

# Egypt

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## Economic growth and legislative change

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According to the Central Bank of Egypt, Egypt experienced strong economic growth last year. Reserves increased to \$32.9 billion by July 2007, while the first half of 2007/2008 fiscal year registered a surplus of \$3.1 billion, up from \$2.9 billion. The net foreign direct investment increased to \$7.8 billion in the first half of financial year 2007/2008, from \$510 million in 2000/2001. The Cairo Alexandria Stock Exchange (CASE) benchmark - the CASE 30 index - has grown 450% in the past few years. On the downside, increasing foreign debt and prices of essential commodities caused inflation rates to hit a three-year high of 14.4% in March 2008; other estimates put it at 16%.

With this strong economic growth, the Egyptian stock market experienced a surge of activity brought about by an increasing number of companies going public, and banks allocating more funds for real-estate mortgages. This was spurred on by a series of legislative acts, which introduced new investment products and encouraged the granting of mortgage finance.

### Capital market

It took years for CASE to develop confidence in itself and to venture ahead with new (to Egypt) investment vehicles and gradually increase the scope of permissible deals. In late 2007, a number of ministerial decrees were enacted allowing the creation of index funds, open-ended funds, closed-ended funds, private-equity funds, cash market funds, holding funds, and real-estate or realty funds. Index funds were allowed in November 2007; the first funds will soon trade on CASE.

Open-ended and closed-ended funds are open to mutual funds companies and may be traded publicly or offered privately to qualify-

ing investors. Private-equity funds are limited to private qualified investors and may invest in listed or non-listed securities. Holding funds are companies that limit their investment in other mutual funds, provided they invest in five mutual funds at least. Cash market funds are limited to banks and insurance companies after obtaining the approval of the Central Bank of Egypt or the General Authority of Insurance in addition to that of the Capital Market Authority. Realty funds invest their funds in purchasing real-estate assets and developing them for rent or sale.

The emergence of realty funds was a natural result of the high growth rate and interest in the real-estate sector. For the first time in Egypt, real-estate companies listed for public trading and foreign investments. This was started by a leading real-estate developer, Talaat Mostafa Group (TMG). In November 2007, TMG underwent an IPO on CASE offering 19.5% of its shares to raise E£4.54 billion (\$830 million). Six months later, its main competitor, Palm Hills Developments (PHD), underwent an IPO offering a total 72.7 million shares in shares and GDRs (with a ratio of 1:5), raising E£1.58 billion.

Both IPOs were over-subscribed, and shares set aside for over-allotment purposes by PHD were eventually offered as well. This inspired confidence in the market both on the regulators' and investors' sides, indicating that the Capital Market Authority was approving an increasing number of IPOs and bond offerings. In April 2008, the Corporate Leasing Company issued the first asset-backed bonds for E£360 million, backed by a portfolio of 516 lease contracts. The bonds were oversubscribed 4.6 times with a total subscription of E£1.65 billion. In May 2008, the largest Egyptian and Middle Eastern steel producer, Al Ezz Steel Rebars, issued 11 million bonds, totalling E£1.1 billion with 11.5% coupon payment, to settle its debts.

Another interesting development is the increasing number of and growing interest in *shariah*-compliant financial products. Banque

Misr IV, which is managed by HC Securities and Investment, and is one of the six Islamic funds in Egypt, has out-performed the CASE 30 rate of return, 17.6% compared with CASE 30's 10.3%.

One of the major catalysts in capital market growth is the enactment of Ministerial Decree 293/2007 in November 2007, which established the activity of market-making and allowed experienced companies with a capital of at least E£10 million to practise such activity. This was crucial for the establishment of index-linked funds, which must retain two market-makers at least. That decree also allowed market-makers to practise margin trading and borrow securities for the purpose of sale.

More change seems to be on the horizon for CASE once the market becomes familiar with the changes made so far. It is yet to be seen how this would affect the market's growth and regulatory framework.

### Mortgage finance

Although the Real Estate Financing Law was enacted in 2001, banks and real-estate mortgage companies (established under that Law) were reluctant to allocate funds for mortgages. Many infrastructural and regulatory inconsistencies prevented the banks and mortgage companies from taking the risk of advancing funds with a messed-up real-estate registration system and unclear foreclosure procedures.

The Ministry of Justice attempted to deal with these problems in early 2007 by establishing a special office within the Real Estate Registry responsible for recording real-estate property subject to a mortgage. Though this guaranteed some transparency in the registration process, the problem of enforcement persisted. In October 2007 however, the Minister of Justice established another special division in the Enforcement of Judgments Department responsible for enforcing foreclosures on real-estate properties.

Since 2001, six mortgage companies were established with a total capital over E£1 billion.

Total mortgage loans awarded by these companies and banks have reached around E£2 billion to date. This is modest compared with estimates that the market can take up to E£20 billion of mortgage loans a year, and that banks and mortgage companies can provide up to twice that amount in loans.

The problem remains that most of the population in need of proper housing has no purchase power and cannot afford mortgage loans at 12% to 14% interest rates. Despite this, the Ministry predicts that mortgage loans will double by 2009 to E£4 billion.

## Banking and capital markets

### Recommended firms

#### Tier 1

Helmy Hamza & Partners/Baker & McKenzie  
Shalakany Law Office

#### Tier 2

Al Kamel Law Office  
Denton Wilde Sapte  
Ibrachy & Dermarkar  
Sharkawy & Associates  
Zaki Hashem & Partners

#### Tier 3

DLA Matouk & Bassiouny  
Ibrachy Law Firm  
Trowers & Hamblins

#### Tier 4

Hassouna & Abou Ali  
Kosheri Rashed & Riad  
Sarwat A Shahid Law Firm

## Mergers and acquisitions

### Recommended firms

#### Tier 1

Helmy Hamza & Partners/Baker & McKenzie  
Shalakany Law Office  
Zaki Hashem & Partners

#### Tier 2

Al Kamel Law Office  
Denton Wilde Sapte  
Ibrachy & Dermarkar  
Ibrachy Law Firm  
Trowers & Hamblins

#### Tier 3

DLA Matouk & Bassiouny  
Hassouna & Abou Ali  
Kosheri Rashed & Riad  
Sarwat A Shahid Law Firm  
Sharkawy & Associates

## Project finance

### Recommended firms

#### Tier 1

Helmy Hamza & Partners/Baker & McKenzie  
Shalakany Law Office

#### Tier 2

Al Kamel Law Office  
Denton Wilde Sapte  
DLA Matouk & Bassiouny  
Ibrachy & Dermarkar  
Sharkawy & Associates  
Trowers & Hamblins  
Zaki Hashem & Partners

Egypt's regulators and lawmakers are highly focused on building the country's attractiveness as a destination for foreign investment - a stance that has led to various significant improvements in the quality of regulation and in the sophistication of the market's interaction with investors. In this respect, one sector dominates: "Real estate is the key word on a very large scale," comments one local lawyer. According to a recent report on transparency in the property industry by Jones Lang LaSalle, the country is, alongside Saudi Arabia, one of the two most improved jurisdictions in terms of transparency over the past two years.

Meanwhile the Egyptian capital markets have seen a string of IPOs and bond issuances by corporates. Banking also continues to be strong, and while the appetite for project finance has slowed, there are still enough energy projects to keep lawyers busy.

One benchmark of a dynamic market is the level of competition for lawyers. In Egypt, companies are increasingly targeting private-practice lawyers with strong IPO experience to serve as in-house counsel, and a number of associates have moved back and forth between the market's law firms.

### Al Kamel Law Office

Upon its entrance to the second tier last year, Al Kamel Law Office retains its position across all categories. A market commentator describes the practice as a "very solid, traditional firm."

Etisalat Misr retained the firm to act as the lender's local legal counsel in relation to the E£10 billion (\$1.9 billion) refinancing of the telecoms company's existing bridge facility to fund its business.

Chief partner Tamim Foda, together with partner Rasheed Kamel, advised ABN Amro on extending a mixed credit facility totalling e111 million to the National Bank of Egypt and guaranteed by the Central Bank of Egypt, for the third phase of the development of the Zafarana wind energy project.

With Middle Eastern investors taking continued interest in the region, Taqa, Abu Dhabi's national energy company, enlisted the firm as local counsel in relation to its acquisition of Devon Energy's divestiture of its entire Egyptian portfolio. Devon Egypt's interests span eight concessions: four in the Gulf of Suez and four in the Western Desert.

The firm is also active in private equity, and this year represented EFG on two matters. The first was advising EFG along with other shareholders in Galva Metal and Kadneel Steel in connection to a strategic alliance between the two companies. The latter was in relation to its acquisition of stake in a local oil and gas company.

Johnson & Johnson retained the firm's services in relation to its acquisition of several of Pfizer's products in the region. IFC also sought Al Kamel's counsel on a \$25 million loan granted to Wadi Holdings and its subsidiaries, and the firm also assisted the IFC in developing a restructuring plan for manufacturing company Misr Compressor Manufacturing Co.

The firm's clients range geographically from the Middle East to China. For example, it acted as local legal counsel to China Shipping on its \$40 million investment in Damietta International Ports, a company building a container terminal in Damietta, Egypt.

### Leading lawyers

Mohamed Kamel  
Rasheed Kamel

### Helmy Hamza & Partners/Baker & McKenzie

Helmy Hamza & Partners/Baker & McKenzie showed its strength as an all-round top-tier firm as the Ministry of Finance consulted it on two of Egypt's sovereign bond offerings. The E£6 billion notes were issued in two tranches into the international capital markets. Senior partner Taher Helmy worked on the deal with Mohammad Ghannan, the latter receiving praise from one client as "one of the guys I would put my money on".

In May 2008, international property developer Palm Hills Development Company enlisted the firm to advise on its E£2 billion IPO of shares on the Cairo and Alexandria Stock Exchange, including the listing of GDRs on the London Stock Exchange.

Banks around the world frequently engage the firm's first-class project finance practice for projects in the region. For example, the firm acted for Korean Export Import Bank (Kexim) in relation to its \$2.2 billion financing in setting up the Egyptian Refinery Company. Other projects include advising lead arrangers Calyon, BNP and SMBC in the \$1.4 billion refinancing of the Port Saïd and Suez Gulf

power projects in Egypt. Furthermore, the firm acted for the lenders and guarantor banks in a \$1 billion non-recourse refinancing of the Spanish Egyptian Gas Company's liquefied natural gas (LNG) plant located at the Damietta Port Private Free Zone.

Among the firm's involvement in greenfield projects, partner Mohamad Talaat advised National Société Generale Bank in extending a E£1.1 billion loan to El Sewedy Cables to establish one of Egypt's largest cement facilities.

The firm also advised Banque Misr in connection to the contemplated sale by tender of Banque du Caire. If completed, it would be the largest privatisation of a state-owned Egyptian bank. On another purchase deal, the firm advised the National Bank of Kuwait Capital on its \$800 million acquisition of AlWatany Bank of Egypt.

#### Leading lawyers

Mohamed Ghannam  
Taher Helmy  
Hazim Rizkana

### Ibrachy & Dermarkar

Ibrachy & Dermarkar has been busy this year with a strong flow of work with an Iraqi element. For example, the firm advised an international bank investing in Iraqi government bonds, and another in its investment in the Central Bank of Iraq in the form of dinar-denominated certificates of deposits. A highlight deal for the firm was acting for French company Lafarge on its acquisition of Egyptian joint-stock company Orascom Building Materials Holding. At e8.8 billion, this was the largest transaction on the Cairo and Alexandria Stock Exchange.

The firm is not only known for its quality in transactional work: it has also gained repute in assisting the country's financial markets on regulatory developments. Ibrachy & Dermarkar has recently advised the Iraqi Stock Exchange and the Iraqi Securities Commission in creating policies and procedures to encourage foreign investment in the Iraqi stock market.

In keeping with the international interest in Egypt's pharmaceuticals market, Alkan retained the firm to act on the sale of its total shares valued at E£300 million. On another transaction that closed at the end of last year, the firm represented Telecom Holding and Orascom Telecom Iraq on the 100% sale of its stake in the Iraqna Company for Mobile Phone Services totalling \$1.2 billion. Other Iraqi work included a project financing which had the firm serving as counsel to the Middle Market Development Foundation on all its lending transactions under the OPIC-funded Middle Market Facility, valued at \$125 million.

#### Leading lawyers

Bahieldin Elibrachy  
Mohamed el Roubi

### Shalakany Law Office

Along with Helmy Hamza, Shalakany Law Office has a top-tier presence in all categories of the corporate and financial law market.

The firm not only receives large amounts of work from local companies but frequently serves foreign clients from financial institutions such as EFG-Hermes Holding, which it advised on its \$453 million acquisition of 28% of the shares in Bank Audi. In August 2007 the National Bank of Kuwait, a Kuwaiti joint-stock company, sought the firm's advice on its acquisition of AlWatany Bank, a financial-sector merger valued at E£5.15 billion.

To complete its year, the firm represented Lafarge in relation to a \$4.4 billion capital increase to be subscribed to by NNS Holding. The capital increase was a condition of Lafarge's acquisition of Orascom Construction Industries, which the firm had previously advised in relation to its \$1.6 billion acquisition of of Abraaj Capital's fertilisers division.

Standout energy project finance work includes advising the borrowers, Port Said Power Company and Suez Gulf Power Company, in the \$744 million refinancing of a power station, and a \$758 million associated refinancing package jointly arranged by Calyon, BNP Paribas and Sumitomo Mitsui Banking Corporation.

#### Leading lawyers

Mona Zulficar

### Sharkawy & Associates

Founded two years ago by former Ibrachy & Dermarkar partner Jim Wright, Sharkawy & Associates is now a strong market contender. Its involvement in a number of significant bank finance deals, along with positive feedback from clients and competitors, earns the firm a promotion in this category.

Wright is described by one peer as the "powerhouse" of the firm. Working with Clifford Chance, Sharkawy advised Deutsche Bank in relation to the financing of the \$1.4 billion acquisition of Egyptian Fertilizers Company by Abraaj Capital. The firm aided the investment bank in restructuring the facilities into the first and largest *shariah*-compliant deal of its kind in Egyptian history.

In another opportunity with Clifford Chance, the firm advised the lenders, led by Société Générale, in relation to a \$1.1 billion financing of a greenfield fertilisers project in Egypt for Agrium, a Canadian agricultural group. This was Egypt's largest-ever project

finance deal by value. Partner Ahmed Sharkawy also represented HSBC in connection with a refinancing of a \$2.5 billion credit facility extended to Orascom Telecom.

The firm's growing M&A practice has a number of significant clients in its portfolio such as cement companies Lafarge and Titan, the latter of which it represented on the E£547 million merger of two of their subsidiaries in Egypt. DP World retained the firm as counsel on its acquisition of Sokhna Port Development Company for an undisclosed amount.

Partner Karim Sarhan and associate Ahmed El Sharkawy are named as rising stars by competitors, one of whom describes them as "very solid".

### Zaki Hashem & Partners

A first-tier firm for M&A, Zaki Hashem & Partners counts its role in advising Vodafone this year as a particularly noteworthy deal. In this transaction, the firm assisted the telecoms company in its E£4 billion syndicated facility agreement with local banks to finance its operations and licence fees. Additionally, the firm advised Vodafone on its acquisition of a private data network provider for E£200 million.

The firm's banking mandates include advising Banque Misr on financing a third party in its acquisition of a local food company for E£200 million.

Zaki Hashem & Partners is a common choice for underwriters in capital markets issuances. Arab African International Bank consulted the firm in relation to El-Ezz Steel Rebars' E£1.1 billion bond issue. For EFG-Hermes Investment and HSBC Investment Banking, the firm acted on the Talaat Mostafa Group's local and international offering of shares and GDRs. In addition, the firm advised EFG-Hermes Investment in relation to the local and international offering of \$262 million shares in maritime company Maridive. In April this year, Beltone Investment sought the firm's counsel on the local offering of E£1 billion shares in GB Auto Group.

#### Leading lawyers

Yasser Hashem

### Other notable firms

**Kosheri Rashed & Riad** is a solid firm that has acted for high-profile clients such as the Four Seasons Hotels and Resorts, Bank of America and Time Warner. A recent highlight for the firm was its involvement in the acquisition of the Eastern Tobacco Company, valued at \$1.5 billion.