

Translation

Al Ezz Steel Rebars Company
(An Egyptian Joint Stock Company)
Consolidated Financial Statements
as of 31 December 2004
And Auditor's Report

Translation

Auditor's Report **To The Shareholders of AL EZZ STEEL REBARS Company**

We have audited the consolidated Financial statements of AL EZZ STEEL REBARS company representing the consolidated balance sheet as of 31 December 2004, and the related consolidated Statements of Income, and Cash Flows, and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of AL EZZ Steel Mills company – the subsidiary –, which statements reflect total assets constituting 8 % and total revenues constituting 11 % of the related consolidated totals. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for AL EZZ Steel Mills company is based solely on the report of the other auditor.

We conducted our audit in accordance with Egyptian Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We have obtained from management the information and explanation, which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the financial position of the company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

The company keeps proper accounting records which include all that is required by law and the statutes of the company, and the financial statements are in agreement therewith. The company also maintains proper cost accounting sheets that meet the purposes thereof. The inventory count was performed by the Company's management in accordance with methods in practice.

The financial information contained in the report of the Board of Directors as required by the companies' Law No. 159 of 1981 is in agreement with the Company's accounting records within the limit that such information is recorded therein.

(KPMG Hazem Hassan)

Cairo, 24 March 2005

Al Ezz Steel Rebars Company
(An Egyptian Joint Stock Company)
Consolidated balance sheet
As of 31 December 2004

	<u>Notes</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>No.</u>	<u>LE</u>	<u>LE</u>
<u>Long Term Assets</u>			
Fixed assets (net)	(3)	976 893 028	1 042 762 959
Projects in progress	(4)	743 189	4 158 867
Investments	(5)	800 199 533	645 255 734
Other long term assets (net)	(6)	-	311 749
Total long term assets		1 777 835 750	1 692 489 309
<u>Current Assets</u>			
Inventory	(7)	150 701 180	105 630 901
Accounts and notes receivable (net)	(8)	93 211 694	196 828 934
Suppliers - debit balances (net)	(9)	96 784 283	97 296 973
Related companies - debit balances	(10)	28 009 042	24 239 551
Debtors and other debit balances (net)	(11)	26 831 707	24 871 967
Cash at banks and on hand	(12)	78 323 794	59 851 103
Total current assets		473 861 700	508 719 429
<u>Current Liabilities</u>			
Banks - credit balances	(13)	206 447 303	303 358 190
Customers - credit balances		92 212 404	75 250 600
Suppliers and notes payable	(14)	125 137 800	108 135 465
Related companies - credit balances		65 114	-
Creditors and other credit balances	(15)	64 526 342	61 782 552
Shareholders' equity - current account		39 112	28 392
Loan installments due within one year	(17)	132 739 106	107 585 199
Total current liabilities		621 167 181	656 140 398
Working capital (deficit)		(147 305 481)	(147 420 969)
Total investment		1 630 530 269	1 545 068 340
financed as follows:			
<u>Shareholders' Equity</u>			
Paid in capital	(16)	430 000 000	430 000 000
Legal reserve		8 575 203	8 575 203
Losses carried over		(155 256 689)	(101 011 224)
Total shareholders' equity		283 318 514	337 563 979
Less: Treasury stocks	(20)	(35 883 741)	(41 377 539)
Net shareholders' equity		247 434 773	296 186 440
Net profit/(loss) for the year		200 448 051	(51 213 291)
Net shareholders' equity including net profit/(loss) for the year		447 882 824	244 973 149
Minority interest		479 678	183 585
<u>Long Term Liabilities</u>			
Long term loans	(17)	968 603 018	1 077 698 114
Bonds loan	(18)	206 149 843	207 903 060
Other long term liabilities	(19)	7 414 906	14 310 432
Total long term liabilities		1 182 167 767	1 299 911 606
Total shareholders' equity and long term liabilities		1 630 530 269	1 545 068 340

The accompanying notes from No. (1) to No. (28) are an integral part of these financial statements and should be read therewith.

Chairman

Eng. Ahmed Abdel Aziz Ezz

Auditor's Report "Attached"

(KPMG Hazem Hassan)

Al Ezz Steel Rebars Company
(An Egyptian Joint Stock Company)
Consolidated Income Statement
For the financial year ended 31 December 2004

	<u>Notes</u>	<u>31/12/2004</u>	<u>For the financial</u> <u>year ended</u> <u>31/12/2003</u>
	<u>No.</u>	<u>LE</u>	<u>LE</u>
Net sales		2 230 491 195	1 721 809 067
<u>Less :</u>			
Cost of sales		<u>1 985 120 360</u>	<u>1 534 386 340</u>
Gross profit		<u>245 370 835</u>	<u>187 422 727</u>
<u>Less :</u>			
General and administrative expenses		33 273 872	28 141 327
Administrative depreciation		1 843 641	2 442 198
Amortization of other long term assets		311 749	2 356 591
Provisions		<u>19 345 614</u>	<u>79 136</u>
Total expenses		<u>54 774 876</u>	<u>33 019 252</u>
Net operating profit		190 595 959	154 403 475
Foreign currency exchange differences (losses)		(47 127 504)	(113 286 122)
Banks interest and charges		(227 000 847)	(220 015 993)
Interest income		956 233	1 447 316
Other revenues		4 607 428	339 622
Investments sales revenue		9 538 376	29 800 000
Investments income	(5.6)	269 136 279	92 739 552
Capital gains		<u>38 220</u>	<u>225 766</u>
Net profit/(loss) for the year before minority interest		200 744 144	(54 346 384)
<u>(Less)/Add:</u>			
Minority interest		<u>(296 093)</u>	<u>3 133 093</u>
Net profit/(loss) for the year after minority interest		<u>200 448 051</u>	<u>(51 213 291)</u>
Profits /(losses) per share	(27)	<u>2.44</u>	<u>(0.62)</u>

The accompanying notes from No. (1) to No. (28) are an integral part of these financial statements and should be read therewith.

Al Ezz Steel Rebars Company
(An Egyptian Joint Stock Company)
Consolidated Cash Flows Statement
For the financial year ended 31 December 2004

	<u>Notes</u>	<u>31/12/2004</u>	<u>For the financial</u> <u>year ended</u> <u>31/12/2003</u>
	<u>No.</u>	<u>LE</u>	<u>LE</u>
<u>Cash Flows From Operating Activities :-</u>			
Net profit/(loss) for the year		200 448 051	(51 213 291)
<u>Adjustments to reconcile net profit/(loss) to net cash provided by operating activities</u>			
<u>Adjustments of non cash items</u>			
Depreciation of fixed assets		70 639 335	72 617 236
Amortization of other assets		311 749	2 356 591
Provisions	(21)	19 345 614	79 136
Used from provisions		-	(1 179 136)
Impairment of fixed assets		4 061 903	-
Investments sales revenue	(26)	(9 538 376)	(29 800 000)
Capital gains		(38 220)	(225 766)
Investments income		(269 136 279)	(92 739 552)
Changes in minority interest		296 093	(3 133 093)
Amortization of bonds issuance discount		370 523	8 937 349
Foreign currency exchange differences		(3 910 116)	22 982 846
		<u>12 850 277</u>	<u>(71 317 680)</u>
<u>Changes in working capital</u>			
(Increase) in inventory		(45 070 279)	(15 162 165)
Decrease/(increase) in accounts and notes receivable		86 924 976	(8 531 024)
(Increase) in suppliers - debit balances		(2 140 660)	(8 825 880)
Decrease/(increase) in related companies - debit balances		8 230 509	(18 230 177)
(Increase) in debtors and other debit balances		(1 959 740)	(371 168)
Increase in customers-credit balances		16 961 804	50 425 845
Increase/(decrease) in suppliers and notes payable		17 002 335	(16 756 050)
Increase/(decrease) in related companies - credit balances		65 114	(4 167 986)
Increase in creditors and other credit balances		3 599 444	13 707 023
Increase/(decrease) in shareholders' equity - current account		10 720	(86 099)
Net cash provided by/(used in) operating activities		<u>96 474 500</u>	<u>(79 315 361)</u>
<u>Cash Flows from Investing Activities</u>			
Purchase of fixed assets and projects in progress		(5 359 007)	(7 713 103)
Proceeds from Investments		114 192 480	-
Proceeds from selling of investments		-	239 800 000
Payments for purchasing - investments		-	(14 431 000)
Proceeds from selling of fixed assets		38 220	249 944
Payments for fixed assets suppliers		(367 918)	(93 462)
Payments of sales tax installments on machinery and equipments		(7 412 236)	(6 985 878)
Net cash provided by investing activities		<u>101 091 539</u>	<u>210 826 501</u>
<u>Cash Flows from Financing Activities</u>			
(Decrease)/increase in banks - credit balances		(96 910 887)	30 785 273
Payments of loans		(81 668 175)	-
Increase in loans		-	110 461 613
Payments for bondholders		(514 286)	(244 401 388)
Net cash (used in) financing activities		<u>(179 093 348)</u>	<u>(103 154 502)</u>
Net increase in cash and cash equivalents		18 472 691	28 356 638
Cash and cash equivalents at the beginning of the year		<u>59 851 103</u>	<u>31 494 465</u>
Cash and cash equivalents at the end of the year		<u>78 323 794</u>	<u>59 851 103</u>

The accompanying notes from No. (1) to No. (28) are an integral part of these financial statements and should be read therewith.

Translation

Al Ezz Steel Rebars Company

(An Egyptian Joint Stock Company)

Consolidated Statement Of Changes In Shareholders' Equity

For the financial year ended 31 December 2004

	<u>Share</u>	<u>Legal</u>	<u>Retained</u>	<u>Treasury</u>	<u>Net profit/</u>	
	<u>Capital</u>	<u>Reserve</u>	<u>(Losses)/</u>	<u>Stocks</u>	<u>(loss) for the</u>	<u>Total</u>
			<u>Earnings</u>		<u>Year</u>	
<u>Notes</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
<u>No.</u>						
Balance as of 31 December 2002	430 000 000	8 575 203	64 463 723	(41 377 539)	(124 918 363)	336 743 024
Adjusting retained earnings balance by the company's share in the losses of Alexandria National Steel Company (El Dekhela)	-	-	(40 556 584)	-	-	(40 556 584)
	430 000 000	8 575 203	23 907 139	(41 377 539)	(124 918 363)	296 186 440
Decreasing retained earnings by net (loss) of 2002	-	-	(124 918 363)	-	124 918 363	-
Net (loss) for the year	-	-	-	-	(51 213 291)	(51 213 291)
Balance as of 31 December 2003	430 000 000	8 575 203	(101 011 224)	(41 377 539)	(51 213 291)	244 973 149
Adjusting retained (losses) by net (loss) of 2003	-	-	(51 213 291)	-	51 213 291	-
Treasury stocks sold	(20)	-	(3 032 174)	5 493 798	-	2 461 624
Net profit for the year	-	-	-	-	200 448 051	200 448 051
Balance as of 31 December 2004	430 000 000	8 575 203	(155 256 689)	(35 883 741)	200 448 051	447 882 824

The accompanying notes from No. (1) to No. (28) are an integral part of these financial statements and should be read therewith.

Al Ezz Steel Rebars Company
(An Egyptian Joint Stock Company)
Notes To The Consolidated Financial Statements
31 December 2004

1. Background

- Al Ezz Steel Rebars company, an Egyptian Joint Stock Company, was established under the provisions of Law No. 159 of 1981, and was registered in the Commercial Register in Menof - Menofia Governorate, under No. 472 on 2 April 1994. The Company's factory is located in Sadat City. The preliminary establishment contract and the Company's statute were published in the Companies' Gazette, issue No. 231 of April 1994.
- The Company is established for the purpose of manufacturing, trading, distributing building materials, manufacturing steel, manufacturing ceramics, sanitary ware, pipes, water mixers and taps, as well as performing related contracting works and all necessary services required for the preparation and transportation for the company and for others. The company also engages in the importation of raw material, machinery & equipment, spare parts, which are required for the Company's purpose. Moreover, the company can perform importing, exporting and commercial agency activities within the scope of its purpose.
- The fiscal year begins on January 1st and ends on December 31st of each year.

2. Significant accounting policies applied

- The consolidated financial statements are prepared in accordance with the Egyptian Accounting Standards under the historical cost convention, and it includes the financial data of the subsidiary Company Al Ezz Steel Mills Company
- Al Ezz Steel Mills Company, an Egyptian Joint Stock company was established on 10 March 1986 under Law No. 43 of 1974, -which was amended by Law No. 230 of 1989- and Law No. 95 of 1992. The company was registered in the Commercial Register in Giza under No. 77038 on 28 November 1987. The purpose of the company is to manufacture steel structure, rolls and bars.

Translation

Significant accounting policies applied: -

2.1 Basis of Consolidation.

- All inter company balances and transactions are eliminated.
- Minority interest in Al Ezz Steel Mills Company (9.27%) represents the ownership interest other than the shareholders' interest that rests with Al Ezz Steel Rebars Company.
- The difference between the acquisition cost of buying the shares of Al Ezz Steel Mills Company by Al Ezz Steel Rebars Company and the book value of these shares, which amounts to LE 955 912 is disclosed in Accounts receivable write down item, which the mother company found it important to be formed at purchase.
- The effect of the capitalization of foreign currency exchange differences was eliminated from the financial statements of Al Ezz Steel Mills company for the purpose of preparing consolidated financial statements as shown in note no. (3-2-b).

2.2 Foreign currency translation

- The company maintains its books in Egyptian pounds. Transactions denominated in foreign currencies are recorded at the official exchange rates at the date of transaction. Balances of monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the official exchange rates at that date. Foreign currency exchange differences are charged to the income statement.
- Because of the severe devaluation of the Egyptian pound against the other foreign currencies. The company has applied the alternative allowable treatment according to paragraph (20) and (47) of the Egyptian Accounting Standard No. (13) which allows to capitalize foreign currency losses resulting from a recent acquisition of an asset in foreign currency. Accordingly the company capitalized foreign exchange differences which amounts to LE 308.4 million during the years 2000 to 2003 which represents revaluation differences of the liabilities granted in foreign currencies on fixed assets with remaining useful life greater than 50% of the estimated useful life and which is financed using these liabilities.

2.3 Impairment of assets

- The carrying amounts of the company's assets, (other than inventories), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, necessary research is conducted to estimate the asset's recoverable amount. An impairment loss is recognized whenever the carrying amount of an asset or its cash- generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Translation

2.4 Fixed Assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses – if any.

Depreciation of these assets is computed using the straight-line method over the estimated useful life of each category of these assets, as follows:

	Al Ezz Steel	Al Ezz Steel
	<u>Rebars</u>	<u>Mills</u>
	<u>Years</u>	<u>Years</u>
- Buildings and constructions	40	40
- Other buildings	8	-
- Central air conditioning and fixtures	8	-
*- Machinery and equipment	5-20	20
- Vehicles	4-5	5
- Furniture and office equipment	3-8	10
- Tools and appliances	5	5
*- Rolling rings	Actual use	5.5
- Leasehold improvements	According to lease period	7

* According to the board of directors resolution of Al Ezz Steel Mills company on 11 June 2002, the depreciation of machinery and equipment and rolling rings was modified to be weighted based on the actual shifts starting January 2002.

2.5 Valuation of investments

2.5.1 Investments in Associates

A - Investments recorded using the equity method

Investments in which the company's interest exceeds 20%, and has significant influence over the investee's financial policies are recorded using the equity method.

The increase in the investment acquisition cost over its net book value is amortized over five years. This increase is charged to the cost of investment.

B- Investments recorded using the cost method

Investments in other companies in which the company does not have significant influence, are recorded at acquisition cost. If the redeemable value falls below its book value, the book value of such an investment is reduced by the value of the decline and is charged to the income statement.

2.5.2 Investments available for sale

Due to the fact that the share capital of the investees is not actively traded in the Egyptian Stock Exchange market, there is no reliable basis to determine the fair value of the company's investment in these investees at the balance sheet date. Accordingly, the company's investment in the share capital of these investees is recorded at acquisition cost unless the fair value can be reasonably estimated by alternative methods. However, if the redeemable value of such investments falls below its book value, the book value of such an investment is reduced by the value of the decline and is charged to the income statement.

2.6 Other long term Assets

2.6.1 Al Ezz Steel Mills

- Costs resulting from transferring the Mourabha (a loan in accordance with Islamic Sharia Law) to an ordinary loan is amortized over the duration of the loan.
- Deferred expenditures are amortized over a period of three to five years.

2.7 Inventory

Inventory is valued at the lower of cost or net recoverable value and the cost is determined as follows:

2.7.1 Al Ezz Steel Rebars

- Inventory of raw materials is valued at its cost using the first in first out method .
- Spare parts, materials, and supplies are valued at cost, using the moving average method .
- Finished products according to the cost sheets.
- Work in process (Billet) according to the cost sheets.

2.7.2 Al Ezz Steel Mills

- Raw materials, spare parts and supplies are valued at its cost, using the moving average method.
- Finished products are valued at cost according to the cost sheets.

2.8 Borrowing costs

Borrowing costs that are incurred to finance the acquisition of fixed assets are capitalized during the installation period and until the asset is ready for economic use.

2.9 Revenue recognition

Revenue is recognized when the client receives goods together with its related risks and benefits and there are no significant uncertainties regarding the collection of the value.

Revenue of sales is recorded as follows:-

Local sales

When goods are delivered to clients according to contract conditions.

Export sales

When goods are shipped to the related customer.

2.10 Deferred Tax

Due to the nature of Egyptian tax laws and legislation, applying the principles of deferred taxes according to the Accounting Standard “taxes on income”, will not usually result in material deferred tax liabilities. However, if this application results in a deferred tax assets, it will be recognized in the financial statements whenever there is sufficient comfort that these assets will be realized in the foreseeable future.

2.11 Cash Flows Statement

The statement of cash flows is prepared using the indirect method, for the purpose of preparing the cash flows statement, the company identifies time deposits, cheques under collection, letters of credit cash margins, and letters of guarantee cash margins, as cash equivalent.

2.12 Bonds Loan

Bonds loan related to Al Ezz Steel Rebars company is recorded at the face value of the bonds after deducting the unamortized discount using the straight line method over the life of the bonds.

3. Fixed assets

Description	<u>Land</u>	<u>Buildings & Constructions</u>	<u>Machinery & Equipments</u>	<u>Vehicles</u>	<u>Furniture & Office Equipments</u>	<u>Tools & appliances</u>	<u>Leasehold Improvements</u>	<u>Total</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
	Cost as of 1 January 2004	26 886 190	178 254 543	1 227 686 890	7 997 877	21 752 291	3 717 051	6 876 214
Additions during the year	-	2 120 000	4 936 894	12 924	909 033	852 456	-	8 831 307
Disposals during the year	-	-	-	217 750	-	-	-	217 750
Impairment of fixed assets	-	-	6 791 723	-	-	-	-	6 791 723
Cost as of 31 December 2004	26 886 190	180 374 543	1 225 832 061	7 793 051	22 661 324	4 569 507	6 876 214	1 474 992 890
Accumulated depreciation as of January 1, 2004	-	28 781 518	372 376 029	7 509 838	15 339 991	2 991 933	3 408 788	430 408 097
Depreciation of the year	-	4 573 460	61 677 438	304 664	2 405 732	327 453	1 350 588	70 639 335
Accumulated depreciation of disposals	-	-	-	217 750	-	-	-	217 750
Accumulated depreciation of impaired fixed assets	-	-	2 729 820	-	-	-	-	2 729 820
Accumulated depreciation as of 31 December 2004	-	33 354 978	431 323 647	7 596 752	17 745 723	3 319 386	4 759 376	498 099 862
Net book value as of 31 December 2004	26 886 190	147 019 565	794 508 414	196 299	4 915 601	1 250 121	2 116 838	976 893 028
Net book value as of 31 December 2003	26 886 190	149 473 025	855 310 861	488 039	6 412 300	725 118	3 467 426	1 042 762 959

Translation

3.1 The company acquired its land by virtue of a temporary Handing Over Report. The procedures of registering the land in the company's name, according to the conditions of the new Urban Cities – Sadat, are still in progress.

3.2 Capitalization of foreign currency exchange differences

3-2-a Al Ezz Steel Rebars

The fixed assets include capitalized foreign exchange differences according to the alternative allowable treatment according to paragraph (20) and (47) of the Egyptian Accounting Standard No. (13) which allows to capitalize foreign currency losses resulting from a recent acquisition of an asset in foreign currency. Accordingly the company capitalized foreign currency exchange differences which amount to LE 308.4 million during the years 2000 to 2003 which represents revaluation differences of the liabilities granted in foreign currencies on fixed assets of remaining useful life greater than 50% of the estimated useful life and which is financed using these liabilities.

3-2-b Al Ezz Steel Mills

The effect of capitalization of foreign currency exchange differences was eliminated from the financial statements of Al Ezz Steel Mills Company for the purpose of preparing the consolidated financial statements as of 31 December 2004, due to the noncompliance with accounting policy applied for the capitalization of foreign currency exchange differences followed by Al Ezz Steel Mills company with the policy applied by Al Ezz Steel Rebars Company, as follows:-

	<u>Consolidated balance before elimination LE</u>	<u>Elimination of capitalized exchange differences effect LE</u>	<u>Consolidated balance after elimination LE</u>
<u>Balance sheet adjustments</u>			
- Fixed assets cost as of 31 December 2004	1 513 826 983	(38 834 093)	1 474 992 890
- Accumulated depreciation as of 31 December 2004	(504 592 178)	6 492 316	(498 099 862)
- Retained losses as of 31 December 2004	121 416 042	33 840 647	155 256 689
<u>Income statement adjustments</u>			
- Depreciation of fixed assets	72 138 205	(1 498 870)	70 639 335

3.3 Al Ezz Steel Mills

On 26 May 1997 Al Ezz Steel Mills Company purchased a wire mesh steel factory for LE six million in 10th of Ramadan City from the National Housing Company for Professional Union Societies, which agreed to pay any amounts that may be due to any authoritative bodies.

Translation

4. <u>Projects in progress</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Buildings under construction	743 189	2 863 189
- Tools and appliances	-	475 885
- Rolling rings	-	819 793
	<u>743 189</u>	<u>4 158 867</u>

5. **Investments**

	<u>No. of shares</u>	<u>Ownership %</u>	<u>31/12/2004 LE</u>	<u>31/12/2003 LE</u>
5.1. <u>Investments in associates</u>				
5.1.a <u>Investments recorded at cost:</u>				
- Al Ezz Flat Steel Mills Company	4 270 000	15.82	172 240 478	172 240 478
5.1.b <u>Investments recorded at equity:</u>				
- Alexandria National Steel Company (El Dekhela)	2 936 337	21.48	<u>627 892 355</u>	<u>472 948 556</u>
			800 132 833	645 189 034
5.2 <u>Investments available for sale</u>				
- The Egyptian company for cleaning and security services	667	25.65	<u>66 700</u>	<u>66 700</u>
Total investments			<u>800 199 533</u>	<u>645 255 734</u>

5.3 On 26 May 2003, four million shares owned by Al Ezz Steel Rebars in Al Ezz Flat Steel Mills Company were sold. Accordingly, the number of shares owned by the company became 4.270 million shares representing 15.82% as compared to 30.63% as of 31 December 2002 which required changing the policy of recording the investment from equity method to cost method during 2002.

The actual sale resulting in an earning on sale of the investment amounting to LE 29.800 million. The total value of selling the investment which is USD 40 million was used in the early retirement of bonds.

5.4 On 25 August 2003, the company cancelled the selling of 136 678 shares of Alexandria National Steel company (El Dekhela) shares to Al Ezz Holding company for industry and purchased 80 570 shares from Al Ezz Holding Company for Industry and Investments by virtue of a preliminary contract dated 25 August 2003. Accordingly, the total number of shares owned by the company in (EL Dekhela) capital as of 31 December 2003 became 2 936 337 shares representing 21.48% compared to 19.89% as of 31 December 2002. This required changing the policy of recording the investment from the cost method to the equity method during 2003.

During year 2004 the company received its shares in dividends distribution in Alexandria National Steel Company (El Dekhela) as follows:-

LE 29 363 370, representing the company's share in the profits of 2003.

LE 84 829 110, representing portion of its share in the profits of the period ended 30 June 2004.

And accordingly , the investment was reduced by the company's shares in the dividends distributed.

Translation

- 5.5 The company's share in the net equity of the non-traded companies in the securities exchange market is LE 294.446 million according to their latest financial statements, or data available . The total value of shares, which have exchange prices in the securities exchange market on 31 December 2004 is LE 1 417.399 million.
- 5.6 Applying the equity method for recording investments, as shown in note No. (5-1-b) above, the share of the company in the results of the investees is recognized in the investments balance, where it reached LE 269 136 279: -

Investments income

Alexandria National Steel Company (El Dekhela)

<u>Description</u>	<u>LE</u>
Revenues for the year	296 372 398
<u>Less:</u>	
Amortization of the increase in the investment acquisition value over its book value at the date of acquisition	(4 245 033)
<u>Less:</u>	
* The company's share in employee's share and board of directors bonuses	(22 991 086)
	<u>269 136 279</u>

- * According to the resolutions of the general assembly meetings and board of directors proposal of Alexandria National Steel company (El Dekhela), a profit share to the company's employees and for the board of directors bonuses was approved, which requires reducing the amount of investments by the company's share in these profit share and bonuses as follows: -

	<u>LE</u>
- Approving distribution of 2003 profits by virtue of the assembly meeting held on 18 September 2004	3 297 348
- Approving distribution of profits for the period ended 30 June 2004 by virtue of assembly meeting held on 12 December 2004.	9 231 273
- Approving distribution of profits for the period, ended 30 September 2004 by virtue of assembly meeting held on 3 March 2005.	5 121 120
- Proposed distribution according to the board of directors of the company for the profits of 2004	5 341 345
	<u>22 991 086</u>

6. **Other long term assets**

	<u>31/12/2004</u>
	<u>LE</u>
Net as of 1 January 2004	311 749
<u>Less :</u>	
Amortization of the year	311 749
Net as of 31 December 2004	<u>-</u>

	<u>Translation</u>	
7. <u>Inventory</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Raw materials	37 105 814	20 083 379
- Spare parts and supplies	79 099 186	61 460 245
- Work in process (billet)	2 411 359	6 340 390
- Finished products	30 751 676	2 335 799
- Goods in transit	1 333 145	15 411 088
	<u>150 701 180</u>	<u>105 630 901</u>
8. <u>Accounts and notes receivable</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Accounts receivable	70 809 865	74 540 249
- Notes receivable	59 877 937	143 072 529
	<u>130 687 802</u>	<u>217 612 778</u>
<u>Less</u>		
- Provision for accountant notes receivable	<u>(37 476 108)</u>	<u>(20 783 844)</u>
	<u>93 211 694</u>	<u>196 828 934</u>
9. <u>Suppliers – debit balances</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Suppliers – debit balances	101 050 962	98 910 302
<u>Less</u>		
- provision for suppliers – debit balances	<u>(4 266 679)</u>	<u>(1 613 329)</u>
	<u>96 784 283</u>	<u>97 296 973</u>
10. <u>Related companies – debit balances</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
<u>Holding company</u>		
- Al Ezz Holding Company for Industrial and Investments	22 842 090	17 321 743
<u>Affiliated and Associated companies</u>		
- Al Ezz Ceramics and Porcelain Company (El Gawhara)	4 610 605	3 440 053
- Al Ezz Flat Steel Company	556 347	3 285 629
- Alexandria National Steel Company (Al Dekhela)	-	192 126
	<u>28 009 042</u>	<u>24 239 551</u>

Translation

11. Debtors and other debit balances

	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Deposits with others	7 146 060	6 725 473
- Tax Authority	11 388 066	8 937 994
- Customs authority	321 429	2 037 859
- Prepaid expenses	1 214 343	3 120 662
- Customs authority (Drawback)	1 368 882	1 824 339
- Accrued revenue	2 942 106	92 870
- Employees advances	851 061	2 180 830
- Other debit balances	1 686 755	38 935
	<u>26 918 702</u>	<u>24 958 962</u>
<u>Less :</u>		
- Provision for debtors and other debit balances	(86 995)	(86 995)
	<u>26 831 707</u>	<u>24 871 967</u>

12. Cash at banks and on hand

	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Banks – current accounts	41 018 992	3 760 132
- Deposits	1 975 000	8 069 419
- Cheques under collection	28 888 247	21 184 441
- Letters of credit cash margins	2 573 415	22 919 757
- Letters of guarantee cash margins	1 233 637	2 935 252
- Cash on hand	2 634 503	982 102
	<u>78 323 794</u>	<u>59 851 103</u>

13. Banks - credit balances

This item represents the amount of credit facilities – banks overdraft – obtained by the company from a group of local banks in Egyptian Pounds and US dollars to finance the operations and the working capital. The average interest rate on Egyptian Pound credit facilities for the financial year ended 31 December 2004 was 15.67 % and for the US dollars credit facilities was 5.69 %.

These facilities are granted against second degree commercial mortgage on all the tangible and intangible assets, as well as, a second degree real estate mortgage on the plant land and buildings.

14. Suppliers and notes payable

	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Suppliers	51 890 627	73 714 496
- Notes payable	73 247 173	34 420 969
	<u>125 137 800</u>	<u>108 135 465</u>

Translation

15. Creditors and other credit balances

	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Fixed assets suppliers	11 163 352	11 502 296
- Accrued interest	5 909 434	1 871 611
- Accrued expenses	3 626 985	4 090 028
- Accrued Insurance	199 355	851 620
- Retention	138 769	138 769
- Dividends payable (board of directors and employees)	1 107 083	1 107 083
- Sundry creditors	35 285 810	34 608 881
- Dividends payable	660 705	660 705
- Sales tax installments (note 19)	6 434 849	6 951 559
	<u>64 526 342</u>	<u>61 782 552</u>

16. Share - capital

16.1 Al Ezz Steel Rebars

The company's authorized capital amounts to LE two billion. The issued and paid in capital amounts to LE 430 million divided into 86 million shares each of par value of LE five paid in cash.

16.2 Al Ezz Steel Mills

The company's authorized capital amounts to LE 70 million, the issued and paid in capital amounts to LE 70 million, divided into seven million shares each of par value of LE 10 or its equivalent in foreign currency.

17. Long term loans

17.1 Al Ezz Steel Rebars

The company was granted loans from a number of local banks in order to finance part of the importing cost of machinery, equipment, and the construction work on the production lines in addition to financing part of its investment. The balance of the loans as of 31 December 2004 amounts to LE 959 114 382 including an amount of LE 231 466 409 representing loans granted in US Dollars equivalent to USD 37 929 768.

Payment is due over 30 quarterly installments starting 31 March 2004 until 30 June 2011 with an interest rate of 12% for loans in Egyptian pounds, and 1% over the lending interest rate of the National bank of Egypt in foreign currency for loans in US dollars. These loans are secured by a real estate mortgage on the company's land and buildings as well as a commercial pledge on all tangible and intangible assets, in addition to a possession pledge on securities owned by the company.

Total installments due until 31 December 2005 (short term) amounts to LE 115 659 009 classified as short term liabilities in the balance sheet.

Translation

17.2 Al Ezz Steel Mills

The total amount of loans at 31 December 2004 is LE 142 227 742, including an amount of LE 78 442 731 representing loan in USD, equivalent to USD 12 859 464.

On 26 May 2003, the company signed an agreement with the lending bank for rescheduling the loans where payment is due over 30 quarterly installments starting from 31 March 2004 until 30 June 2011 where the interest rate for loans in Egyptian pounds is 12% and 1% over the lending interest rate of the National Bank of Egypt in foreign currency for loans in US Dollars. These loans are guaranteed by a first degree mortgage on the land, buildings, machinery and equipments in favor of the bank.

The installments due till 31 December 2005 (short term) amounts to LE 17 080 097 are classified as current liabilities in the balance sheet.

17.3 Loans can be summarized as follows:

	<u>Long term loans</u>	<u>Installments due within one year</u>
	<u>LE</u>	<u>LE</u>
- Al Ezz Steel Rebars	843 455 373	115 659 009
- Al Ezz Steel Mills	125 147 645	17 080 097
	<u>968 603 018</u>	<u>132 739 106</u>

18. Bonds loan

The Extraordinary General Assembly Meeting held on 11 November 1999 decided to issue convertible bonds with a maturity period of four years, and having second priority for repayment after the medium and long term loans, amounting to USD 86.017 million of which USD 59 million were underwritten in a non public offering and the rest through a public offering. These bonds were issued at a face value of USD 1,000 each, and issued at a discount of 9.025%, in addition to bond issuance cost of USD 0.25 per bond, at an annual variable interest rate of 2.9% over libor (for three months) payable every three months.

The company is obligated at the end of the second year from the closing date for the bonds' subscription to open sinking fund account in favor of the bondholders, where amounts in US dollars are deposited.

On 1 June 2003 the bondholders assembly resolved the following:-

- *1- The early retirement of bonds amounting to USD 40 million at the due date of coupon no. (15) on 12 October 2003.
- *2- The maturity date of the remaining bonds amounting to USD 34.136 million – after the early retirement – is 31 December 2006.
- 3- Canceling the condition of forming the sinking fund account for the remaining bonds.
- 4- The rest of the bonds issuance conditions remain without amendment.

Translation

- * The early retirement of bonds includes USD 179 000, the value of 179 bonds in favor of Al Ezz Steel Mills Company. The remaining bonds include USD 152 000, the value of 152 bonds in favor of Al Ezz Steel Mills Company, and for the purpose of the consolidation, this transaction was eliminated.

In addition, the company settled 84 bonds with total amount of USD 84 000 during the financial year ended 31 December 2004. These bonds represent the rounding up of the amount paid for the early retirement.

Accordingly the number of bonds (after excluding the bonds of Al Ezz Steel Mills Company) outstanding as of 31 December 2004 amounts to 33 900 bonds with a total value of USD 33 900 million.

The balance of the bonds loan outstanding at 31 December 2004 comprises the following:

	<u>LE</u>
- Bonds par value	206 874 750
<u>Less</u>	
- Unamortized bond discount	(724 907)
Net book value	<u><u>206 149 843</u></u>

19. Other long term liabilities

19.1 Al Ezz Steel Rebars

This item represents the value of the sales tax due on factory machinery and equipment, which will be settled over ten years including a grace period of three years starting from the date of custom release. The amount due will be repaid on seven equal annual installments after the grace period. Installments due up to 31 December 2005 (short term) amounts to LE 6 378 172, were included in the creditors and other credit balances item in the balance sheet (Note 15).

19.2 Al Ezz Steel Mills

This item represents the value of the sales tax due on imported machinery and equipment, which will be settled over ten years including a grace period of three years starting from the date of custom release. The amount due will be repaid on seven equal annual installments after the grace period. Installments due up to 31 December 2005 (short term) amounts to LE 56 677 were included in the creditors and other credit balances item in the balance sheet (Note 15).

19-3 Other liabilities are summarized as follows:

	<u>Long term</u> <u>liabilities</u>	<u>Short term</u> <u>liabilities</u>
	<u>LE</u>	<u>LE</u>
- Al Ezz Steel Rebars	7 076 644	6 378 172
- Al Ezz Steel Mills	338 262	56 677
	<u><u>7 414 906</u></u>	<u><u>6 434 849</u></u>

Translation

20. Treasury Stocks

According to the Board of Directors resolution dated 25 October 1999, the company purchased 3 765 841 shares of its stock from the Securities Exchange Market in Cairo and London. The cost of the purchased shares amounted to LE 41 377 539.

The company contracted to sell these shares to Al Ezz Steel Company (subsidiary Company) on 19 December 2000 for an amount of LE 18 540 171. The deal was executed on 31 January 2001 resulting in a loss of LE 22 837 368 which is deducted from the legal reserve then the retained earnings.

On 20 December 2004, it was agreed to sell 500 000 shares from the above mentioned shares from Al Ezz Steel Mills to Al Ezz Holding Company for Industry and Investment with a total amount of LE 12 million resulting in a gain of LE 9 538 376 by virtue of a preliminary contract. It is not registered in the securities exchange market up till today; accordingly:

- The number of shares owned by Al Ezz Steel Mills Company in Al Ezz Steel Rebars Company on 31 December 2004 3 265 841 shares
- The cost of the shares on 31 December 2004 LE 35 883 741

Accordingly, the losses carried over have been adjusted by the amount of the loss on the sold shares that have been previously charged to it with an amount of LE 3 032 174.

For the purpose of the consolidation this transaction was eliminated.

21. Provisions

	<u>Provision for accounts and notes receivable</u>	<u>Provision for suppliers debit balances</u>	<u>Provision for debtors and other debit balances</u>	<u>Total</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Provision as of 1 January 2004	20 783 844	1 613 329	86 995	22 484 168
<u>Add:</u>				
Provision formed during the year	16 692 264	2 653 350	-	19 345 614
Provisions as of 31 December 2004	37 476 108	4 266 679	86 995	41 829 782

22. Related parties transaction

In order to achieve Al Ezz group's objectives, the company deals with some of the group companies by paying and collecting some amounts on behalf of the group companies, settling some amounts due to or from other group companies in addition to supplying finished goods to some of the group companies. The outstanding balances resulted from such transactions are presented in the following: -

Related companies – debit balances (note 10)	<u>LE</u> 28 009 042
Accounts receivable – related companies – debit balances	11 508 449
Related companies – credit balances	65 114

23. Contingent liabilities

Letters of guarantee issued by banks on behalf of the company in favor of others as of 31 December 2004 amounted to LE 3 148 643 with a cash margin of LE 1 233 637

24. Financial instruments and risk management

24.1 The company's financial instruments are represented in financial assets and financial liabilities. The financial assets include cash balances, investments, current accounts, accounts receivable, and some debtors and other debit balances. Financial liabilities include banks- credit balances, loans, bonds loan, suppliers and some creditors and other credit balances.

The significant accounting policies applied for the recognition and measurement of major financial instruments and the related income and expenses are disclosed in note (2) in the financial statements.

24.2 Credit risk

Credit risk is represented in the inability of credit clients to pay their dues. To mitigate that risk the company distributes the credit granted to the private sector companies on a large number of clients with strong and stable financial positions. The company also obtains collaterals from clients such as deferred cheques and, Letters of guarantee to minimize the credit risk.

24.3 Interest rate risk

The company depends in financing its working capital on banks overdraft at fixed interest rates, and in financing its investments on long term loans, some loans and bank facilities granted in Dollars and also bonds loan at a variable interest rate.

24.4 Foreign currency risk

The foreign currency exchange risk represents the risk of fluctuation in exchange rates which in turn effects the companies cash inflows and outflows as well as the value of its foreign currency assets and liabilities . As at the date of the balance sheet the company has foreign currency assets and liabilities equivalent to LE 80 950 641 and LE 575 387 567 respectively.

The companies net exposure in foreign currencies are as follows:

	<u>(Short)</u>
US Dollars	(76 592 689)
Euro	(949 644)
Sterling pound	(52 407)
Swiss frank	(2 435)

As shown in note (2-2) "Foreign currency translation", the assets and liabilities balances, in foreign currency, were valuated using the prevailing exchange rate at the balance sheet date.

24.5 Fair value

The book value of the financial assets and liabilities referred to in(24-1), are not significantly different from their fair value except for the investments, its fair value – after paying the total value of investments - in the light of the stock exchange prices and the latest available financial reports for companies not registered in the stock exchange market amounts to LE 1 711 845 million as disclosed in details in note (5-5) accompanying to the financial statements.

25. Taxation

25.1 Al Ezz Steel Rebars

Corporate tax

The company's profits are subject to corporate income tax according to the tax law No.157 of 1981 (as amended). Since the company has established its factory in Sadat City (one of the new urban communities) and according to the provisions of Law No. 59 for 1979 related to development of the new urban communities, the company enjoys a tax exemption for a period of ten years beginning from 1 January 1997 ending 31 December 2006.

Sales tax

- The company's products are subject to a 5% sales tax and the company submits sales tax returns on a timely basis, and the tax authority inspects the company's books regularly and there are no tax disputes or outstanding dues until 31 December 2003.

Payroll tax

- The company pays the due tax which is subtracted from the employees regularly according to the legal period.

- The tax authority inspected the company's books until 31 December 2002 and there are no amounts due on the company for this period.

Stamp tax

- The tax authority inspected the company and settlement was made until 31 December 2003.

25.2 Al Ezz Steel Mills

Corporate tax

The company's profits are subject to corporate income tax. Since the company has established its factory in the 10th of Ramadan City, the company enjoys a tax exemption until 31 December 1999. The tax authority inspected the company's books until 1998 only. A tax inspection is taking place for the years 1999 till 2002.

Translation

Sales tax

The company submits sales tax returns on a timely basis. The tax authority inspected the company's books until 2002, and there are no tax disputes or outstanding dues.

Payroll tax

The tax authority inspected the company's books until 2002. No tax inspection took place for the years 2003 and 2004.

Stamp tax

The tax authority inspected the company's books until 2001 and no inspection took place for the years 2002 to 2004.

26. Cash flows statement

The effect of the value of selling the shares of Al Ezz Steel Rebars Company owned by Al Ezz Steel Mills Company amounting to LE 12 million was eliminated from the adjustments of non cash items (in the cash flows statement), as it represents non cash transaction and was settled against the balance of related companies – debit balances.

27. Profits/(Losses) per share

	<u>31/12/2004</u>	<u>31/12/2003</u>
	<u>LE</u>	<u>LE</u>
- Net profits/(losses) for the year	200 448 051	(51 213 291)
<u>Divided by:</u>		
- Weighted average number of shares	82 275 825	82 234 159
Profits/(losses) per share	<u>2.44</u>	<u>(0.62)</u>

28. Comparative figures

Some of the comparative figures are reclassified to match the presentation of the financial statements for the current year.