

Al Ezz Dekheila Steel Company – Alexandria
(An Egyptian Joint Stock Company)
Financial Statements for the Financial Year Ended
31 December 2006 and Auditors' Report

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**ALLIED FOR ACCOUNTING
AND AUDITING E & Y**

**KPMG HAZEM HASSAN
PUBLIC ACCOUNTANTS
& CONSULTANTS**

AUDITORS' REPORT

To The Shareholders of Al Ezz Dekheila Steel Company - Alexandria

We have audited the accompanying Balance Sheet of Al Ezz Dekheila Steel Company – Alexandria (S.A.E) as of December 31, 2006 and the related statements of income, changes in the equity and cash flows for the year then ended. These 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 conducted our audit in accordance with Egyptian Standards on Auditing and in the light of provisions of applicable Egyptian laws and regulations. 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 a 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 statement presentation. We have obtained the information and explanations, which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the 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 December 31, 2006 and the results of its operations and its statement of changes in the equity and cash flows for the financial year then ended, in accordance with Egyptian Accounting Standards and in compliance 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 accompanying financial statements are in agreement therewith. The company also maintains cost accounting records that meet the purposes thereof and the inventories count was performed by the company's management in accordance with methods in practice

The financial information contained in the board of director's report prepared in conformity with law no. 159 for 1981 and its executive regulations are in agreement with the company's accounting records within the limit that such information is recorded therein.

AUDITORS'

**ALLIED FOR ACCOUNTING
AND AUDITING E & Y**

HAFEZ RAGHEB

KPMG HAZEM HASSAN

HAZEM HASSAN

Alexandria in February 27, 2007

Al Ezz Dekheila Steel Company – Alexandria
(An Egyptian Joint Stock Company)

Balance Sheet as at 31 December 2006

	Note	31 December	31 December
	No	2006	2005
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
Assets			
Non-current assets			
Property, plant & equipment	(3.2), (5)	6 043 820 020	6 432 945 894
Projects under construction	(3.3), (6)	13 484 719	18 498 363
Investments	(3.5), (7)	6 259 872	6 259 872
Receivable long term loans	(8)	8 141 585	8 931 936
Total non-current assets		<u>6 071 706 196</u>	<u>6 466 636 065</u>
Current assets			
Inventories	(3.6), (10)	1 367 272 342	1 481 061 638
Trade and other receivables	(3.7), (11)	564 204 161	546 433 993
Cash and cash equivalents	(3.8), (12)	522 807 662	1 031 355 468
Total current assets		<u>2 454 284 165</u>	<u>3 058 851 099</u>
Current liabilities			
Bank overdraft	(3.8), (13)	661 971 131	836 372 620
Loans and borrowings	(3.11), (14-3)	494 886 959	611 239 678
Trade and other payables	(3.12), (15)	983 744 760	1 036 882 573
Provisions	(3.13), (16)	208 294 272	244 832 951
Total current liabilities		<u>2 348 897 122</u>	<u>2 729 327 822</u>
Working capital		<u>105 387 043</u>	<u>329 523 277</u>
Total investment	C/F	<u>6 177 093 239</u>	<u>6 796 159 342</u>

Al Ezz Dekheila Steel Company – Alexandria
(An Egyptian Joint Stock Company)

Balance Sheet as at 31 December 2006

	Note	31 December 2006	31 December 2005
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
Total Investment	B/F	6 177 093 239	6 796 159 342
These investment are financed as follows:			
Equity			
Issued & paid in share capital	(18)	1 366 776 700	1 366 776 700
Reserves	(18)	913 657 751	680 231 055
Retained earnings		190 186 027	99 654 837
Profit for the year		2 007 504 686	2 375 899 747
		4 478 125 164	4 522 562 339
Less:			
Interim Dividends During The Year	(3.10), (19)	(1 272 742 466)	(1 150 825 982)
Equity		3 205 382 698	3 371 736 357
Non-current liabilities			
Loans and borrowings	(3.11), (14-1)	2 513 272 567	2 988 494 919
Lease agreement	(3.4), (14-2)	142 166 604	249 027 708
Deferred tax liabilities	(3.15iii), (9)	316 271 370	186 900 358
Total non-current liabilities		2 971 710 541	3 424 422 985
Total equity and non-current liabilities		6 177 093 239	6 796 159 342

- The notes on pages (9) to (38) are an integral part of these financial statements.

- Auditors' Report – attached

Auditors

Allied for Accounting
& Auditing E & Y

KPMG Hazem Hassan

Chairman &
Managing Director

Hafez Ragheb

Hazem Hassan

Eng./ Ahmed Ezz

Al Ezz Dekheila Steel Company – Alexandria
(An Egyptian Joint Stock Company)

Income statement for the Financial Year Ended 31 December 2006

	Note	31 December	31 December
		2006	2005
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
Revenue	(3.14i), (20)	8 102 236 443	7 897 633 004
Cost of sales	(21)	<u>(5 102 767 775)</u>	<u>(5 275 278 963)</u>
Gross profit		<u>2 999 468 668</u>	<u>2 622 354 041</u>
Other operating income	(22)	130 772 514	232 841 379
Selling and distribution expenses	(23)	(66 647 846)	(55 927 861)
Administrative expenses	(24)	(83 600 297)	(72 267 305)
Other operating expenses	(25)	<u>(82 065 200)</u>	<u>(125 836 499)</u>
Results from operating activities		<u>2 897 927 839</u>	<u>2 601 163 755</u>
Finance income	(3.14ii), (26)	37 957 798	435 956 586
Finance expenses	(3.15i), (27)	<u>(308 642 364)</u>	<u>(345 660 247)</u>
Net finance costs		<u>(270 684 566)</u>	<u>90 296 339</u>
Profit before income tax		<u>2 627 243 273</u>	<u>2 691 460 094</u>
Income tax expense	(28)	(619 738 587)	(315 560 347)
Profit for the year		<u>2 007 504 686</u>	<u>2 375 899 747</u>
Earnings per share (LE)	(3.16), (30)	<u>138.78</u>	<u>165.81</u>

- The notes on pages (9) to (38) are an integral part of these financial statements.

Al Ezz Dekheila Steel Company – Alexandria
(An Egyptian Joint Stock Company)

Statements of Changes in Shareholders' Equity for the Financial Year Ended 31 December 2006

	Note NO	Issued & Paid In Capital L.E	Reserves L.E	Retained Earnings L.E	Profit For The Year L.E	Total L.E
Balance as of December 31, 2004		1 366 776 700	580 231 055	73 558 950	1 379 524 515	3 400 091 220
Interim Dividends through 2004		--	--	--	(453 001 813)	(453 001 813)
Balance at 1 January 2005		1 366 776 700	580 231 055	73 558 950	926 522 702	2 947 089 407
Remaining Dividends of 2004		--	--	--	(800 426 815)	(800 426 815)
Transfer To Reserve		--	100 000 000	--	(100 000 000)	--
Transfer To Retained Earnings		--	--	26 095 887	(26 095 887)	--
Net Profit of The Year 2005		--	--	--	2 375 899 747	2 375 899 747
Balance at 31 December 2005		1 366 776 700	680 231 055	99 654 837	2 375 899 747	4 522 562 339
Interim Dividends During 2005		--	--	--	(1 150 825 982)	(1 150 825 982)
Net Balance At 31 December 2005		1 366 776 700	680 231 055	99 654 837	1 225 073 765	3 371 736 357
Remaining Dividends of 2005		--	--	--	(901 115 879)	(901 115 879)
Transfer To Reserves	(18)	--	233 426 696	--	(233 426 696)	--
Transfer To Retained Earnings		--	--	90 531 190	(90 531 190)	--
Net Profit of The Year 2006		--	--	--	2 007 504 686	2 007 504 686
Balance at 31 December 2006		1 366 776 700	913 657 751	190 186 027	2 007 504 686	4 478 125 164
Interim Dividends During 2006	(19)	--	--	--	(1 272 742 466)	(1 272 742 466)
Net Balance At 31 December 2006		1 366 776 700	913 657 751	190 186 027	734 762 220	3 205 382 698

- The notes on pages (9) to (38) are an integral part of these financial statements.

Al Ezz Dekheila Steel Company - Alexandria
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Statements of Cash Flows for the Financial Year Ended 31 December 2006

	Note	31 December,	31 December,
	No	2006	2005
	<u>No</u>	<u>L.E</u>	<u>L.E</u>
Cash flows from operating activities:			
Profit for the year		2 007 504 686	2 375 899 747
Adjustments for:			
Depreciation	(5)	484 953 735	448 018 084
Gain on sale of property, plant and equipment		(11 148 050)	(419 587)
Income tax expense	(28)	619 738 587	315 560 347
Provisions formed during the year	(16)	81 679 400	125 433 748
Release of unused provisions	(16)	<u>(104 500 000)</u>	<u>(210 515 657)</u>
		3 078 228 358	3 053 976 682
Change in inventories		113 789 296	(66 254 090)
Change in trade and other receivables		(17 769 572)	77 440 479
Change in trade and other payables		(422 013 213)	(232 583 160)
Utilized portion of provisions during the year	(16)	<u>(13 718 079)</u>	<u>(18 817 049)</u>
		2 738 516 790	2 813 762 862
Foreign Exchange Difference		2 803 323	233 426 696
Income Tax Paid	(28)	<u>(128 659 989)</u>	<u>(368 998 470)</u>
Net cash flows from operating activities		<u>2 612 660 124</u>	<u>2 678 191 088</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		11 148 050	419 587
Acquisition of property, plant and equipment and projects under construction	(5),(6)	(90 814 813)	(62 048 640)
Payment of Long Term Loans Receivables	(8)	(7 176 949)	(6 579 574)
Proceeds from Long Term Loans Receivables		7 967 300	7 967 300
Net Proceeds from investments		--	479 490
Net cash flows (used in) investing activities		<u>(78 876 412)</u>	<u>(59 761 837)</u>
Cash flows from financing activities			
Repayment of borrowings		(994 996 554)	(1 253 758 586)
Change in Banks Overdraft		119 348 511	486 998 386
Dividends paid	(19)	<u>(2 166 683 475)</u>	<u>(1 946 492 438)</u>
Net cash flows (used in) financing activities		<u>(3 042 331 518)</u>	<u>(2 713 252 638)</u>
Net Change in Cash and Cash Equivalents During the Year		(508 547 806)	(94 823 387)
Cash and cash equivalent at 1 January		<u>1 031 355 468</u>	<u>1 126 178 855</u>
Cash and cash equivalents at 31 December		<u>522 807 662</u>	<u>1 031 355 468</u>

- The notes on pages (9) to (38) are an integral part of these financial statements.

1. Background and activities

Al Ezz Dekheila Steel Company - Alexandria S.A.E. is an Egyptian (Joint Stock Company), established under the Investment Incentives and Guarantees Law No.43 for 1974 modified by law No. 230 for 1989, and replaced by law no.8 for 1997 and was registered in the commercial registry under No. 104918 on July 17, 1982. The Company's purpose is to produce, forming and manufacturing of iron and steel in all its genres and forms.

The extraordinary general assembly dated January 2nd, 2006 agreed to amend the second article of company's bylaw and according to General Authority for Investment and Free Zones decree no. 405/2 for 2006 to change company's name to Al Ezz Dekheila Steel – Alexandria (joint stock company). The formalities for amending company's bylaw & commercial register were finalized on February 26, 2006 and this amendment was published in the article of incorporation no.1407 dated March 18, 2006.

The Company's duration is 50 years starting from the date of registration in the Commercial registry.

The registered office of the Company is El Agamy – El Betash , Alexandria, Egypt. Mr. Ahmed Abd El Aziz Ezz is the Company's Chairman and Managing Director.

2. Basis of preparation

i) *Statement of compliance*

These financial statements have been prepared in accordance with Egyptian Accounting Standards (“EAS”) and relevant Egyptian laws and regulations.

ii) *Basis of measurement*

The financial statements have been prepared on historical cost basis.

iii) *Functional currency and presentation currency*

The financial statements are presented in Egyptian Pound referred to as “LE”, which is the Company's functional currency.

iv) *Use of estimates and judgments*

The preparation of the financial statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial Statements.

3.1 Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Egyptian Pound at the foreign exchange rate in effect at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the date of the transaction except for the following:

- Monetary assets and liabilities in foreign currencies agreed to be collected or paid at a pre-determined exchange rate.
- Monetary assets and liabilities in foreign currencies with no declared exchange rate against Egyptian pound, its exchange rate is determined using US Dollar as an intermediate exchange rate between this currency and Egyptian pound.
- The revaluation differences of non monetary assets and liabilities resulted during the period and at the balance sheet date are charged to the income statement.

3.2 Property, plant & equipment and depreciation

i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation (3-2-ii) and impairment losses (3.9).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of Property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

	<u><i>Estimated Useful Life Year</i></u>
<u><i>Buildings and Structures</i></u>	
- Administration Buildings	50
- Factory Buildings	33.3
- Structures	25
<u><i>Machinery and Equipment</i></u>	
- Lime Calcining Plant	25
- Continuous casting Plant	20
- Other Plants	20
<u><i>Vehicles</i></u>	
- Cars & Trucks	5
- Motorcycles & Internal Vehicles	4
- Bicycles	2
<u><i>Tools</i></u>	4
<u><i>Furniture and Office Equipment</i></u>	
- Furniture	10
- Office Equipment	6.6

3.3 Projects under construction

Projects under construction are recognized initially at cost. Cost includes all expenditures directly attributable to bringing the asset to a working condition for its intended use. Projects under construction are transferred to property, plant and equipment caption when they are completed and are ready for their intended use.

3.4 Finance Lease

Leased assets are recorded at the bargained value among the fixed assets item, and to be depreciated over the estimated useful lives of similar assets.

The agreements obligations are recognized among long-term liabilities (finance lease agreements) and reduced annually with the current maturities due within one year.

3.5 Investments

Investments in affiliates and subsidiaries in which the Company's share exceeds 20% are recorded according to equity method i.e. the investment is recorded initially at cost then adjusted by the changes in the investee net assets. In case of the existence of permanent impairment in the carrying amount of these investments, the related investment is reduced by the impairment loss, and charged to the income statement for the year. The company's share in the investee results is recognized in the income statement based on the investee latest approved financial statements.

Investments in which the company's share is less than 20 % of the investee paid-up capital are recorded according to cost method, revenue is recognized according to cost method based on dividends declared by the investee general assembly resolutions after acquisition date.

3.6 Inventories

Inventories are stated at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses.

The inventory is valued as follows:

- (A) Raw materials, spare parts and supplies are valued at lower of cost or net realizable value, the cost is determined on the basis of weighted average method.
- (B) Home scrap is valued at lower of stage average cost or net realizable value.

- (C) Production in progress is valued at prime direct costs which include material cost, direct labor cost and indirect manufacturing costs for the last production stage reached.
- (D) Finished and semi-finished products are valued at lower of cost or net realizable value.

3.7 Trade and other receivables

Trade receivables, which generally have 30-90 days term, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate of doubtful debts is made when collections of the full amount is no longer probable. Bad debts are written off when identified. Other receivables are stated at cost less impairment losses (3.9.i).

3.8 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.9 Impairment

i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3.10 Dividends

Dividends are recognized as a liability in the period in which they are declared.

3.11 Loans and borrowings

Borrowing is recognized initially with amounts received, amounts due within one year are classified among current liabilities, if the company has the right to postpone payment of the loan balance for a period exceeding 12 months as of the balance sheet date, the loan is presented as long-term liabilities.

3.12 Trade and other payable

Trade and other payable are stated at cost.

3.13 Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.14 Revenue

i) *Goods sold and services rendered*

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services is recognized in the income statement when the service is rendered. No revenue is recognized if there are uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

ii) *Interest income*

Interest income is recognized in the income statement as it accrues.

iii) *Investment revenue*

- Income from investments in subsidiaries is recognized according to equity method based on the investee latest approved financial statements.
- Revenue from investments in other companies is recognized according to dividends received and realized after acquisition date based on dividends approved by the general assembly resolution of the investee.

3.15 Expenses

i) *Interest expense*

Interest expense on interest-bearing borrowings is recognized in the income statement.

ii) *Employees' pension*

The Company contributes to the government social insurance system for the benefit of its personnel in accordance with the social insurance law. Under this law, the employees and the employers contribute into the system on a fixed percentage-of-salaries basis. The Company's liability is confined to the amount of its contribution. Contributions are charged to income statement using the accrual basis of accounting.

iii) *Income tax*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.16 Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3.17 Segment reporting

The Company's primary format for segment reporting is based on business segments.

4. Segment reporting

Segment information is presented in respect of the Company's business. The primary format of business segments is based on the Company management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Business segments

The Company comprises the following main business segments:

- Rebar
- Flat
- DRI

Al Ezz Dekheila Steel Company - Alexandria
Notes to the Financial Statements for the Financial Year Ended 31 December 2006

	<u>Rebar</u>		<u>Flat</u>		<u>DRI</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>L.E</u>	<u>L.E</u>	<u>L.E</u>	<u>L.E</u>	<u>L.E</u>	<u>L.E</u>	<u>L.E</u>	<u>L.E</u>
Total external revenues	4 903 694 097	4 281 938 825	2 909 325 608	2 847 366 552	289 216 738	768 327 627	8 102 236 443	7 897 633 004
Total segment revenue	4 903 694 097	4 281 938 825	2 909 325 608	2 847 366 552	289 216 738	768 327 627	8 102 236 443	7 897 633 004
Segment result	1 863 043 598	1 244 157 925	995 681 531	1 026 201 826	140 743 539	351 994 290	2 999 468 668	2 622 354 041
Results from operating activities	1 845 478 512	1 242 031 514	915 835 803	1 006 335 922	136 613 524	352 796 319	2 897 927 839	2 601 163 755
Net finance costs	(156 115 049)	51 825 563	(106 250 282)	31 386 631	(8 319 235)	7 084 145	(270 684 566)	90 296 339
Income tax expense	(405 565 571)	(197 564 497)	(176 766 956)	(72 061 524)	(37 406 060)	(45 934 326)	(619 738 587)	(315 560 347)
Profit for the year	1 283 797 892	1 096 292 580	632 818 565	965 661 029	90 888 229	313 946 138	2 007 504 686	2 375 899 747

Al Ezz Dekheila Steel Company - Alexandria
Notes to the Financial Statements for the Financial Year Ended 31 December 2006

5. Plant, property and equipment

<i>Description</i>	<i>Land LE</i>	<i>Building LE</i>	<i>Machinery & Equipment LE</i>	<i>Vehicles LE</i>	<i>Tools LE</i>	<i>Furniture & Fixtures LE</i>	<i>Computer Equipment LE</i>	<i>Total LE</i>	<i>Financial Lease LE</i>	<i>Total LE</i>
<i>Cost as of January 1, 2006</i>	322 141 188	1 309 456 564	7 769 859 375	91 252 393	28 600 750	22 412 345	16 941 378	9 560 663 993	477 804 176	10 038 468 169
<i>Additions During the year</i>	--	--	94 515 087	227 000	200 614	232 524	653 232	95 828 457	--	95 828 457
<i>Disposals During the year</i>	--	(1 909 976)	(77 548 527)	(8 952 183)	--	(2 383)	--	(88 413 069)	--	(88 413 069)
<i>Total Cost as of 31/12/2006</i>	322 141 188	1 307 546 588	7 786 825 935	82 527 210	28 801 364	22 642 486	17 594 610	9 568 079 381	477 804 176	10 045 883 557
<i>A/C Depreciation as of January 1, 2006</i>	--	499 035 649	2 813 646 316	88 612 743	28 031 613	18 187 019	13 638 978	3 461 152 318	144 369 957	3 605 522 275
<i>Depreciation of the year</i>	--	41 816 425	420 881 595	786 275	304 981	1 134 156	972 573	465 896 005	19 057 730	484 953 735
<i>A/C Depreciation of Disposals</i>	--	(1 909 976)	(77 548 527)	(8 952 183)	--	(1 787)	--	(88 412 473)	--	(88 412 473)
<i>A/C Depreciation as of 31/12/2006</i>	--	538 942 098	3 156 979 384	80 446 835	28 336 594	19 319 388	14 611 551	3 838 635 850	163 427 687	4 002 063 537
<i>Fixed Assets (Net) as of 31/12/2006</i>	322 141 188	768 604 490	4 629 846 551	2 080 375	464 770	3 323 098	2 983 059	5 729 443 531	314 376 489	6 043 820 020
<i>Fixed Assets (Net) as of 31/12/2005</i>	322 141 188	810 420 915	4 956 213 059	2 639 650	569 137	4 225 326	3 302 400	6 099 511 675	333 434 219	6 432 945 894

*** Financial Leases Assets consist of the following:**

	<u>31/12/2006</u>
	<u>LE</u>
- Equipment concerning DRP & Steel Project (Agreements concluded with IDB & IBP) Note No. (14-2)	251 553 465
- Equipment concerning Flat Steel Project (Agreement concluded with IDB, IBP & UIF) Note No. (14-2)	226 250 711
Balance	<u>477 804 176</u>

The ownership of the equipment is to be transferred to the company by the end of the rental period at no cost provided.

- The company is still taking the necessary procedures to authenticate its full ownership of the owned land. (Alexandria Governorate – Army Forces – Others).

6. Projects under construction

	<u>31/12/2006</u>	<u>31/12/2005</u>
	<u>LE</u>	<u>LE</u>
- Machinery & Equipment in progress	8 987 705	15 948 363
- Advances For Purchasing Fixed Assets *	4 497 014	2 550 000
	<u>13 484 719</u>	<u>18 498 363</u>

- * This item is represented in advance payments to purchase land in the smart village project located in Cairo with a value of LE 3.8 million and advance payment amounting LE 0.67 million for Electric Arche Furans project.

7. Investments

7-1 Investment in Subsidiaries

	Note No.	31/12/2006 LE	31/12/2005 LE
- The company's share in the net assets of Hadid for Industry, Trading & Contracting Company (Contrasteel) (S.A.E.) according to its latest authorized financial statements (Representing 90% of the capital).*		48 613 820	48 613 820
(Less) : Decrease in Investment	(16)	(48 613 820)	(48 613 820)
Net Investment		--	--
- The company's share in the net assets of Egyptian German Flat Steel Marketing Co. L.t.d (FRANCO) (Under Liquidation) according to it's latest financial statements (Representing 40% of the capital) calculated after deducting the first payment collected based on the decision of the Extra-Ordinary General Assembly of the Egyptian German Flat-steel Marketing (Franco) dated October 25, 2005 amounting LE 480 000		71 947	71 947
- The cost of investment in El Ezz Dekheila Iron & Steel Co.-Egypt (EZDK) L.T.D (Representing 50% of the capital).		25 000	25 000
- The company's share in the net assets of EZDK Steel Europe GMBH according to its latest financial statements (Representing 50% of the capital)		69 897	69 897
- The cost of investment in EZDK Steel UK LTD Co. (Representing 50% of the capital)		510	510
Net Investments		167 354	167 354
7-2 Other Investment:			
The Cost of investment in Arab Company for Special Steel (S.A.E) representing 5% of its issued capital amounted to LE 380 Million (par value LE 200/ Share).		17 726 266	17 726 266
(Less): Decrease in Investment	(16)	(11 633 748)	(11 633 748)
Net Investments		6 092 518	6 092 518
Total Long Term Investments		6 259 872	6 259 872

* The Financial Statements of the subsidiary company (Hadid for Industry, Trading and Contracting Company "Contrasteel") were not compiled where the company's share percentage reaches 90% of the capital and has been included within the investments item as it has no significant effect on the financial statements.

8. Receivable Long -Term Loans

The receivable long-term loans item shown among the long-term assets in the Balance Sheet amounted to LE 8 141 585 (after deducting the installments collectable within one year) represented as follows:

	31/12/2006	31/12/2005
	<u>LE</u>	<u>LE</u>
- The loan granted to the staff Cooperative Society for Building & Housing. (Interest free)	6 790 000	7 990 000
- The loans granted to the company's staff that to be repayable on a monthly installments basis over two years (Interest free)	1 351 585	941 936
	<u>8 141 585</u>	<u>8 931 936</u>

9. Deferred tax assets and liabilities

	<u>31/12/2006</u>		<u>31/12/2005</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
<u>Deferred Tax</u>				
Fixed assets	--	326 304 271	--	211 175 544
Inventory	1 000 000	--	1 000 000	--
Provisions	9 032 901	--	23 275 186	--
Total Deferred Tax Assets / Liabilities	<u>10 032 901</u>	<u>326 304 271</u>	<u>24 275 186</u>	<u>211 175 544</u>
Net Deferred Tax Liability		<u>316 271 370</u>		<u>186 900 358</u>
<u>Less:</u>				
Deferred Tax Previously Deducted from Income Statement		<u>(186 900 358)</u>		
Deferred tax charged to the Income Statement for the year		<u>129 371 012</u>		

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	31/12/2006	31/12/2005
	<u>LE</u>	<u>LE</u>
Inventory	9 000 000	9 000 000
Provisions	8 932 931	19 132 931
	<u>17 932 931</u>	<u>28 132 931</u>

Al Ezz Dekheila Steel Company - Alexandria
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Deferred tax assets have not been recognized in respect of these items either because the conditions for having the tax deduction approved by the tax authority have not yet been met or it is not probable that future taxable profit will be available against which the company can utilize the benefits there from.

Reconciliation of effective tax rate

	31/12/2006		31/12/2005
	<u>L.E</u>		<u>L.E</u>
Profit before tax	2 627 243 273		2 691 460 093
Income tax using the domestic corporation tax rate 20%	<u>525 448 655</u>	20%	<u>538 292 019</u>
Non- deductible expenses	385 800		402 751
Deductible expenses	(7 780 205)		---
Tax exemptions	---		(888 366 588)
Effect of provisions	(30 410 176)		(103 898 958)
Depreciation	(590 555 767)		(1 055 877 768)
Capital Gain	<u>(11 148 050)</u>		<u>(419 587)</u>
Tax base	<u>1 987 734 875</u>		<u>643 299 943</u>
Income tax from tax return 20%	<u>397 546 975</u>	20%	<u>128 659 989</u>
Tax percentage from tax return to accounting profit	<u>15.13 %</u>		<u>4.78 %</u>

10. Inventories

	Note	31/12/2006	31/12/2005
	No.	<u>LE</u>	<u>LE</u>
- Major & Auxiliary Raw Materials		437 580 267	498 609 964
- Spare Parts		550 062 223	495 101 696
- Semi Finished Products (Rebar)		53 717 977	78 810 401
- Finished Products (Rebar)		138 547 819	246 488 024
- Semi Finished Products (Flat)		14 352 395	1 488 934
- Finished Products (Flat)		170 727 337	168 387 916
- Letter of Credit for Purchasing Raw Materials & Spare Parts		52 284 324	42 174 703
		<u>1 417 272 342</u>	<u>1 531 061 638</u>
<u>Less:</u>			
- Impairment in spare parts slow moving (16) items		(50 000 000)	(50 000 000)
		<u>1 367 272 342</u>	<u>1 481 061 638</u>

11. Trade and other receivables

	Note No.	31/12/2006 LE	31/12/2005 LE
- Accounts receivables (Trade)		56 454 871	61 610 345
- Accounts receivables (Export)		85 577 632	20 291 159
- Notes Receivable		171 786 348	170 329 087
- Accounts Payable (Debit Balances)		15 698 341	20 582 273
- Deposits Due from Others		46 299 255	46 388 961
- Custom Authority (Deposits)		5 862 826	4 150 901
- Tax Authority (Withholdings Tax)		78 699 514	108 125 179
- Accrued income		30 949 650	5 718 056
- ESU (under liquidation) Loan		--	43 859 223
- Prepaid Expenses		13 288 629	16 326 984
- Sales Tax		23 913 408	19 542 290
- Collectable Installments	(8)	3 960 000	4 260 000
- Affiliate & Subsidiary Co.	(32)	1 748 510	8 437 865
- Alexandria Port Authority		42 488 601	42 488 601
- Tax Authority – Advance Payments		25 000 000	--
- Receivables – Other		19 184 211	31 030 704
		<u>620 911 796</u>	<u>603 141 628</u>
<u>Less :</u>			
- Impairment in Doubtful Accounts	(16)	(56 707 635)	(56 707 635)
		<u>564 204 161</u>	<u>546 433 993</u>

12. Cash and cash equivalents

	31/12/2006 LE	31/12/2005 LE
1- <u>Banks (Local Currency)</u>		
- Time Deposits	--	286 976 598
- Current Accounts	73 051 257	239 531 123
- Cheques under collection	26 135 652	37 353 722
	<u>99 186 909</u>	<u>563 861 443</u>
2- <u>Banks (Foreign Currency)</u>		
- Time Deposits	383 156 039	405 592 327
- Current Accounts	40 464 714	61 901 698
	<u>423 620 753</u>	<u>467 494 025</u>
	<u>522 807 662</u>	<u>1 031 355 468</u>

13. Bank overdraft

- Banks Local currency	96 471 960	344 825 435
- Banks Foreign currency	565 499 171	491 547 185
	<u>661 971 131</u>	<u>836 372 620</u>

14. Loans and borrowings

Long term liabilities represented as follows (after deducting current maturities due within one year).

14-1 Long Term Loans and Facilities

Description	31/12/2006 <u>LE</u>	31/12/2005 <u>LE</u>	Remaining Period Loan / Liabilities <u>(Year)</u>
Loans and Facilities Related to Rebar Project			
1- Local Currency Loans	456 934 645	408 054 543	2-4
2- Foreign Currency Loans	566 683 763	687 403 670	1-8
3- Long Term Liabilities and Other *	147 775 315	460 466 286	2
	<u>1 171 393 723</u>	<u>1 555 924 499</u>	
Loans and Facilities Related to Flat Steel Project			
1- Local Currency Loans	289 788 541	196 172 380	1-6
2- Foreign Currency Loans	1 033 136 500	1 198 785 844	2-6
3- Long Term Facilities (Deferred Sales Tax and Others)	18 953 803	37 612 196	1-7
	<u>1 341 878 844</u>	<u>1 432 570 420</u>	
Balance	<u>2 513 272 567</u>	<u>2 988 494 919</u>	

<u>Description</u>	<u>Interest Rate</u>	<u>Terms of Payment</u>
1 <u>Long Term Loans (Local Currency)</u>		
Fixed Int.	14%	Semi-annual Installments
Variable Int.	1-2 % Less than discount rate	Semi-annual Installments
2 <u>Long Term Loans (Foreign Currency)</u>		
Fixed Int.	4% - 10.56 %	Semi-annual Installments
Variable Int.	1 % + Libour	Semi-annual Installments

* The Company has previously recorded the materials stevedoring category in El Dekheila port according to the category assigned by the authority inspite of the legal dispute arised in the court case no.6652 for 2002 Civil court which is arised from the Alexandria port authority against the company which decided to accept the company's proposed allegations that the decree no. 95 for 1998 issued by the Minister of Transportation was unconstitutional as well as the Alexandria Port decree no. 60 for 1998 and 78 for 1991.

Formalities for filing an unconstitutional case with the higher constitutional court was taken as the claims of the port authority have been suspended until the decision of the higher constitutional court is issued.

It was finally agreed with the port authority to pay the disputed materials stevedoring category (4.4 US\$/Ton) with the acceptance of the authority to the company qualifications which stated that the final settlement of the stevedoring category will be temporary till final settlement from the ordinary and constitutional court.

Thereby the Company paid the amounts according to the previous agreement regarding the materials stevedoring category and the balance of long term loans and facilities is represented in items under dispute and both parties has agreed on its pending.

The Company's' legal advisor sees that according to the higher constitutional court procedures the courts' final judgment and accounting principles establishment will not be settled as a minimum of three years.

14-2 Financial Lease Agreement

Description	31/12/2006	31/12/2005	Agreement Expiration Period (Year)
	<u>L.E</u>	<u>L.E</u>	
Agreements Related to Rebar Activities in Foreign Currency	---	56 646 269	1
Agreements Related to Flat Steel Project in Foreign Currency	142 166 604	192 381 439	4-5
	<u>142 166 604</u>	<u>249 027 708</u>	

<u>Description</u>	<u>Interest Rate</u>	<u>Terms of Payment</u>
Fixed Int.	7.5 %	Semi-annual Installments
Variable Int.	1.75-2 % + Libour rate	Semi-annual Installments

14-3 Current Maturities Due Within One Year

Current maturities due within one year represented as follows:

Description	31/12/2006	31/12/2005
	LE	LE
- Loans and facilities related to Rebar Project	181 580 108	204 453 529
- Loans and facilities related to Flat Steel Project	214 120 032	312 849 613
- Finance lease agreements related to Rebar Project	56 325 389	53 023 244
- Finance lease agreements related to Flat Steel Project	42 861 430	40 913 292
Balance	494 886 959	611 239 678

	Loan	Interest	Total	12	2-3	4-5	More
	Currency	Rate		months	years	Years	than
				Or less			5 years
Unsecured bank loans	LE	13-14% Dis.R 1.5%	898 699 178	151 975 998	570 662 547	123 646 632	52 414 000
Unsecured bank loans	U.S.\$	libor +1/+3	446 088 164	63 218 259	167 708 740	132 822 197	82 338 966
Total local loans			1 344 787 342	215 194 257	738 371 287	256 468 829	134 752 966
Unsecured bank loans	U.S.\$	libor +1/+2 5-5.5%	622 346 776	166 674 023	285 235 956	170 436 797	--
	JPY	3-3.5%	546 120 304	45 861 032	169 333 120	169 333 120	161 593 030
	ST	5.2%	24 716 743	7 815 132	16 901 611	--	--
	ID	7.5%	140 995 614	14 099 563	56 398 244	56 398 244	14 099 560
	KD	7.0%	281 002 722	21 615 594	43 231 188	43 231 188	172 924 750
Total unsecured bank loans			1 615 182 159	256 065 344	571 100 119	439 399 349	348 617 340
Other Facilities	LE		190 356 629	23 627 358	18 953 804	147 775 315	--
Total			3 150 326 130	494 886 959	1 328 425 210	843 643 493	483 370 306

15- Trade and other payables

	<i>Note <u>No.</u></i>	<i>31/12/2006 <u>LE</u></i>	<i>31/12/2005 <u>LE</u></i>
Trade payable		162 465 199	602 620 767
Customers Advance Payments		141 028 721	85 500 219
Accrued Interest		49 073 809	70 904 792
Accrued Expenses		59 698 704	51 586 015
Contractors and Creditors		---	23 891 287
Sales Tax		53 504 843	43 937 253
Retentions		5 397 219	6 775 200
Tax Authority		3 215 107	6 407 652
Payables – Other		7 053 056	11 833 742
Dividends Payable		11 940 527	4 765 657
		<hr/>	<hr/>
Income Tax for the Year	(2-15 iii)	493 377 185	908 222 584
Tax Return Adjustments for 2005	(29-1)	397 546 975	128 659 989
		92 820 600	---
		<hr/>	<hr/>
		983 744 760	1 036 882 573
		<hr/>	<hr/>

16. Provisions

	Note. No.	January 1, 2006	Utilized Portion During The Year	Release of Unused Provisions	Provisions Formed During The Year	Balance as of December 31, 2006
		<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
1- <u>Provisions Deducted from Related Accounts:</u>						
- Impairment in Slow Moving Items in Spare Parts Inventory	(10)	50 000 000	--	--	--	50 000 000
- Impairment in Doubtful Accounts	(11)	56 707 635	--	--	--	56 707 635
2- <u>Impairment in Investments</u>						
- Impairment in Investment of Contrasteel	(7-1)	48 613 820	--	--	--	48 613 820
- Impairment in Investment of Arab-steel Co.	(7-2)	11 633 748	--	--	--	11 633 748
		<u>60 247 568</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>60 247 568</u>
		<u>166 955 203</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>166 955 203</u>
<u>Provisions Among Current Liabilities:</u>						
- Provision for claims & Emergencies		244 832 951	(13 718 079)	(104 500 000)	81 679 400	208 294 272
		<u>411 788 154</u>	<u>(13 718 079)</u>	<u>(104 500 000)</u>	<u>81 679 400</u>	<u>375 249 475</u>

17. Financial instruments

The Company's principal financial instruments comprise interest bearing borrowings and loans, and time deposits. The main purpose of these financial instruments is the raise financing for the Company's operations. The Company has various other financial instruments such as trade receivables and trade payables which arise directly from operations.

The Company does not enter into derivative transactions for the purpose of trading or hedging exposure to fluctuations in the foreign exchange rates or interest rates.

The main risks arising from the Company's operations are interest rate risk, foreign currency risk and credit risk.

i) *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss.

The Company's financial assets include trade receivables representing amounts due from customers, time deposits and investment balances; these financial assets do not represent a significant concentration of risk. Trade receivables are widely spread among customers' segmentation. Strict credit control is maintained and further appropriate level of impairment loss is made. The Company manages the credit risk on investment by ensuring that investments are made only after careful credit evaluation of these investments. The time deposits are placed with commercial banks after careful credit evaluation of those banks.

ii) *Foreign currency risk*

Foreign currency risk is the risk that the value of financial instrument will fluctuate due to change in the foreign exchange rates.

The Company is exposed to foreign currency risk on purchases from foreign suppliers and loans denominated in foreign currency. The currencies giving rise to this risk are primarily US Dollar, Euro, and Sterling Pound.

As of 31 December 2006, the Company's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 419 245 602 and LE 2 258 375 405 respectively. The Company's net foreign currencies exposure as of 31 December 2006 was as follows:

<i>Foreign currency</i>	2006	2005
US Dollar	145 146 816	315 359 138
Japanese Yen	11 500 438 621	13 276 699 167
Euro	201 304	1 305 873
Sterling Pound	1 830 367	2 939 277
Kuwaiti Dinar	14 527 240	15 644 720
Islamic Dinar	16 778 717	20 454 041

iii) Interest rate risk

The interest risk is represented in the risk that interest rates changes for company's liabilities due to banks representing in loan & credit facilities amounted LE 3 800 million as of December 31, 2006 (LE 4 685 million as of December 31, 2005) and the financing expenses relating to these liabilities amounted LE 322 million (LE 346 million for the previous year).

The time deposit balance amounted LE 383 million (LE 693 million as of December 31, 2005) and the related credit interest for these time deposits amounted LE 35 million for the period (LE 75 million for the previous year).

To avoid these risks, The Company depends on having the best available credit conditions in the banking market for the credit facilities balance & loan balances, in addition to the early payment of loans and facilities whenever internal financing is available, also the company reviews periodically prevailing interest rate in the banking market which decreases interest risk.

18. Share capital and reserves

a) Authorized Capital:

Authorized capital amounting to LE 1.5 Billion represented in 15 Million shares of a par value LE 100 / share according to the company's Extra Ordinary General Assembly Resolution dated October 10, 1999 and General Authority for Investment Resolution No. (352) dated February 8, 2000 and the authorized capital has been registered in the C.R on February 9, 2000.

b) Issued and Paid-up Capital:

Issued and paid-up capital as of September 30, 2006 amounting to LE 1 366 776 700 represented in 13 667 767 shares of a par value LE 100 / share.

Reserves

	31/12/2006	31/12/2005
	LE	LE
- Legal Reserve *	363 308 259	363 308 259
- General Reserve **	497 109 916	263 683 220
- Capital Reserve	3 239 576	3 239 576
- Replacement Reserve	50 000 000	50 000 000
	913 657 751	680 231 055

* Legal Reserve

According to the Companies' Law and the Company's statute the Company is required to set aside 5% of the annual net profit to form a legal reserve. The transfer to legal reserve cease once the reserve reach 20% of the issued share capital. The reserve is undistributable, however, it can be used to increase the share capital or offset losses. If the reserve falls below the defined level (20% of the issued share capital, then the Company is required to resume setting aside 5% of the annual profit until it reaches 20% of the issued share capital.

** General Reserve

General reserve was increased by LE 233 million from year 2005 dividends according to the resolution of ordinary General Assembly dated March 16, 2006.

19. Interim Dividends Through the year

- The company's ordinary general assembly meeting dated May 28, 2006 has approved the dispensing of interim dividends (Based on the results of the financial statements as of March 31, 2006) amounted to LE 25/share with a grand total of LE 368 756 355 including the Board of Directors and the employees share.
- The company's ordinary general assembly meeting dated October 5, 2006 has approved the dispensing of interim dividends (Based on the results of the financial statements as of June 30, 2006) amounted to LE 30/share with a grand total of LE 438 120 272 including the Board of Directors and the employees share.
- The company's ordinary general assembly meeting dated November 30, 2006 has approved the dispensing of interim dividends (Based on the results of the financial statements as of September 30, 2006) amounted to LE 32/share with a grand total of LE 465 865 839 including the Board of Directors and the employees share.

20. Revenue

	2006	2005
	<u>L.E</u>	<u>L.E</u>
Revenue from sale of goods	8 095 957 842	7 889 791 518
Revenue from services	6 278 601	7 841 486
	<u>8 102 236 443</u>	<u>7 897 633 004</u>

21. Cost of sale

Raw materials	3 276 983 730	3 542 170 211
Salaries and wages	138 485 363	134 215 796
Overheads	1 209 012 924	1 156 974 828
Depreciation of property, plant & equipment	478 285 758	441 918 128
	<u>5 102 767 775</u>	<u>5 275 278 963</u>

22. Other operating income

Release of unused provisions	104 500 000	210 515 657
Net gain on disposal of property, plant and equipment	11 148 050	419 587
Other	15 124 464	21 906 135
	<u>130 772 514</u>	<u>232 841 379</u>

23. Selling and distribution expenses

	2006	2005
	<u>L.E</u>	<u>L.E</u>
Salaries and wages	13 497 796	12 131 761
Export Expenses	42 050 828	36 158 414
Public Relations	5 489 349	3 714 832
Property, plant & equipment depreciation	877 285	748 211
Other	4 732 588	3 174 643
	<u>66 647 846</u>	<u>55 927 861</u>

24. Administrative expenses

Salaries and wages	43 098 598	41 721 923
Utilities	4 485 047	3 349 060
Property, plant & equipment depreciation	5 694 356	5 351 741
Other	25 417 013	18 873 913
Maintenance	4 905 283	2 970 668
	<u>83 600 297</u>	<u>72 267 305</u>

25. Other operating expenses

Increase in provisions	81 679 400	125 433 748
Board of Directors' Remuneration	385 800	402 751
	<u>82 065 200</u>	<u>125 836 499</u>

26. Finance income

Interest income	34 905 352	74 907 401
Net Foreign Exchange Gain	3 052 446	361 049 185
	<u>37 957 798</u>	<u>435 956 586</u>

27. Finance expenses

Debit interest and Bank expenses and commission	308 642 364	345 660 247
	<u>308 642 364</u>	<u>345 660 247</u>

28. Income Tax expense

	Note.	2006	2005
	<u>No.</u>	<u>L.E</u>	<u>L.E</u>
Current income tax		397 546 975	128 659 989
Deferred income tax expense	(9)	129 371 012	186 900 358
Tax Return Adjustments for 2005	(29-1)	92 820 600	---
		<u>619 738 587</u>	<u>315 560 347</u>

29. Tax status

29-1 Corporate Income Tax:

- The company submits its annual tax return within the legal time, and pays due taxes (if any) according to its tax return. In all cases and in accordance with applicable tax law in Egypt, the final tax liability will be determined after the tax authority inspection to reach the final tax assessment by internal committees or appeal committees or by court.
- The company enjoyed a proportional tax exemption for 5 years starting from January 1, 1999 till December 31, 2003 that cover 66.6 % of the company's activities and the remaining 33.4 % is subject to taxes according to paragraph no. 2 of the article no. 15 of the law no. 230 for the year 1989.
- Based on the Administrative Court Decree dated July 16, 2005 concerning the judicial lawsuit No.30771 for the judicial year 57, the General Authority for Investment and Free Zones issued a certificate dated January 2nd, 2006 stating that the company enjoys tax exemption according to article no. 60 of law no. 8 for the year 1997 and article no. 35 of the executive regulation of the same law, the exemption relates to the production of flat steel project which Al Ezz Dekheila Steel Company started with a capital amounting to \$ 245.5 m, The General Authority for Investment and Free Zones took the necessary procedures to determine the flat steel start-up date according to article 34 of the executive regulations of law no. 8 for the year 1997 and concluded that the expansion project started production during the year 2000, accordingly the company enjoys a tax exemption for 5 years starting January 1st, 2001 till December 31, 2005.
- Accordingly, the tax authority (Investment tax department) confirmed the company's exemption for 5 years started from January 1st, 2001 for the flat steel project with a capital of \$ 245.5 m equivalent to LE 800 m as follow:
 - Tax exemption ratio for the years from 2001 till 2003 is 61 % of the company's capital.
 - Tax exemption ratio for the years 2004 and 2005 is 58 % of the company's capital.(This ratio is till the tax inspection)
- Tax inspection has been made for the years 1995 – 1999 and all the disputes related to these years have been finalized.
- Tax inspection has been made for the year 2000 and the company received tax form no. 18 concerning the rebar and the flat activities as one unit then the investment tax authority re-notified the company with another tax form no. (18) based on the segregation between the rebar and the flat activities, according to tax form (no. 18 corporate tax) dated December 19, 2004 assuming that the flat activity does not enjoy a tax exemption. The subject was appealed at the judicial system, and the

topic was transferred to the tax authority's internal committee. Accordingly, the company refilled an amended tax returns for the year 2000/2003 to concur the tax authority assumption.

- Tax inspection has been made for the years 2001 – 2003 and the company received tax form no. (18). An appeal was filed within the statutory deadline and was transferred to the tax authority's internal committee for the years 2000/2003 and all the disputes related to these years have been finalized during the last quarter of 2006 based on the segregation between the rebar and the flat activities. The rebar activity enjoys a tax exemption by ratio 66.6% and the flat activity is fully tax exempted.
- In January 2007 , tax inspection for year 2004 was finalized and the internal committee recalculated the income tax according preagreed basis in respect of the segregation between the rebar and the flat activities and the flat activity is fully exempted.
- Accordingly the company prepared amended tax return for the year 2005 applying the agreed to tax basis used in calculating the previous years tax after all the exemptions till December 31, 2005 expired and the tax difference related to year 2005 amounted L.E 92 820 600 which is recorded in the income statement for the year.

29-2 Salary Tax

- Tax inspection has been made till the year 2004 and all disputed matters were settled and there is no tax obligation concerning these years.

29-3 Sales Tax

- The company paid all the tax claims for the years till 2004 and there are no tax obligations.
- The company submits its tax forms within its legal time and is paying its due taxes regularly according to these forms. Tax inspection for the year 2005 has not been made yet.

29-4 Stamp Tax

- Tax inspection has been made till 2004 and there is no any tax obligation concerning these years.
- Tax inspection for the year 2005 has not been made yet.

29-5 Real Estate Tax

Tax inspection took place until the year 2006 and there is no any liability till that date.

30. Earnings per share

The earning per share as of December 31, 2006 was calculated after deducting the B.O.D. & employees share and according to dividends approved by General assemblies meetings for the period ended September 30, 2006 and B.O.D's proposed dividends for the last quarter of the year 2006 amounted to L.E 25/share.

		<u>31/12/2006</u>	<u>31/12/2005</u>
Net Profit of the Year	(LE)	2 007 504 686	2 375 899 747
<u>Less :</u>			
Employees Share	(LE)	(87 747 068)	(82 006 604)
B.O.D.'s Share	(LE)	(22 961 849)	(27 677 228)
		<hr/>	<hr/>
Net Profit Available for Dispensing	(LE)	1 896 795 769	2 266 215 915
Issued and Paid up shares	(Share)	13 667 767	13 667 767
		<hr/>	<hr/>
Earning Per Share from Net Profit	(LE/Share)	138.78	165.81
		<hr/>	<hr/>
Dividends Per Share		112	142
		<hr/>	<hr/>

31. Pension and Other Post-Retirement Plans

The company contributes in the governmental social insurance scheme for the benefit of its employees in accordance with the social insurance law no. 79 of 1975 and its amendments. Contributions are charged to the income statement as incurred. In addition, the company has a private insurance fund with a separate legal entity for its employees at which the company incurs 13 % of the employees' monthly contributions. Also the company incurred its portion of compensations for permanent partial disabilities to its employees. The company's contribution at this private fund as of December 31, 2006 amount to LE 7 572 548 charged to income statement.

32. Related parties

32-1 Transactions with related parties represented in the company's transactions in some of its operations with its subsidiary and affiliates companies and with the companies owned by its stockholders and they have a significant influence and control over the company and on the same base of dealing with others.

A) Hadid for Industry, Trading and Contracting Company (Contrasteel)

The company sells part of its products to Contrasteel (subsidiary company) also the company purchases part of the materials and greases from the said subsidiary company. The balances due from or to the subsidiary were represented in the relative accounts among the assets and liabilities of the balance sheet as follows:

	Note No.	31/12/2006 LE
- Among Accounts Receivable- Trade		50 538 610
- Among Accounts Receivable- Other	(11)	1 268 710
Total Debit Balance		<u>51 807 320</u>

B) El - Ezz Group

The company sells parts of its semi-finished products, finished products and different materials to the Ezz Group (Ezz for Foreign trade company, El-Ezz Steel Rebar Company and El-Ezz Steel Mills).The balances due from or to the group represented in the relative accounts among the assets and liabilities of the balance sheet as follows:

	Note No.	31/12/2006 LE
- Debit Balance Among Trade Receivable		61 807
- Credit Balance Among Trade Receivable		(8 112 312)
- Credit Balance Among Accounts Payable		(61 502)
- Debit Balance Among Other Receivable	(11)	479 800
Total Credit Balance		<u>(7 632 207)</u>

32-2 Summary of Significant Transactions with Related Parties During the Ended Period as of December 31, 2006:

<u>Name of the Company</u>	<u>Nature of Transaction</u>	<u>Sale LE</u>	<u>Purchase LE</u>	<u>Terms of Transaction</u>
a- <u>Hadid for Industry, Trading & Contracting Company (Contrasteel)</u>	Rebar	54 915 278	--	According to monthly price list
	Flat	4 281 122	--	According to monthly price list
	Raw Material and Oil Supply	--	2 322 450	According to monthly price list
	Renting Equipments	--	2 045 703	Contractual terms
	Supervision on Selling By products and Slag	--	14 653 073	Contractual terms
	Total		59 196 400	19 021 226
b- <u>El Ezz Group</u> <u>Ezz Foreign Trade Co.</u> <u>El Ezz Steel Co.</u> <u>El Ezz Steel Rebar Co.</u> <u>El-Ezz Flat</u>	Rebar	64 131 064	--	According to monthly price list
	Rebar	25 092	--	According to monthly price list
	Rebar	3 301 058	--	According to monthly price list
	Sponge Iron	20 242 434	--	Auction price
	Refractors & Electrodes	702 158	--	Contractual terms
	Sponge Iron	265 786 122	--	Auction price
	Auxiliary Materials	1 008 565	--	Auction price
Total		355 196 493	--	

32-3 There is a co-ordination between company and el El Ezz group related to sales policy and contracting terms (credit policy, determining prices, incentives and discounts) for the joint customers, also there is a co-ordination in raw material purchasing from others.

33. Capital commitments

Capital Commitments as of December 31, 2006 amounted to L.E 89 million represented in the value of the service center building, developing the computer system of the flat steel plant and around an amount of LE 75 million the value of building new center for the company in Cairo's Smart Village.

34. Contingencies

In addition to the amounts considered in the balance sheet, there are contingent liabilities represented in the amounts of L/Gs issued by the company bankers in favor of others that are outstanding at the end of the period are represented as follows:

	<u>31/12/2006</u>	<u>31/12/2005</u>
<u>L/Gs for Long-Term Loans & Finance Lease</u>		
<u>Agreements-Flat Steel Plant</u>		
US\$	113 181 827	138 868 549
Kuwait Dinar	14 196 000	15 288 000