS established to provide electricity to the oil refineries in Alexandria, owns a state-of-the-art gas turbine power plant.

Mr. Salem says the private sector today is gradually leading the Egyptian economy, and that brings responsibilities. "There are social duties that we have to undertake," he declares. "We have to participate in areas such as education, infrastructure development, and charities."

HKS is committed to supporting the communities in which it operates, providing funds for humanitarian organizations, and development and infrastructure programs.

Mr. Salem describes Egypt as a safe and stable place for foreign investors and says the Egyptian private sector is ready to provide help and support. "The market here is very big and there is plenty of demand."

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Building a stronger petrochemicals sector



The Egyptian Petrochemical Holding Company (ECHEM) was founded by the Ministry of Petroleum to help Egypt's petrochemical industry reach new heights, whilst maximizing the utilization of the country's abundant natural gas resources. Building on cutting edge technology, the company is highly focused on encouraging and supporting local and international investors in this profitable industry. And with \$2 billion already consolidated it's clear that interested parties are in no doubt as to the advantages of these and other ECHEM projects.

Improvement and expansion are two goals that the Alexandria Mineral Oils Co. (AMOC) has no trouble meeting. With two flourishing projects currently underway, the production of various mineral oils has been increased by 110,000 tons per year, paraffin wax by 32,000 tons per year, and paraffin for use in vehicle tires by 102,000 tons per year. The already noteworthy production of various gas oils, including naphtha, LPG, and paraffin wax, is also set to rise by up to 460,000 tons annually.

Sidi Kerir Petrochemical Co. (SIDPEC) is a company founded to manage and develop the plentiful local natural gas reserves and to promote the prosperous petrochemicals development industry in Egypt. The company is currently producing 225,000 tons per year of linear low density polyethylene (LLDPE) and the equivalent high density product (HDPE), adding another facet to Egypt's wide-ranging petrochemicals success.



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