

Translation from Arabic

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

Financial Statements & Auditors' Report
For The Financial year Ended December 31, 2005

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

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For The Financial year Ended December 31, 2005

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AUDITORS' REPORT

To The Shareholders of Alexandria National Iron & Steel Company

We have audited the accompanying Balance Sheet of Alexandria National Iron & Steel Company (S.A.E) as of December 31, 2005 and the related statements of income, cash flows and changes in the equity 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, 2005 and the results of its operations and its cash flows and statement of changes in the equity 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 directors 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**

KPMG HAZEM HASSAN

HAFEZ RAGHEB

HAZEM HASSAN

Alexandria in February 9, 2006

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

Balance Sheet
As of December 31, 2005

	<u>Note</u> <u>No.</u>	<u>31/12/2005</u> <u>LE</u>	<u>31/12/2004</u> <u>LE</u>
<u>Long-Term Assets</u>			
Fixed Assets (Net)	(2-3) , (3)	6 432 945 894	6 827 044 032
Projects in Progress	(2-4) (4)	18 498 363	10 369 669
Long-term Investments	(2-5) , (5)	6 259 872	18 373 110
Receivable Long-term Loans	(6)	8 931 936	10 319 662
Total Long -Term Assets		6 466 636 065	6 866 106 473
<u>Current Assets</u>			
Inventories – (Net)	(2-7), (7)	1 481 061 638	1 432 807 548
Accounts Receivable – (Trade)	(2-8)	61 610 345	104 835 606
Accounts Receivable – (Export)	(2-8)	20 291 159	24 937 945
Notes Receivable	(2-8)	170 329 087	186 719 024
Advances to Suppliers	(2-8)	20 582 273	38 520 093
Debtors and Other Debit Balances (Net)	(2-8), (8)	273 621 129	266 346 147
Cash at Banks & on Hand	(9)	1 031 355 468	1 126 178 855
Total Current Assets		3 058 851 099	3 180 345 218
<u>Current Liabilities</u>			
Provisions	(2-12), (10)	244 832 951	375 850 000
Banks – Credit Balances	(11)	836 372 620	349 374 234
Current Maturities due within one Year	(16-3)	611 239 678	444 466 100
Accounts Payable – Trade	(2-9)	602 620 767	921 115 973
Creditors and Other Credit Balances	(2-9), (12)	429 496 149	922 527 618
Dividends Payable		4 765 657	2 050 106
Total Current Liabilities		2 729 327 822	3 015 384 031
Working Capital		329 523 277	164 961 187
Total Investment	C/F	6 796 159 342	7 031 067 660

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

Balance Sheet
As of December 31, 2005

	<u>Note</u> <u>No.</u>	<u>31/12/2005</u> <u>LE</u>	<u>31/12/2004</u> <u>LE</u>
Total Investment	B/F	6 796 159 342	7 031 067 660
Financed as Follows :			
Shareholders' Equity :			
Issued and Paid-up Capital	(13)	1 366 776 700	1 366 776 700
Reserves	(2-18), (14)	680 231 055	580 231 055
Retained Profit		99 654 837	73 558 950
Profit for the Year		2 375 899 747	1 379 524 515
Total Shareholders' Equity		4 522 562 339	3 400 091 220
Less:			
Interim Dividends Through the Year	(15)	(1 150 825 982)	(453 001 813)
Shareholders Equity (Net)		3 371 736 357	2 947 089 407
Long-Term Liabilities			
(Net of Current Maturities)			
Related to Rebar Project	(16-1)	1 555 924 499	1 708 581 741
Related to Flat Steel Project	(16-1)	1 432 570 420	1 944 612 441
Related to Financial Lease Agreements	(16-2)	249 027 708	430 784 071
		3 237 522 627	4 083 978 253
Deferred Tax Liability	(2-14),(22)	186 900 358	--
Total Finance of the Investment and Long-Term Assets		6 796 159 342	7 031 067 660

- The accompanying notes from no. (1) to no. (25) are an integral part of the financial statements.
- Central Organization of Accounting report (Department of Metallurgical Industries) attached.
- Auditors' Report – attached

Auditors

Allied for Accounting
& Auditing E & Y

Hafez Ragheb

KPMG Hazem Hassan

Hazem Hassan

Chairman &
Managing Director

Eng./ Ahmed Ezz

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

Income Statement
For the Year Ended December 31, 2005

	<u>Note</u> <u>No.</u>	<u>31/12/2005</u> <u>LE</u>	<u>31/12/2004</u> <u>LE</u>
Net Sales		7 897 633 004	7 473 752 598
<u>Operation Costs</u>			
Cost of Sales		(5 275 278 963)	(4 803 026 895)
Selling and Distribution Expenses		(55 927 861)	(74 038 340)
Total Operating Expenses		(5 331 206 824)	(4 877 065 235)
Gross Operating Profit		2 566 426 180	2 596 687 363
<u>Expenses and Administrative Burden:</u>			
General & Administrative Expenses		(72 267 305)	(67 545 408)
Finance Expenses	(2-11)	(345 660 247)	(447 807 814)
Provisions		(125 433 748)	(370 500 000)
Provision No Longer Required		210 515 657	--
Board of Directors Remunerations & Attendance Fees		(402 751)	(414 598)
Total Expenses and Administrative Burden		(333 248 394)	(886 267 820)
Net Operating Profit		2 233 177 786	1 710 419 543
<u>Other Income (Expenses)</u>			
Interest Income		74 907 401	38 807 727
Other Ordinary Income		21 906 135	4 041 686
Foreign Exchange Differences	(2-2),(18)	361 049 185	(4 745 971)
Capital Gains		419 587	--
Net Profit Before Income Tax		2 691 460 094	1 748 522 985
<u>Deduct:</u>			
Income Tax	(12)	(128 659 989)	(368 998 470)
Deferred Tax	(2-14),(22)	(186 900 358)	--
Net Profit for the Year after Income Tax	(15),(19)	2 375 899 747	1 379 524 515

- The accompanying notes from no. (1) to no. (25) are an integral part of the financial statements.

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

Cash Flow Statement
for the Financial Year Ended December 31, 2005

	<u>Note</u>	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>No.</u>	<u>LE</u>	<u>LE</u>
<u>Cash Flow From Operating Activities</u>			
Net Profit of the Year		2 375 899 747	1 379 524 515
Adjustment to Reconcile Net Profit to Net Cash Provided by Operating Activities :			
Depreciation of Fixed Assets	(3)	448 018 084	455 679 449
Provisions Support	(10)	125 433 748	370 500 000
Capital Gains		(419 587)	--
Provisions No Longer Required	(10)	(210 515 657)	--
Deferred Tax	(22)	186 900 358	--
Net Operational Profit Before Changes in Working Capital		2 925 316 693	2 205 703 964
(Increase) in Inventory		(66 254 090)	(455 762 566)
Decrease in Debit Balances		77 440 479	11 749 304
(Decrease) Increase in Credit Balances		(472 921 641)	509 034 365
Utilized Portion of Provisions	(10)	(18 817 049)	(64 762)
Net Cash Provided From Operating Activities		2 444 764 392	2 270 660 305
<u>Cash Flows From Investing Activities :</u>			
Proceeds from Sale of Fixed Assets		419 587	--
Payment to Purchase Fixed Assets & Project in Progress	(3) , (4)	(62 048 640)	(146 653 844)
Payment of Long Term Loans Receivables		(6 579 574)	(4 187 592)
Collection from Long Term Loans Receivables		7 967 300	6 767 292
Proceeds From Long-Term Investments		479 490	--
Net Cash (Used in) Investing Activities		(59 761 837)	(144 074 144)
<u>Cash Flows From Financing Activities:</u>			
Payment of Current Maturities of Long Term Loans		(1 020 331 890)	(567 474 371)
Increase (Decrease) in Banks Over-Draft		486 998 386	(114 424 768)
Increase Payment of Cash Dividends		(1 946 492 438)	(603 314 213)
Net Cash (Used in) Financing Activities		(2 479 825 942)	(1 285 213 352)
Net (Decrease) Increase in Cash and Cash Equivalents During the Year		(94 823 387)	841 372 809
Cash and Cash Equivalent at the Beginning of the Year		1 126 178 855	284 806 046
Cash and Cash Equivalents at the End of the Year		1 031 355 468	1 126 178 855

- The accompanying notes from no. (1) to no. (25) are an integral part of the financial statements.

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)
Statement Of Changes In Stockholders' Equity
For the Financial Year Ended December 31, 2005

	Note No.	Paid-Up Capital LE	Reserves LE	Retained Profit LE	Profit for the Year LE	Total LE
Balance as of December 31, 2003		1 366 776 700	580 231 055	(223 911 057)	449 858 342	2 172 955 040
Closing Profit of 2003 in retained Profit		--	--	449 858 342	(449 858 342)	--
Dividends of The Year 2003		--	--	(152 388 335)	--	(152 388 335)
Net Profit for the Year 2004		--	--	--	1 379 524 515	1 379 524 515
Balance as of December 1st, 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)
Net Balance as of December 31, 2004		1 366 776 700	580 231 055	73 558 950	926 522 702	2 947 089 407
Remain Dividends of 2004		--	--	--	(800 426 815)	(800 426 815)
Transfer to General Reserve	(14)	--	100 000 000	--	(100 000 000)	--
Transfer to Retained Profits		--	--	26 095 887	(26 095 887)	--
Net Profit for the Year 2005		--	--	--	2 375 899 747	2 375 899 747
Balance as of December 31, 2005		1 366 776 700	680 231 055	99 654 837	2 375 899 747	4 522 562 339
Interim Dividends Through 2005	(15)	--	--	--	(1 150 825 982)	(1 150 825 982)
Net Balance as of December 31, 2005		1 366 776 700	680 231 055	99 654 837	1 225 073 765	3 371 736 357

- The accompanying notes from note no. (1) to note no. (25) are an integral part of the financial statements.

Alexandria National Iron & Steel Co.
(An Egyptian Joint Stock Company)

Notes to the Financial Statements
For the Financial Year Ended December 31, 2005

1- Company Background

- Alexandria National Iron & Steel Co. S.A.E. (ANSDK) was founded on 1982 as a joint stock company under the law No. 43 for 1974 (modified by law No. 230 for 1989, and replaced by law no.8 for 1997). The purpose of the company 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 to become El Ezz Dekheila Steel – Alexandria (S.A.E.) the necessary legal and managerial formalities to record this amendment in each of the company's bylaw and commercial register are still in progress.

2- Significant Accounting Policies Applied

2-1 Basis of The Financial Statements Preparation

The financial statements are prepared according to the historical cost basis and the Egyptian Accounting Standards (E.A.S), and in compliance with the applicable Egyptian laws and regulations.

2-2 Foreign Currency Transactions

- The company maintains its accounts in Egyptian pounds. Transactions denominated in foreign currencies were recorded at the exchange rate prevailing at the date of transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate prevailing at that date declared by banks dealing with the company except 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 resulted during the year and at the balance sheet date are charged to the income statement.

2-3 Fixed Assets And Depreciation

Fixed assets are recorded at historical cost and shown in the balance sheet after deducting accumulated depreciation and impairment of assets (Note No. 2-15) and are depreciated using the straight-line method over its estimated useful life for each kind of fixed assets.

The following are the estimated useful life of the fixed assets:

The estimated useful life for each type of assets is as follows :

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

2-4 Projects in Progress

This item represents the amounts incurred for projects in progress till be ready for its intended use in operations. Then, it is transferred to fixed assets. Projects in progress are recorded at cost, and not depreciated till transferred to fixed assets.

2-5 Investments

- Investments in affiliates and subsidiaries in which ANSDK'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.

2-6 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.

2-7 Inventory

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 cost 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 market.

2-8 Accounts, Notes Receivables & Debtors and other debit balances

Account, notes receivables, debtors & other debit accounts are stated at nominal value less write down for any amounts expected to be irrecoverable as of impairment, and they are classified as current assets, however, amounts that are expected to be collected after more than one year are classified as long term assets.

2-9 Accounts Payable & Creditors and other credit balances

Accounts payable, suppliers, creditors and other credit accounts are stated at nominal value. In addition liabilities (accruals) are recognized by its future cash out-flow against goods and services presently received.

2-10 Revenue Recognition

Revenue is recognized as follows:

- Sales revenue is recognized by the transfer of risks and benefits related to ownership of the goods- to the buyer upon the delivery of the product and issuance of the invoice.
- Interest income is recognized according to the accrual basis.
- Service revenue is recognized by rendering service to the beneficiary and issuance of the invoice.
- 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.

2-11 Borrowing Costs

The borrowing costs are recognized in the income statement as an expenses as incurred.

2-12 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of past event, and it's probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reasonably estimated. Provisions are reviewed at the balance sheet date and amended when necessary to reflect the best current estimate.

2-13 Cash Flows Statement

Cash flow statement is prepared in accordance to the indirect method. For the purpose of preparing the cash flow statement, cash and cash equivalent are defined as balances of cash on hand, cheques under collection, bank current accounts and time deposits with maturity less than three months. Bank over drafts repayable on demand or which form an integral part of entity's cash management are considered as one of the components of cash and cash equivalent for the purpose of preparing the cash flow statement.

2-14 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 or substantially 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 based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, 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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized

2-15 Impairment of Assets

Amounts of the company's assets, other than inventory, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. 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. The depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount.

At the balance sheet date the company's management should assess whether there are any indications that an impairment loss recognized in prior periods for an asset may have decreased, In case of having these indications, the decrease should be reversed to the extent that the carrying amount shall not exceed the original carrying amount had no impairment loss been recognized for the asset in prior years.

2-16 Accounting Estimates

Preparing financial statements according to Egyptian accounting standards (E.A.S) requires the company's management require the company's management to determine assumptions and estimates that affect the assets, liabilities, revenues and expenses during the financial year. The actual results may differ from the mentioned estimates.

2-17 Transactions with Related Parties

Transactions with related parties are recorded according to conditions set by the company's board of directors which are similar to bases of dealing with others.

2-18 Reserves

- According to company's by-law an amount equal to 5 % of net profit is to be deducted to create the legal reserve. Whenever the reserve reaches a total amount of 20 % of paid-up capital the deduction ceases, otherwise the deduction takes place whenever the reserve is lower than the mentioned ratio.
- According to company by-law the company can deduct an additional ratio from remaining profits to create general or specific reserve determined by company's general assembly decision based on a recommendation from the board of directors.

2-19 End of Service Indemnity

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 on accrual basis.

2-20 Borrowing

Borrowing is recognized initially with amounts received, amounts due within one year are classified among current liabilities, if the company have 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.

2-21 Expenses

All operating expenses including general and administrative expenses are recognized and charged to the income statement in the period in which it occurs.

3- Fixed Assets (Net)

Description	Land LE	Building LE	Machinery & Equipment LE	Vehicles LE	Tools LE	Furniture & Fixture LE	Total LE	Financial Lease LE	Total LE
Cost as of January 1, 2005	322 141 188	1 308 775 789	7 725 501 222	94 994 545	34 994 036	37 360 248	9 523 767 028	477 804 176	10 001 571 204
Additions During the Year	--	680 775	48 381 783	2 377 511	304 115	2 175 762	53 919 946	--	53 919 946
Disposals During the Year	--	--	(4 023 630)	(6 119 663)	(6 697 401)	(182 287)	(17 022 981)	--	(17 022 981)
Total Cost as of 31/12/2005	<u>322 141 188</u>	<u>1 309 456 564</u>	<u>7 769 859 375</u>	<u>91 252 393</u>	<u>28 600 750</u>	<u>39 353 723</u>	<u>9 560 663 993</u>	<u>477 804 176</u>	<u>10 038 468 169</u>
A/C Depreciation as of January 1, 2005	--	456 810 557	2 434 805 122	94 173 997	33 970 530	29 454 742	3 049 214 948	125 312 224	3 174 527 172
Depreciation of the Year	--	42 225 092	382 864 824	558 409	758 484	2 553 542	428 960 351	19 057 733	448 018 084
A/C Depreciation of Disposals	--	--	(4 023 630)	(6 119 663)	(6 697 401)	(182 287)	(17 022 981)	--	(17 022 981)
A/C Depreciation as of 31/12/2005	<u>--</u>	<u>499 035 649</u>	<u>2 813 646 316</u>	<u>88 612 743</u>	<u>28 031 613</u>	<u>31 825 997</u>	<u>3 461 152 318</u>	<u>144 369 957</u>	<u>3 605 522 275</u>
Fixed Assets (Net) as of 31/12/2005	<u>322 141 188</u>	<u>810 420 915</u>	<u>4 956 213 059</u>	<u>2 639 650</u>	<u>569 137</u>	<u>7 527 726</u>	<u>6 099 511 675</u>	<u>333 434 219</u>	<u>6 432 945 894</u>
Fixed Assets (Net) as of 31/12/2004	<u>322 141 188</u>	<u>851 965 232</u>	<u>5 290 696 100</u>	<u>820 548</u>	<u>1 023 506</u>	<u>7 905 506</u>	<u>6 474 552 080</u>	<u>352 491 952</u>	<u>6 827 044 032</u>

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

	<u>LE</u>
- Equipment concerning DRP & Steel Project (Agreements concluded with IDB & IBP) Note No. (16-2)	251 553 465
- Equipment concerning Flat Steel Project (Agreement concluded with IDB, IBP & UIF) Note No. (16-2)	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 register its full ownership of the acquired land. (Alexandria Governorate – Army Forces – Contrasteel - Others).

4- **Projects In Progress**

This item is represented in the following:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>LE</u>	<u>LE</u>
- Building structures in progress	--	4 131 589
- Machinery & Equipment in progress	15 948 363	6 238 080
- Advances For Purchasing Fixed Assets *	2 550 000	--
	<u>18 498 363</u>	<u>10 369 669</u>

- * This item is represented in advance payments to purchase land in the smart village project located in Cairo.

5- Long -Term Investments

5-1 Investment in Subsidiaries

	Note No.	31/12/2005 LE	31/12/2004 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
- 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	551 947
- 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	--

	48 781 174	49 260 664
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5-2 Other Long-term 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
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Total Investments

	66 507 440	66 986 930
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Less:

Impairment in Investment	(10) (60 247 568)	(48 613 820)
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Investments (Net)

	6 259 872	18 373 110
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6- Receivable Long -Term Loans

The receivable long-term loans item shown among the long-term assets in the Balance Sheet amounted to LE 8 931 936 (after deducting the installments collectable within one year) represented as follows:

	Note <u>No.</u>	31/12/2005 <u>LE</u>	31/12/2004 <u>LE</u>
- The loan granted to the staff Cooperative Society for Building & Housing. (Interest free)		7 990 000	9 190 000
- The loans granted to the company's staff that to be repayable on a monthly installments basis over two years (Interest free)		941 936	1 129 662
		<u>8 931 936</u>	<u>10 319 662</u>

7- Inventory (Net)

- Major & Auxiliary Raw Materials		498 609 964	341 521 634
- Spare Parts		495 101 696	513 327 024
- Semi Finished Products (Rebar)		78 810 401	39 749 080
- Finished Products (Rebar)		246 488 024	187 765 522
- Semi Finished Products (Flat)		1 488 934	121 229 853
- Finished Products (Flat)		168 387 916	126 292 320
- Letter of Credit for Purchasing Raw Materials & Spare Parts		42 174 703	134 922 115
		<u>1 531 061 638</u>	<u>1 464 807 548</u>
<u>Less:</u>			
- Impairment in spare parts slow moving items (10)		(50 000 000)	(32 000 000)
		<u>1 481 061 638</u>	<u>1 432 807 548</u>

8- Debtors And Other Debit Balances (Net)

	Note <u>No.</u>	31/12/2005 <u>LE</u>	31/12/2004 <u>LE</u>
- Deposits Due from Others		46 388 961	1 947 880
- Custom Authority (Deposits)		4 150 901	5 054 955
- Tax Authority (Withholdings Tax)		108 125 179	112 612 761
- Tax Authority (Advance Payments)		--	26 000 000
- Accrued income		5 718 056	5 693 701
- ESU (under liquidation) Loan*		43 859 223	61 033 956
- Prepaid Insurance Expenses		16 326 984	9 275 023
- Sales Tax		19 542 290	25 464 588
- Collectable Installments	(6)	4 260 000	1 980 000
- Affiliate & Subsidiary Co.	(17-1)	8 437 865	9 805 277
- Alexandria Port Authority		42 488 601	42 488 601
- Receivables - Other		31 030 704	24 212 697
		<u>330 328 764</u>	<u>325 569 439</u>
<u>Less :</u>			
- Impairment in Doubtful Accounts	(10)	(56 707 635)	(59 223 292)
		<u>273 621 129</u>	<u>266 346 147</u>

* **Employees Shareholders Union Loan (E.S.U.) (under Liquidation)**

It was agreed to repay ANSDK interest free loan, granted to the employees shareholders union (E.S.U.) amounted to LE 61 m over installments according to the agreed schedule settled by Bank of Alexandria (mortgagor), E.S.U. liquidator and the acquiring company.

The repayment schedule states that payment should take place within 90 days of the release of the mortgaged stocks by the mortgaging bank. According to the previous agreement an amount of LE 17 924 983 was paid on March 28, 2005 and November 27, 2005. The E.S.U. has paid part of its dues from the dividends received from the company.

9- **Cash at Banks & on Hand**

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>LE</u>	<u>LE</u>
1- <u>Banks (Local Currency)</u>		
- Time Deposits	286 976 598	699 562 446
- Current Accounts	239 531 123	104 861 219
- Cheque under collection	37 353 722	86 995 972
	<hr/>	<hr/>
	563 861 443	891 419 637
	<hr/>	<hr/>
2- <u>Banks (Foreign Currency)</u>		
- Time Deposits	405 592 327	128 576 472
- Current Accounts	61 901 698	106 182 746
	<hr/>	<hr/>
	467 494 025	234 759 218
	<hr/>	<hr/>
	1 031 355 468	1 126 178 855
	<hr/>	<hr/>

10- Provisions

	Note. No.	January 1, 2005 <u>LE</u>	Additional Provisions Recognized During The year <u>LE</u>	Utilized Portion during the year <u>LE</u>	Provisions No Longer Required <u>LE</u>	December 31, 2005 <u>LE</u>
1- Provisions Deducted from Related Accounts:						
- Impairment in Slow Moving Items in Spare Parts Inventory	(7)	32 000 000	18 000 000	--	--	50 000 000
- Impairment in Doubtful Accounts	(8)	59 223 292	--	--	(2 515 657)	56 707 635
2- Impairment in Investments						
- Impairment in Investment of Contrasteel	(5)	48 613 820	--	--	--	48 613 820
- Impairment in Investment of Arab-steel Co.	(5)	--	11 633 748	--	--	11 633 748
		48 613 820	11 633 748	--	--	60 247 568
		139 837 112	29 633 748	--	(2 515 657)	166 955 203
Provisions Among Current Liabilities:						
- Provision for claims & Emergencies		375 850 000	95 800 000	(18 817 049)	(208 000 000)	244 832 951
		515 687 112	125 433 748	(18 817 049)	(210 515 657)	411 788 154

11- Bank Credit Balance

	Note <u>No.</u>	31/12/2005 <u>LE</u>	31/12/2004 <u>LE</u>
- Banks Local currency		344 825 435	156 491 042
- Banks Foreign currency		491 547 185	192 883 192
		<u>836 372 620</u>	<u>349 374 234</u>

12- Creditors and Other Credit Balances

Customers Advance Payments		85 500 219	89 519 361
Accrued Interest		70 904 792	122 268 440
Accrued Expenses		51 586 015	136 203 112
Contractors and Creditors		23 891 287	93 931 842
Sales Tax		43 937 253	50 506 716
Retentions		6 775 200	6 368 722
Tax Authority		6 407 652	32 731 081
Payables – Other		11 833 742	21 999 874
		<u>300 836 160</u>	<u>553 529 148</u>
Income Tax	(2-14)	128 659 989	368 998 470
		<u>429 496 149</u>	<u>922 527 618</u>

13- Share Capital

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 December 31, 2004 amounting to LE 1 366 776 700 represented in 13 667 767 shares of a par value LE 100 / share.

14- Reserves

	31/12/2005	31/12/2004
	<u>LE</u>	<u>LE</u>
- Legal Reserve *	363 308 259	363 308 259
- General Reserve **	263 683 220	163 683 220
- Capital Reserve	3 239 576	3 239 576
- Replacement Reserve	50 000 000	50 000 000
	<hr/>	<hr/>
	680 231 055	580 231 055
	<hr/>	<hr/>

* Legal Reserve

According to the company's bylaw an amount equal to 5% of the net profit is to be deducted in order to cementing the legal reserve and whenever the reserve reaches a total amount equal to 20 % of the company's paid – up capital the deduction ceases otherwise, the deduction takes place whenever the reserve is lower than the mentioned ratio.

** General Reserve

General reserve was increased by LE 100 million from year 2004 dividends according to the decision of ordinary General Assembly dated June 1, 2005.

15- Interim Dividends

15-1 Interim Dividends Through the Year

- The company's ordinary general assembly meeting dated August 25, 2005 has approved the dispensing of interim dividends (Based on the results of the financial statements as of March 31, 2005) amounted to LE 40/share with a grand total of LE 575 412 991 including the B.O.D. and the employees share.
- The company's ordinary general assembly meeting dated October 30, 2005 has approved the dispensing of interim dividends (Based on the results of the financial statements as of June 30, 2005) amounted to LE 40/share with a grand total of LE 575 412 991 including the B.O.D and the employees share .

15-2 Interim Dividends Following Balance sheet Dated December 31, 2005

- The company's ordinary general assembly meeting dated January 2, 2006 has approved the dispensing of interim dividends (Based on the results of the financial statements as of September 30, 2005) amounted to LE 30/share with a grand total of LE 436 685 156 including the B.O.D. and the employees share.

16- Long Term Liabilities

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

16-1 Long Term Loans and Facilities

Description	31/12/2005	31/12/2004	Remaining Period Loan / Liabilities (Year)
	L.E	L.E	
Loans and Facilities Related to Rebar Project			
1- Local Currency Loans	408 054 543	539 840 733	3-5
2- Foreign Currency Loans	687 403 670	953 980 528	2-9
3- Long Term Facilities and Other	--	4 520 196	--
4- Long Term Liabilities and Other *	460 466 286	210 240 284	3
	<u>1 555 924 499</u>	<u>1 708 581 741</u>	
Loans and Facilities Related to Flat Steel Project			
1- Local Currency Loans	196 172 380	330 213 523	2-7
2- Foreign Currency Loans	1 198 785 844	1 553 310 723	3-7
3- Long Term Facilities (Deferred Sales Tax and Others)	37 612 196	61 088 195	2-8
	<u>1 432 570 420</u>	<u>1 944 612 441</u>	
Balance	<u>2 988 494 919</u>	<u>3 653 194 182</u>	

* This item represent the maximum liability that could be incurred by the company regarding the materials stevedoring category in Aldekheila port. This category is in dispute with Alexandria port Authority mean while the company agreed with the port authority to settle the arising liabilities in accordance with the agreed temporary category until the settlement of the court dispute. This agreement was endorsed by court dispute settlement committee. On January 14, 2006 the court decided that the decree no. 95 for 1988 issued by the Minister of Transportation was unconstitutional as well as the Alexandria Port Authority decree no. 60 for 1988 and 78 for 1991 and fixed April 15, 2006 to submit the supporting document that the formalities for filing an unconstitutional case with the Higher Constitutional Court as the claims of the port authority have been suspended until the decision of the Higher Constitutional Court is issued.

The opinion of the company's legal consultant that a final decree from the Constitutional Court to settle the dispute between the company and Alexandria Port Authority will not be issued before at least 3 years minimum, accordingly the company reclassified these liabilities as long term.

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

16-2 Financial Lease Agreement

<u>Description</u>	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>Agreement Expiration Period (Year)</u>
Agreements Related to Rebar Activities in Foreign Currency	56 646 269	161 060 070	6
Agreements Related to Flat Steel Project in Foreign Currency	192 381 439	269 724 001	6-7
	<u>249 027 708</u>	<u>430 784 071</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

16-3 Current Maturities Due Within One Year

Current maturities due within one year represented as follows :

Description	31/12/2005	31/12/2004
	LE	LE
- Loans and facilities related to Rebar Project	204 453 529	242 884 886
- Loans and facilities related to Flat Steel Project	312 849 613	166 280 769
- Finance lease agreements related to Rebar Project	53 023 244	16 913 565
- Finance lease agreements related to Flat Steel Project	40 913 292	18 386 880
Balance	611 239 678	444 466 100

17- Transactions With Related Parties

17-1 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	31/12/2005
	<u>No.</u>	LE
- Among Accounts Receivable- Trade		50 619 316
- Among Accounts Receivable- Other	(8)	4 611 420
Total Debit Balance		55 230 736

B) El - Ezz Group

The company sells parts of it's 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.	31/12/2005 LE
- Debit Balance Among Trade Receivable		3 460 214
- Credit Balance Among Trade Receivable		(19 403 811)
- Debit Balance Among Accounts Payable		352 658
- Debit Balance Among Other Receivable	(8)	3 826 445
Total Credit Balance		<u>(11 764 494)</u>

**17-2 Summary of Significant Transactions with Related Parties During the
 Ended Year as of December 31, 2005:**

Name of the Company	Nature of Transaction	Sale LE	Purchase LE	Terms of Transaction
a- Hadid for Industry, Trading & Contracting Company (Contrasteel)	Rebar	101 458 586	--	According to monthly price list
	Flat	12 281 231	--	According to monthly price list
	Raw Material and Oil Supply	--	2 077 873	According to monthly price list
	Renting Equipments	--	1 494 241	Contractual terms
	Supervision on Selling By products and Slag	--	14 128 690	Contractual terms
	Total		<u>113 739 817</u>	<u>17 700 804</u>
b- <u>El Ezz Group</u>				
Ezz Foreign Trade Co.	Rebar	83 517 421	--	According to monthly price list
El Ezz Mills Co.	Rebar	4 422 741	--	According to monthly price list
El Ezz Steel Rebar Co.	Rebar	3 167 105	--	According to monthly price list
	Sponge Iron	65 847 741	--	Auction price
	Refractors & Electrorodes	7 112 368	--	Contractual terms
El-Ezz Flat	Sponge Iron	580 423 296	--	Auction price
	Refractors & Electrorodes	639 878	--	According to Monthly Price List
	Total	<u>745 130 550</u>	<u>--</u>	

18- Foreign Currencies Exchange Differences

Summary of the incurred foreign exchange differences during the financial year ended December 31, 2005 resulting from Egyptian pound appreciation against foreign currencies.

	Note No.	31/12/2005 LE	31/12/2004 LE
- Credit foreign exchange differences against long-Term Liabilities	(2-2)	233 426 696	--
- Net foreign exchange differences Credit / (Debit).	(2-2)	127 622 489	(4 745 971)
Total foreign exchange differences Credit / (Debit) during the year charged to income statement		<u>361 049 185</u>	<u>(4 745 971)</u>

19- Earning Per Share

The earning per share as of December 31, 2005 was calculated after deducting the B.O.D. & employees share and according to dividends approved by General assemblies meetings till September 30, 2005 and BOD's projected dividends for 2005:

		<u>31/12/2005</u>	<u>31/12/2004</u>
Net Profit of the Year	(LE)	2 375 899 747	1 379 524 515
Less :			
Employees Share	(LE)	(82 006 604)	(74 242 030)
B.O.D.'s Share	(LE)	(27 677 228)	(17 426 403)
Net Profit Available for Dispensing	(LE)	<u>2 266 215 915</u>	<u>1 287 856 082</u>
Issued and Paid up shares	(Share)	13 667 767	13 667 767
Earning Per Share from Net Profit	(LE/Share)	<u>165.81</u>	<u>94.23</u>
Dividends Per Share		<u>135</u>	<u>85</u>

20- 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, 2005 amount to LE 7 469 836 charged to income statement.

21- Financial Instruments and Risk Management

21-1 Financial Instruments

Financial instruments represented in cash in banks, Investments in subsidiaries and associated companies Debtors, loans, banks overdrafts and creditors. The book value of those financial instruments according to the evaluation bases applied in evaluation of the company's assets and liabilities that are stated in the accompanying notes of the financial statements are considered to be an acceptable assessment of their fair values as of December 31, 2005.

21-2 Foreign Currency Exchange Risk

The foreign currency risk is the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the valuation of its foreign currency assets and liabilities.

The company manages this risk by concluding Hedging agreements with international finance foundations that cover parts of it's long term loans denominated in Japanese Yen, Euro and Sterling pound opposite to US\$ at fixed exchange rate in addition to provide a foreign currency resource through the export sales.

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2005 equivalent to LE 453 015 930 and LE 3 431 289 146 respectively. The company net exposure in foreign currencies as of December 31, 2005 are as follows :

Foreign Currency	Net Shortage By Currency	Equivalent to US\$
US Dollar	315 359 138	315 359 138
Japanese Yen	13 276 699 167	112 719 291
Euro	1 305 873	1 540 022
Sterling Pound	2 939 277	5 061 736
Kuwaiti Dinar	15 644 720	53 596 011
Islamic Dinar	20 454 041	29 234 351
		517 510 549

As disclosed in note (2-2) the company has used the prevailing exchange rates to revalue the monetary assets and liabilities as of the balance sheet date and the debit currency difference was added to ownership equity to reduce this risk.

21-3 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 4.685 million as of December 31, 2005 (LE 4.877 million as of December 31, 2004) and the financing expenses relating to these liabilities amounted LE 346 million (LE 448 million for the previous year).

The time deposit balance amounted LE 693 million (LE 828 million as of December 31, 2004) and the related credit interest for these time deposits amounted LE 75 million for the year (LE 39 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.

21-4 Credit Risk

Credit risk is represented in the inability of customers to pay their debts when it becomes due. To limit this risk the company provide credit only to it's reputable customers in addition to the receiving of notes receivables with a short term maturity from it's customer, accordingly the company don't face such risk.

22- Deferred Tax

22-1 Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	<u>31/12/2005</u>	
	<u>Assets</u>	<u>Liabilities</u>
	<u>LE</u>	<u>LE</u>
<u>Deferred Tax</u>		
Fixed assets	--	211 175 544
Inventory	1 000 000	--
Other provisions	23 275 186	
	<hr/>	<hr/>
Total Deferred Tax Assets / Liabilities	24 275 186	211 175 544
	<hr/>	<hr/>
Net Deferred Tax liabilities		186 900 358
		<hr/>

22-2 Unrecognized Deferred Tax Assets

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

	31/12/2005
	<u>LE</u>
Inventory	9 000 000
Provisions	19 132 931
	<hr/>
	28 132 931
	<hr/>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the company can utilize the benefits there from.

23- Tax Position

23-1 Corporate Income Tax:

- The company submits its annual tax return within the legal time, and pays due taxes according to its tax return (if any) in all cases and in accordance with applied tax law in Egypt, the final tax liability will be attested after the tax authority inspection to determine the final tax liability by internal committees or appeal committees or by court.
- The company enjoyed a partial 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 clause no. 2 of the article no. 15 of the law no. 230 for the year 1989.
The exemption period has been elapsed since January 1, 2004.
- Tax inspection has been made for the years 1995 – 1999 and all the disputes related to these years has been finalized .

- Tax inspection has been made for the year 2000 and the company received a 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 separation between the rebar and the flat activities, according to tax form (no. 18 corporate tax) dated December 19, 2004 assuming that the flat activity don't 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 is refilling it's tax return for the year 2000/2003 to meet the tax authority assumption.
- Tax inspection has been made for the years 2001 – 2003 and the company didn't receive any tax form.
- Based on the Administrative Court Decision 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 2, 2006 stating that the company enjoy 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 ANSDK 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 was during the year 2000, accordingly the company enjoys a tax exemption for 5 years starting January 1st, 2001.
- Accordingly, the tax authority (Investment tax department) confirm 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 depend on the tax inspection)
 - Tax inspection for the year 2004 is taking place.

23-2 Labor Tax

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

23-3 Sales Tax

- The company paid all the tax claims for the years till 2003 and there are no any tax obligations.
- The company submits it's tax forms within its legal time and is paying it's due taxes regularly according to these forms. Tax inspection for the year 2004 and 2005 has not been made yet .

23-4 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.

23-5 Real Estate Tax

- Tax inspection took place until the year 2004 and there is no any liability at that date for the years 1998 – 2000 and the company.

24- Contingent Liabilities

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, and the amounts of L/Cs' that are outstanding as of the balance sheet date. The contingent liabilities are represented as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
<u>L/Gs for Long-Term Loans & Finance Lease Agreements-Flat Steel Plant</u>		
US\$	138 868 549	160 071 335
Kuwait Dinar	15 288 000	16 380 000

25- Capital Commitments

Capital Commitments as of December 31, 2005 amounted to L.E 89 435 920 represented in the value of the service center building, developing the computer system of the flat steel plant and around an amount of LE 75 000 000 the value of building new center for the company in Cairo.